

**Exh. CRM-7T  
Dockets UE-150204/UG-150205  
Witness: Chris R. McGuire**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**AVISTA CORPORATION dba AVISTA  
UTILITIES**

**Respondent.**

**DOCKETS UE-150204 and  
UG-150205 (*Consolidated*)**

**TESTIMONY OF**

**Chris R. McGuire**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

***Re-calculation of Attrition Allowance on Remand;  
Summary of Cumulative Amounts Owed to Ratepayers***

**September 13, 2019**

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## **LIST OF EXHIBITS**

Exh. CRM-8	Electric Attrition Study – Revised Exh. EMA-6
Exh. CRM-9	Natural Gas Attrition Study – Revised Exh. EMA-7
Exh. CRM-10	Technical Appendix A – Attrition Model Details
Exh. CRM-11	Basic Electric Attrition Model – Simplified Exh. CRM-8
Exh. CRM-12	Basic Natural Gas Attrition Model – Simplified Exh. CRM-9
Exh. CRM-13	Excerpt of Avista’s 2018 Form 10-K

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Chris R. McGuire. My business address is 621 Woodland Square Loop SE,  
5 Lacey, WA, 98503. My business mailing address is P.O. Box 47250, Olympia, WA,  
6 98504-7250. My business email address is chris.mcguire@utc.wa.gov.

7

8 **Q. Who do you work for, and in what capacity?**

9 A. I am the Assistant Director of Energy Regulation in the Regulatory Services Division of  
10 the Washington Utilities and Transportation Commission (“Commission”).

11

12 **Q. Are you the same Chris R. McGuire who filed testimony and exhibits in these**  
13 **dockets on July 27, 2015?**

14 A. Yes, I am.

15

16 **II. SCOPE AND SUMMARY OF TESTIMONY**

17

18 **Q. Please describe the scope and purpose of your testimony.**

19 A. The primary purpose of my testimony is to provide the Commission with Staff’s  
20 assessment of the refund amount owed to ratepayers due to the recalculation of Avista’s  
21 Electric and Natural Gas rates, as required by the Court of Appeals in its decision

1 reversing and remanding the Commission's Order 05.<sup>1</sup> I refer to this phase of the  
2 proceedings in Dockets UE-150204 and UG-150205 as "the Remand."

3 I present a recalculation of the Attrition Allowances included in Avista's Electric  
4 and Natural Gas rates per the Commission's final order, entered January 6, 2016, in  
5 Dockets UE-150204 and UG-150205 (Order 05), and I assess the cumulative revenue  
6 impact associated with retrospective revisions to the Attrition Allowances. Additionally, I  
7 respond to Avista witness Ms. Andrews' testimony regarding the Company's assessment  
8 of amounts owed to customers due to the recalculation of the rates set in Order 05.

9  
10 **Q. Please summarize the results of your analysis.**

11 A. My analysis shows that Avista owes \$35,977,000 to Electric customers and \$7,101,000 to  
12 Natural Gas customers. These are cumulative amounts, calculated over the 2.3 years that  
13 rates which included the previously authorized Attrition Allowances were in effect. I  
14 arrived at these results by recalculating the Attrition Allowances authorized by the  
15 Commission in Order 05.

16 The analyses I provide here as Exhibits CRM-8 and CRM-9 show revised annual  
17 Attrition Allowances of \$12,690,000 and \$3,759,000 for Electric and Natural Gas  
18 operations, respectively. The Commission previously authorized annual Attrition  
19 Allowances of \$28,332,000 and \$6,849,000, respectively. On an *annualized* basis, my  
20 analysis shows that rates authorized in Order 05 should be reduced by \$15,642,000 for  
21 Electric operations and \$3,090,000 for Natural Gas operations. I summarize these results  
22 in Table 1, below.

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<sup>1</sup> *Wash. Att'y Gen.'s Office, Pub. Counsel Unit v. Wash. Utils. & Transp. Comm'n*, 4 Wn. App. 2d 657 (2018) (Court Remand Decision).

1 **Table 1. Summary of Results.**

	<b>Authorized Attrition Allowance, Annual (per Order 05)</b>	<b>Annual Attrition Allowance (per CRM-8 and CRM-9)</b>	<b>Cumulative Impact over 2.3 yrs – Amounts Owed to Ratepayers</b>
<b>Electric</b>	\$28.3 million	\$12.7 million	\$36.0 million
<b>Natural Gas</b>	\$6.8 million	\$3.8 million	\$7.1 million

2

3 **Q. Over what timeframe do you recommend these amounts be passed back to**  
4 **ratepayers?**

5 A. That depends on the amounts that the Commission determines should be returned to  
6 ratepayers. The refund timeframe should be as short as reasonably possible so as to  
7 minimize intergenerational inequity. However, for large dollar amounts, the Commission  
8 should consider multi-year pass-back periods.

9 Given that the range of the possible refund is large, Staff does not make a  
10 recommendation with respect to the specific timeframe over which amounts should be  
11 passed back to ratepayers. Rather, Staff recommends that the Commission make a  
12 determination on the amount owed to ratepayers, and require Avista to file tariff  
13 schedules within 60 days wherein the Company will propose a timeframe over which  
14 amounts will be refunded to ratepayers.

15

16 **Q. Do these amounts require the Commission to make specific legal determinations?**

17 A. Yes. There are two major legal decisions required of the Commission, both of which have  
18 substantial impacts on the amount of the refund owed to ratepayers. The issues are:

19 1. Does the Court Remand Decision require that the Commission recalculate the  
20 Attrition Allowances?

1           2. Did the rates authorized per Order 05, and effective January 11, 2016, remain in  
2           effect for 11 months or 2.3 years? In other words, did the Commission re-set rates  
3           in Order 06 of Dockets UE-160228/UG-160229 entered December 15, 2016, or  
4           did the rates established in Order 05 of Dockets UE-150204/UG-150205 remain  
5           in effect until the entry of Order 07 in Dockets UE-170485/UG-170486?

6           As described in further detail in Sections III-A and V-A of this testimony, Staff's  
7           understanding is that the Commission is required to recalculate the attrition allowances,  
8           and that the rates that included the previously authorized attrition allowances persisted for  
9           2.3 years.

10  
11 **Q. Are there any other decisions the Commission must make when determining the**  
12 **amount of the refund owed to customers?**

13 A. Yes, there are two more, though their impacts are less material than the two issues  
14 identified above:

- 15           1. Is it appropriate to offset refunds owed to customers with amounts that were  
16           provided to customers through earnings sharing (through the decoupling  
17           mechanism); and  
18           2. Is it appropriate to use data that is available to us now, but did not exist when  
19           Order 05 was entered, to calculate used-and-useful rate base for 2016?

20           As I discuss in Sections V-C and V-D, below, Staff believes that the answer to both of  
21           these questions is no.

1 **Q. What if the Commission were to come to a different conclusion on one or more of**  
2 **these issues?**

3 Given that the Commission will reach its own conclusions with respect to these  
4 four decision points, Staff prepared the amounts owed to ratepayers under a menu of  
5 options and presents them in Section IV-D, below.

6

7 **Q. Please summarize your view of Avista's case, as presented by Ms. Andrews.**

8 A. Avista claims it owes nothing to ratepayers.

9 To reach this conclusion, the Company argues that (1) the Commission does not  
10 need to recalculate the attrition allowance, (2) the rates in question were in effect for 11  
11 months and not 2.3 years, (3) any amounts owed to ratepayers should be offset with  
12 amounts already passed back through earnings sharing, and (4) the Commission should  
13 use actual 2016 rate base to recalculate rates.

14 As discussed in Section V, below, the Company came to incorrect conclusions on  
15 all four of these issues. As a result, the Company's analysis is highly deflated relative to  
16 what is actually owed to ratepayers.

17

18 **Q. Please introduce the other Staff witnesses testifying in this proceeding and the**  
19 **subjects of their testimony.**

20 A. Mr. Ball sponsors the revenue requirement tables that incorporate the revised attrition  
21 allowances into the original findings of the Commission through Order 05. Mr. Ball also  
22 responds to Avista's arguments with respect to earnings sharing.





1 **Q. What did the Court of Appeals conclude with respect to Order 05?**

2 A. The Court concluded:

3 Because the projections of future rate base were not “used and useful” for service  
4 in Washington, we conclude that the WUTC may not base Avista’s rates on them.  
5 Accordingly, the WUTC erred in calculating Avista’s electric and natural gas  
6 rates. The WUTC order provided one lump sum attrition allowance without  
7 distinguishing what portion was for rate base and which was for O&M expenses  
8 or other considerations. We strike all portions of the attrition allowance  
9 attributable to Avista’s rate base and reverse and remand for the WUTC to  
10 recalculate Avista’s rates without relying on rate base that is not used and useful.<sup>5</sup>

11  
12 My understanding of the Court’s conclusion is that the Remand requires the Commission  
13 to re-determine rates by recalculating the attrition allowance.

14

15 **IV. STAFF’S ANALYSIS ON REMAND**

16

17 **A. Identification of the Appropriate Attrition Model**

18

19 **Q. How is the Attrition Revenue Requirement calculated?**

20 A. The Attrition Revenue Requirement is calculated using an attrition model, such as those  
21 previously filed as Staff Exhibits CRM-2 and CRM-3, or Avista Exhibits EMA-6 and  
22 EMA-7.

23

24 **Q. How does the Court Remand Decision affect the calculation of the Attrition Revenue**  
25 **Requirement within the attrition models?**

26 A. The attrition models previously used in this docket employed escalation factors for  
27 certain rate base items (namely, Net Plant after DFIT). Given that the Court struck “all

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<sup>5</sup> *Court Remand Decision* at 688-89.

1 portions of the attrition allowance attributable to Avista's rate base,"<sup>6</sup> the escalation  
2 factors for Net Plant after DFIT have to be removed.

3  
4 **Q. Which are the appropriate models to use for recalculating the Attrition Revenue**  
5 **Requirement for Electric and Natural Gas service?**

6 A. The Commission found that Staff's attrition study approach, as adjusted and corrected by  
7 the Company, provided the most appropriate methodology in this docket for supporting  
8 an attrition adjustment.<sup>7</sup> Avista rebuttal Exhibits EMA-6 (Electric) and EMA-7 (Natural  
9 Gas) constitute Staff's attrition study approach, adjusted and corrected by the Company.

10 Therefore, Exhibits EMA-6 and EMA-7 represent the appropriate starting point  
11 for recalculating the Attrition Revenue Requirement.

12  
13 **Q. Do Exhibits EMA-6 and EMA-7 need to be modified in any way before removing**  
14 **the escalation of rate base items?**

15 A. Yes. Exhibits EMA-6 and EMA-7 need to be modified in two ways:

- 16 1. Exhibits EMA-6 and EMA-7 do not include the Commission's modifications to  
17 the attrition methodology, as identified in Order 05; and
- 18 2. Exhibit EMA-6 does not include the Power Supply Update filed by the Company  
19 in these dockets on October 29, 2015.

20  
21 **Q. According to Order 05, what modifications did the Commission make to the Electric**  
22 **attrition methodology?**

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<sup>6</sup> *Court Remand Decision* at 689.

<sup>7</sup> Order 05 at ¶ 111.

1 A. The Commission modified the annual escalation of O&M expenses to 3.21 percent,<sup>8</sup> and  
2 modified the annual escalation of distribution plant to 0 percent.<sup>9</sup>

3

4 **Q. According to Order 05, what modifications did the Commission make to the Natural**  
5 **Gas attrition methodology?**

6 A. The Commission modified the annual escalation of O&M expenses to 2.42 percent.<sup>10</sup>

7

8 **Q. By incorporating the October 29, 2015, Power Supply Update into Exhibit EMA-6,**  
9 **is Staff attempting to revisit the Commission’s calculation of Power Supply costs, or**  
10 **otherwise attempting to re-litigate the issue of Power Supply costs in this**  
11 **proceeding?**

12 A. No, it is not. In fact, Staff is doing the opposite. As Ms. Andrews notes, the Court “did  
13 not disturb the Commission’s order on the calculation of the power supply adjustment.”<sup>11</sup>  
14 Exhibit EMA-6 was filed prior to the Power Supply Update (and therefore could not have  
15 incorporated the Power Supply Update); whereas the Commission’s Order 05 was  
16 entered well after the Power Supply Update and did incorporate the Power Supply  
17 Update. In fact, the Commission expressly recognized the Power Supply Update, and its  
18 effect on revenue requirement, in Order 05: “The Company’s update to the power supply  
19 adjustment was filed on October 29, 2015, and reduced the electric revenue requirement  
20 by \$12.3 million.”<sup>12</sup>

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<sup>8</sup> Order 05 at ¶ 139.

<sup>9</sup> Order 05 at ¶ 136.

<sup>10</sup> Order 05 at ¶ 123. Avista’s as-filed Exhibit EMA-7 included an annual escalation for O&M of 2.17 percent.

<sup>11</sup> Andrews, Exh. EMA-9T at 3:19-20.

<sup>12</sup> Order 05 at ¶ 12.

1           Given that the Commission included the October 29, 2015, Power Supply Update  
2           in Order 05, calculations performed within the Remand portion of this proceeding must  
3           also reflect that update so as to not disturb the Commission's decision with respect to the  
4           calculation of Power Supply costs.

5  
6   **Q.   Do you include these revised Attrition Studies as exhibits?**

7   A.   Yes. I sponsor Exhibit CRM-8, Electric Attrition Study (revised from Exh. EMA-6), and  
8       Exhibit CRM-9, Natural Gas Attrition Study (revised from Exh. EMA-7).

9  
10   **B.   Recalculation of the Attrition Allowance**

11  
12   **Q.   What is Staff's approach to recalculating the Electric Attrition Allowance?**

13   A.   As explained in Section IV-A, above, Avista's revised Electric Attrition Model (Exhibit  
14       EMA-6) is the appropriate starting point for recalculating the Electric Attrition Revenue  
15       Requirement. Staff's approach is as follows:

- 16           1.   First, Staff incorporated into Exhibit EMA-6 the Commission's modifications to  
17           the Electric attrition methodology identified in Order 05. Specifically, the annual  
18           escalation for O&M expenses was revised to 3.21 percent,<sup>13</sup> and the annual  
19           escalation for distribution plant was revised to 0 percent.<sup>14</sup>
- 20           2.   Second, Staff incorporated into Exhibit EMA-6 Avista's Power Supply Update,  
21           filed in these dockets on October 29, 2015.

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<sup>13</sup> Order 05 at ¶ 139. Avista's as-filed Exhibit EMA-6 included an annual escalation for O&M of 5.16 percent.

<sup>14</sup> Order 05 at ¶ 136. Avista's as-filed Exhibit EMA-6 included an annual escalation for all plant, including distribution plant, of 4.21 percent.

1           3. Third, Staff removed the escalation of rate base items, as required by the Court  
2           Remand Decision.

3  
4 **Q. What is Staff’s approach to recalculating the Natural Gas Attrition Revenue  
5 Requirement?**

6 A. As explained in Section IV-A, above, Avista’s revised Natural Gas Attrition Model  
7 (Exhibit EMA-7) is the appropriate starting point for recalculating the Natural Gas  
8 Attrition Revenue Requirement. Staff’s approach is as follows:

- 9           1. Staff incorporated into Exhibit EMA-7 the Commission’s one modification to the  
10           Gas attrition methodology identified in Order 05. Specifically, the annual  
11           escalation for O&M expenses was revised to 2.42 percent.<sup>15</sup>  
12           2. Staff removed the escalation of rate base items, as required by the Court Remand  
13           Decision.

14  
15 **Q. How did you incorporate the above approach into the Electric and Natural Gas  
16 Attrition Models (Exhibits EMA-6 and EMA-7)?**

17 A. Attached as Exhibit CRM-10, Technical Appendix A, is a detailed description of how  
18 Staff updated Exhibit EMA-6 and Exhibit EMA-7 to develop Exhibit CRM-8 and Exhibit  
19 CRM-9.

20  

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<sup>15</sup> Order 05 at ¶ 123. Avista’s as-filed Exhibit EMA-7 included an annual escalation for O&M of 2.17 percent.

1           **C.     Results – Revised Attrition Allowances and Amounts Owed to Customers**

2  
3           **Q.     Please summarize the results of your recalculations of the Electric and Natural Gas**  
4           **Attrition Allowances.**

5           A.     The recalculated Electric Attrition Allowance is \$12,690,000,<sup>16</sup> representing a reduction  
6           of \$15,642,000 from the Electric Attrition Allowance authorized by the Commission in  
7           Order 05. Therefore, *annual Electric* revenues authorized by Order 05 should be reduced  
8           by \$15,642,000<sup>17</sup> to reflect a reduction to the Attrition Allowance on remand.

9                     The recalculated Natural Gas Attrition Allowance is \$3,759,000,<sup>18</sup> representing a  
10           reduction of \$3,090,000 from the Natural Gas Attrition Allowance authorized by the  
11           Commission in Order 05. Therefore, *annual Natural Gas* revenues authorized by Order  
12           05 should be reduced by \$3,090,000<sup>19</sup> to reflect a reduction to the Attrition Allowance on  
13           remand.

14  
15           **Q.     How long were the rates resulting from Order 05 in effect?**

16           A.     Approximately 2.3 years. The rates in question went into effect on January 11, 2016, and  
17           remained in effect through April 30, 2018.

18                     Avista filed another general rate case in 2016 in Dockets UE-160228 and UG-  
19           160229, but the Commission rejected the Company’s proposed rate increase on the basis  
20           of insufficient evidence and left the existing rates in place.<sup>20</sup> To be clear, the Commission

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<sup>16</sup> McGuire, Exh. CRM-8 at 1:14.

<sup>17</sup> McGuire, Exh. CRM-8 at 1:16.

<sup>18</sup> McGuire, Exh. CRM-9 at 1:14.

<sup>19</sup> McGuire, Exh. CRM-9 at 1:16.

<sup>20</sup> *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-160228 and UG-160229, Order 06 (Dec. 15, 2016) (Dec. 2016 GRC Order).

1 did not set rates in Avista's 2016 general rate case. Avista filed its next general rate case  
2 in 2017, in Dockets UE-170485 and UG-170486, and new rates went into effect May 1,  
3 2018.<sup>21</sup> Therefore, the rates established in Dockets UE-150204 and UG-150205 remained  
4 in effect through April 30, 2018, for 2.3 years.<sup>22</sup>

5  
6 **Q. Over those 2.3 years, what is the cumulative effect on revenues of the revised**  
7 **Attrition Allowances?**

8 A. The revised Electric Attrition Allowance would reduce annual authorized revenues by  
9 \$15,642,000. The cumulative reduction to Electric revenues over the 2.3 years rates were  
10 in effect is approximately \$35,977,000.

11 The revised Natural Gas Attrition Allowance would reduce annual authorized  
12 revenues by \$3,090,000. The cumulative reduction to Natural Gas revenues over the 2.3  
13 years rates were in effect is approximately \$7,107,000.

14  
15 **Q. Are these precise amounts?**

16 A. No, \$35,977,000 (Electric) and \$7,107,000 (Natural Gas) are approximations that are the  
17 annual amount simply multiplied by 2.3 years. To calculate a *precise* number, the revised  
18 revenue requirement would need to be converted into revised *rates* for the various rate  
19 schedules. Based on actual billing determinants (customer counts, sales volumes, etc.),  
20 those rates could be used to calculate revenues and compared to the actual revenues over  
21 the 2.3 years. The difference would be the cumulative amount that should be refunded to  
22 customers. This would not however, account for the changes in usage that different rates

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<sup>21</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-170485 and UG-170486, Order 07 (April 26, 2018).

<sup>22</sup> The rates in question were in effect for 0.97 years in 2016, 1.00 years in 2017, and 0.33 years in 2018.



1 would have caused, further changing the amount owed to customers. Ultimately,  
2 calculating a refund is not a precise exercise and Staff does not believe it is necessary to  
3 go beyond an approximation.

4  
5 **D. Evaluation of Alternatives**

6  
7 **Q. Have you identified any alternatives to your recommendations?**

8 A. Yes. In Section II, above, and further discussed in Section V, below, I make  
9 recommendations on four decision points in this case and I present refund amounts  
10 associated with various combinations of decisions.

11  
12 **Q. What are the amounts that should be refunded to Electric and Natural Gas**  
13 **customers under this menu of options?**

14 A. Tables 2 and 3 (for Electric and Gas, respectively) summarize amounts owed to  
15 ratepayers under different decisions with respect to the questions of whether (1) the  
16 Commission is required to recalculate the attrition allowances, (2) the rates in question  
17 were in effect for 11 months or 2.3 years, and (3) it is appropriate to offset amounts owed  
18 to ratepayers with earnings already shared.

19 Staff's recommended amounts are shown in bold type at the upper left of each  
20 table.

**Table 2. Electric – Amount Owed to Customers under Various Commission Determinations**

Electric	Rates in Effect: 2.3 years		Rates in Effect: 11 months	
	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES
<b>Recalculate Attrition Allowance in Model (Staff)</b>	<b>\$35,976,600*</b>	\$34,426,324	\$14,488,082	\$13,161,082
<b>Analysis Outside of Attrition Model (Avista)</b>	\$6,589,500	\$5,039,224	\$2,653,000	\$1,326,000

(\*)Staff’s recommendation.

**Table 3. Natural Gas – Amount Owed to Customers under Various Commission Determinations**

Natural Gas	Rates in Effect: 2.3 years		Rates in Effect: 11 months	
	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES
<b>Recalculate Attrition Allowance in Model (Staff)</b>	<b>\$7,107,000*</b>	\$4,271,000	\$2,862,049	\$1,280,049
<b>Analysis Outside of Attrition Model (Avista)</b>	\$7,856,800	\$5,020,800	\$3,163,000	\$1,581,000

(\*) Denotes Staff’s recommendation.

**Q. These tables omit options with respect to using actual rate base levels. Can you provide a menu of options in case the Commission determines it is appropriate to consider actual rate base?**

A. Yes. However, Staff believes property that became used and useful after the date the Commission entered Order 05 (January 5, 2016) has been expressly excluded from consideration in this Remand. Therefore, to evaluate the effect of using “actual” rate base to calculate amounts owed to customers, Staff uses EOP 2015 rate base balances (rather than the AMA 2016 rate base balances Avista uses). For comparative purposes, Staff also

1 provides amounts owed to customers using AMA 2016 balances. See Tables 4 and 5,  
 2 below. The amounts in Tables 4 and 5 represent recalculations of the attrition allowances  
 3 using Staff's attrition models.

4 Please note that Tables 4 and 5, below, show options that do not represent Staff's  
 5 primary recommendations.

6 **Table 4. Electric – Amount Owed to Customers using Actual Rate Base.**

7

Electric - Actual Rate Base	Rates in Effect: 2.3 years		Rates in Effect: 11 months	
	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES
Recalculate Attrition Allowance (EOP 2015 Rate Base)	\$17,270,700	\$15,720,424	\$6,955,057	\$5,628,057
Recalculate Attrition Allowance (AMA 2016 Rate Base)	\$2,056,200	\$505,924	\$828,049	(\$498,951)

8  
 9 **Table 5. Natural Gas – Amount Owed to Customers using Actual Rate Base.**

10

Natural Gas - Actual Rate Base	Rates in Effect: 2.3 years		Rates in Effect: 11 months	
	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES	Offset with Earnings Sharing: NO	Offset with Earnings Sharing: YES
Recalculate Attrition Allowance (EOP 2015 Rate Base)	\$816,500	(\$2,019,500)	\$328,811	(\$1,253,189)
Recalculate Attrition Allowance (AMA 2016 Rate Base)	\$975,200	(\$1,860,800)	\$392,721	(\$1,189,279)

1 **Q. How did you quantify the refund impact of each decision?**

2 A. I developed basic, trimmed-down Electric and Gas attrition models in order to quickly  
3 calculate the attrition allowance under various rate base options. As I note in Exhibit  
4 CRM-10, changes to rate base have an immaterial effect on debt interest and NOI, and  
5 can be ignored to simplify the analysis while still providing valid approximations of the  
6 attrition allowances and amounts owed back to customers.

7 By ignoring immaterial changes to NOI, and recognizing the Remand requires  
8 only revaluing the attrition rate base, recalculations of the Attrition Allowance can be  
9 done using nothing more than the summary tab of the Attrition Model, and by changing  
10 no other cell than the cell for rate base (though certain cells on the summary tab have to  
11 be modified to remove reference to other tabs).

12 Each of the values in Tables 4 and 5 were derived using these trimmed-down  
13 attrition models.

14

15 **Q. Have you provided these basic, trimmed-down Attrition Models as exhibits?**

16 A. Yes. I provide the basic, trimmed-down models as Exhibits CRM-11 for Electric and  
17 CRM-12 for Natural Gas.

18 I include these models as exhibits so that if the Commission wishes, it can itself  
19 quickly evaluate how various rate base options impact the attrition revenue requirement  
20 and attrition allowance.

21

1                                   **V. STAFF’S RESPONSE TO AVISTA’S POSITION**  
2

3 **Q. Please summarize Avista’s position with respect to the effect of the Court Remand**  
4 **Decision and associated amounts owed to ratepayers.**

5 A. Avista claims it owes nothing to ratepayers.  
6

7 **Q. How does Avista reach this conclusion?**

8 A. To reach this conclusion, Avista takes four suspect positions, all of which bias the  
9 analysis in favor of the Company. The four positions are:

- 10           1. The Attrition Allowances are not at issue, and do not need to be recalculated;  
11           2. Order 06 of Dockets UE-160228/UG-160229 reset rates, so the rates at issue in  
12           the Remand were only in effect for 11 months;  
13           3. Any amounts owed back to ratepayers should be offset with amounts already  
14           returned to ratepayers through earnings sharing; and  
15           4. Actual 2016 data can be used to recalculate rate base for the 2015 GRC.

16 Staff explains below why the Commission should reject each of these positions.  
17

18 **A. The Attrition Allowances Need to be Recalculated**  
19

20 **Q. How does the Company reach the conclusion that the Attrition Allowances do not**  
21 **need to be recalculated?**

22 A. To reach this conclusion, Avista sculpts the Court’s conclusion and presents it as if the  
23 Attrition Allowance were not at issue. Avista testifies that “the Court simply directed the

1 'WUTC to recalculate Avista's rates without relying on rate base that is not used and useful'.  
2 ...'<sup>23</sup>

3 However, Avista cites to only one half of the sentence in the Court Remand  
4 Decision. The complete sentence is as follows:

5 We strike all portions of the attrition allowance attributable to Avista's rate base  
6 and reverse and remand for the WUTC to recalculate Avista's rates without  
7 relying on rate base that is not used and useful.<sup>24</sup>  
8

9 So the Court's decision was, in fact, not as simple as Avista represents. As is evident by  
10 the complete sentence, the calculation of the Attrition Allowance is clearly part of the  
11 Remand.

12 The Commission, in paraphrasing the Court's decision, affirmed that the Attrition  
13 Allowance is at issue: "The Court remanded the proceeding to the Commission to  
14 recalculate Avista's rates after 'removing the attrition adjustment applied to property that  
15 was not used and useful. ...'"<sup>25</sup>  
16

17 **Q. Why does the Court Remand Decision require a recalculation of the Attrition**  
18 **Allowance?**

19 A. The Court struck the portions of the Attrition Allowance attributable to Avista's rate  
20 base; it did not strike the full allowance. Thus, the principal objective of this proceeding  
21 is to calculate an Attrition Allowance that does not include projected rate base.

22 The Court determined that the Attrition Allowance included rate base that was not  
23 used and useful; therefore, removing rate base that was not used and useful affects the

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<sup>23</sup> Andrews, Exh. EMA-9T, 5:14-16 (*citing* Order Granting Remand at p. 2). (Emphasis added).

<sup>24</sup> *Court Remand Decision* at 689. (Emphasis added.)

<sup>25</sup> Order 07 at ¶ 2.

1 Attrition Allowance. In other words, the recalculation of Avista’s rates cannot be  
2 accomplished without a recalculation of the Attrition Allowance.

3  
4 **Q. Did Avista reevaluate the rate base escalation factors in the Attrition Models?**

5 A. No, it did not.

6 The Company’s analysis disregards the Attrition Models entirely, even though the  
7 Commission determined the Attrition Models were the appropriate bases for calculating  
8 the Attrition Allowances, and even though the escalation of rate base – authorized by the  
9 Commission and reviewed by the Court of Appeals – was performed within the Attrition  
10 Models.

11  
12 **Q. If Avista does not analyze the effect of modifying the rate base escalators in the  
13 Attrition Model, and it does not recalculate the Attrition Allowance, how does  
14 Avista evaluate the effect of the Court Remand Decision?**

15 A. The Company simply calculates how revenue requirement changes as rate base changes.  
16 More specifically, the Company calculates the revenue requirement effect of reducing the  
17 “Attrition Study Rate Base”<sup>26</sup> to the pro forma rate base identified in the Commission’s  
18 order.

19  
20 **Q. What is the problem with Avista’s analysis?**

21 A. First, Avista relies on an “Attrition Study Rate Base” even though the Commission did  
22 not supply the record with its Attrition Study, and Avista did not produce an Attrition

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<sup>26</sup> See Exh. EMA-9T, generally, for Avista’s use of this term. As a specific example, see EMA-9T, Table No. 1 at 15:4.

1 Study in the Remand. Staff does not know what Attrition Study Avista is using when it  
2 cites to an “Attrition Study Rate Base.” Further, if Avista is relying on an “Attrition  
3 Study Rate Base,” it’s not clear why the Company does not just implement the Court’s  
4 mandate through that Attrition study.

5 Second, Avista does not attempt to recalculate the Attrition Allowances. Rather,  
6 the Company presents a generic and confined analysis of how a change in rate base  
7 relates to a change in revenue requirement. In doing so, the Company fails to evaluate  
8 which portions of the Attrition Allowance were stricken by the Court, and which were  
9 not.

10 Given that the Commission did not provide an Attrition Model with Order 05, it’s  
11 impossible to know which *portions* of the Attrition Allowance were attributable to the  
12 escalation of rate base items versus non-rate base items. Therefore, Avista’s analysis of  
13 rate base changes performed outside of the Attrition Model is useless – there is no way to  
14 know how that rate base relates to the composition of the authorized Attrition Allowance.

15  
16 **Q. Why did the Company not recalculate the Attrition Allowance using the Attrition  
17 Study they cite to?**

18 A. I don’t know. It’s worth noting, however, that as my analysis shows, recalculating the  
19 Electric Attrition Allowance inside of the Attrition Model yields a \$15.6 million  
20 reduction to annual revenue requirement, whereas Avista’s analysis outside of the  
21 Attrition Model yields a \$2.9 million reduction to annual revenue requirement.<sup>27</sup>

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<sup>27</sup> Andrews, Exh. EMA-9T at 14:8-9. The results for Natural Gas are much closer; whereas Staff calculates a \$3.1 million reduction to annual revenue requirement, Avista calculates a \$3.4 million reduction to annual revenue requirement. *See* Andrews, Exh. EMA-9T at 19:17-18.



1 **Q. Why are Avista’s results so much different than yours?**

2 A. Simply, the portions of the authorized Attrition Allowance attributable to rate base are  
3 not as Avista represents. This fact becomes apparent when the rate base escalation is  
4 removed from the Electric Attrition Model– the model that calculates the Attrition  
5 Allowance. Removal of the rate base escalation reduces authorized revenues (via the  
6 Attrition Allowance) by \$15.6 million, not by \$2.9 million as Avista presents.

7 Avista overlooks the fact that the portion of the Attrition Allowance attributable  
8 to rate base items is not known. By presenting an isolated analysis of rate base, Avista  
9 inaccurately claims that it is addressing the portion of revenues attributable to the attrition  
10 rate base. This is not possible. The Company does not, and cannot, know the portion of  
11 the authorized Attrition Allowance attributable to Avista’s rate base.

12  
13 **Q. Is there any publicly available information signaling that the Company’s assessment  
14 of its liability associated with the Remand is greater than zero?**

15 A. Yes. In Avista’s 2018 Form 10-K, the Company identifies contingent liabilities  
16 associated with the Remand as high as \$28.3 million for Electric and \$6.9 million for  
17 Natural Gas.<sup>28</sup> However the Company also appears to indicate that additional amounts  
18 from subsequent years (beyond the 2016 general rate case rate year) could be included,  
19 signaling to investors that the contingency could be higher than the cited numbers.<sup>29</sup>

20

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<sup>28</sup> McGuire, Exh. CRM-13, Excerpt of Avista’s 2018 Form 10-K (“the Company cannot predict the outcome of this matter at this time and cannot estimate how much, if any, of the attrition allowance may be removed from the general rate cases or if other amounts from subsequent general rate cases will be included”).

<sup>29</sup> *Id.*

1 **Q. Does Staff offer an alternative approach?**

2 A. Yes. Because Order 05 did not identify what portion of the Attrition Allowance was  
3 attributable to rate base, it is necessary to recalculate the Attrition Allowance after  
4 removal of the rate base escalators from the Attrition Model. By removing the escalation  
5 of rate base from the Attrition Model, Staff calculates the level of projected attrition due  
6 to all factors other than growth in rate base; therefore, no portion of the resulting Attrition  
7 Allowance is attributable to Avista's rate base, thus fulfilling the Court's mandate.

8

9 **B. Rates Were in Effect for 2.3 Years, not 11 Months**

10

11 **Q. How does Avista reach the conclusion that rates authorized by Order 05 of Dockets**  
12 **UE-150204 and UG-150205 were in effect for only 11 months?**

13 A. Avista takes the position that the rates at issue in this Remand persisted only until the  
14 Commission's decision in the Company's 2016 rate case.<sup>30</sup> To support this position,  
15 Avista attempts to argue that the Commission made a "fresh determination"<sup>31</sup> in Order 06  
16 of Dockets UE-160228 and UG-160229 – the order in which the Commission stated there  
17 was insufficient evidence to make a rate determination<sup>32</sup> – and reset rates on December  
18 15, 2016.

19

20 **Q. Is it your understanding that Order 06 of Dockets UE-160228 and UG-160229 reset**  
21 **rates on December 15, 2016?**

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<sup>30</sup> The effective date of rates authorized in Dockets UE-170485 and UG-170486 was May 1, 2018.

<sup>31</sup> Andrews, Exh. EMA-9T at 12:18.

<sup>32</sup> Dec. 2016 GRC Order at ¶ 111.

1 A. No. Although the Company did file a general rate case in 2016, the Commission did not  
2 set rates for Avista. The Commission rejected the Company’s proposed rate increase,<sup>33</sup>  
3 finding that Avista had failed to carry its burden to show that its existing rates were  
4 insufficient.<sup>34</sup> Citing RCW 80.28.020, the Commission concluded that it had “neither the  
5 authority, nor an obligation, to determine fair, just, reasonable, or sufficient rates,  
6 charges, regulations, practices or contracts to be hereafter observed and in force or to fix  
7 the same by order.”<sup>35</sup>

8 The Commission made further conclusions, which clarified exactly what the rates  
9 were at this point, given that the Commission had just found that it lacked sufficient  
10 evidence to determine rates. In its conclusions, the Commission spelled out that Avista’s  
11 existing rates (the rates set in January of 2016) would remain in effect prospectively.<sup>36</sup>  
12 Therefore, the rates established in Dockets UE-150204 and UG-150205 remained in  
13 effect through April 30, 2018, for 2.3 years.

14 Avista ignores the Commission’s determination in Order 06 of Dockets UE-  
15 160228 and UG-160229 that, due to the Company’s failure to meet its evidentiary  
16 burden, the Commission lacked the authority to set Avista’s rates.

17  
18 **Q. In Order 06 of Dockets UE-160228 and UG-160229 did the Commission explain its**  
19 **interpretation of its authority under RCW 80.28.020?**

20 A. Yes. In its discussion of RCW 80.28.020, the Commission stated:

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<sup>33</sup> Dec. 2016 GRC Order at ¶ 114 (“The Commission orders that (1) The proposed tariff revisions Avista Corporation, d/b/a Avista Utilities, filed on February 19, 2016, . . . are rejected”).

<sup>34</sup> Dec. 2016 GRC Order at ¶ 111.

<sup>35</sup> Dec. 2016 GRC Order at ¶ 111. *See also* ¶ 60, wherein the Commission describes in detail why it did not have the authority to make a determination with respect to rates, explaining the threshold requirements of RCW 80.28.020.

<sup>36</sup> *See* Dec. 2016 GRC Order at 112.

1 “That is, the Commission must first determine the question whether the  
2 Company’s existing rates ‘are unjust, unreasonable, unjustly discriminatory or  
3 unduly preferential, or in any wise in violation of the provisions of the law, or that  
4 such rates or charges are insufficient to yield a reasonable compensation for the  
5 service rendered.’ If, and only if, the Commission determines the answer to this  
6 threshold question is “yes,” does the Commission have the authority, and the  
7 obligation, to determine revised rates that meet the fair, just, reasonable, and  
8 sufficient standard.”<sup>37</sup>  
9

10 In Order 06, the Commission did not determine that the Company’s then-existing rates  
11 were unjust, unreasonable, unjustly discriminatory, unduly preferential, or insufficient to  
12 yield a reasonable compensation for the service rendered. Therefore, as the Commission  
13 explains, it did not have the authority to determine rates.  
14

15 **Q. What does Staff conclude?**

16 A. The rates established in Dockets UE-150204 and UG-150205 were not reset on  
17 December 15, 2016, by Order 06 in Dockets UE-160228 and UG-160229. Rather, rates  
18 remained in effect up to the effective date of rates authorized through Order 07 of  
19 Avista’s 2017 GRC, or for 2.3 years.  
20

21 **C. Earnings Sharing Should Not Offset Amounts Owed to Ratepayers**  
22

23 **Q. Does the Company propose to incorporate the effects of Earnings Sharing into the**  
24 **calculation of a refund?**

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<sup>37</sup> Dec. 2016 GRC Order at ¶ 60.

1 A. Yes. Ms. Andrews testifies that “[a]ny electric refund ordered by the Commission should  
2 consider amounts already paid to customers, and how the 2015 remand of attrition-related  
3 amounts would have impacted the actual 2016 over-earnings calculation.”<sup>38</sup>

4

5 **Q. Should the calculation of any amount owed to customers incorporate the effects of**  
6 **Earning Sharing?**

7 A. No. As discussed by Mr. Ball, there are three primary reasons to not include the effects of  
8 Earning Sharing when determining the amount owed to customers:

- 9 1) Incorporating Earning Sharing undermines the policy objective of the mechanism;  
10 2) Not all customer are subject to decoupling, which would mean that complicated  
11 additional analysis would be required to determine the correct amount owed to  
12 customers; and  
13 3) It is not possible to know how Earning Sharing would have been impacted by the  
14 changes to revenue calculated above.

15

16 **D. Actual 2016 Rate Base is Not Relevant**

17

18 **Q. What does Avista argue with respect to actual 2016 rate base?**

19 A. Avista argues that attrition rate base calculated in these dockets should be compared to  
20 the actual level of rate base in 2016, as that was the level used and useful in the rate year.

21 For Electric, Avista states that the actual level of AMA rate base in 2016 was  
22 \$1.443 billion while the attrition level of rate base was \$1.344 billion.<sup>39</sup> For Natural Gas,

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<sup>38</sup> Andrews, Exh. EMA-9T at 16:1-3.

<sup>39</sup> Andrews, Exh. EMA-9T at 18:11-15.

1 Avista states actual AMA rate base was \$286.6 million, while the attrition level of rate  
2 base was \$297.0 million.<sup>40</sup>

3 For Electric, Avista argues that because actual 2016 rate base was higher than the  
4 projected 2016 attrition rate base, rate base does not need to be revised downward on  
5 Remand. Accordingly, Avista argues rates do not need to be reduced and no refunds are  
6 owed.

7 For Natural Gas, Avista argues that while actual rate base was lower than the  
8 projected attrition rate base, the difference only corresponds to a revenue requirement  
9 decrease of \$1.0, but that amount is entirely offset by shared earnings.<sup>41</sup>

10  
11 **Q. What is Staff’s response to this argument?**

12 A. Actual 2016 rate base is irrelevant to the Commission’s determination. As the  
13 Commission described in its pre-hearing conference order, the subject of the Remand  
14 relates to “the attrition adjustment applied to property that was not used and useful as of  
15 the date that the Commission entered Order 05.”<sup>42</sup> The date the Commission entered  
16 Order 05 was January 6, 2016. Therefore, the Commission has already determined actual  
17 2016 rate base is not relevant to this proceeding.

18  
19 **Q. To what extent is “actual” rate base at any point in time relevant to this proceeding?**

20 A. Staff argues that “actual” rate base is not relevant at all. This Remand basically asks:  
21 what would have been the Commission’s January 6, 2016, decision had it not included a

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<sup>40</sup> Andrews, Exh. EMA-9T at 22:3-5.

<sup>41</sup> Andrews, Exh. EMA-9T at 22:7-9.

<sup>42</sup> Order 07 at ¶ 2 (citing *Court Remand Decision* at 688-89. (Emphasis added.))

1 rate base escalation in the calculation of the Attrition Allowance? Allowing the use of  
2 actual rate base now creates an anachronism – neither actual rate base data nor proposals  
3 to use actual rate base data were part of the record at the time the Commission entered  
4 Order 05. Order 05 simply could not have been decided in the way that Avista now asks  
5 it to be re-decided.

6  
7 **Q. Is there an alternative perspective that the Commission could consider?**

8 A. Yes. For example, in the Commission’s paraphrasing of the court’s decision, it references  
9 “property that was not used and useful as of the date that the Commission entered Order  
10 05.”<sup>43</sup>

11 Although Avista’s use of actual 2016 rate base is inconsistent with Order 07, the  
12 Commission could determine that actual rate base used and useful *before* January 6,  
13 2016, is the appropriate rate base to use for determining rates on Remand.

14 Although Staff rejects this approach because of the anachronism it presents, Staff  
15 analyzes the revenue requirement impact of using actual 2016 EOP rate base to  
16 recalculate the attrition allowance. If the Commission determines that it is appropriate to  
17 consider actual rate base amounts, Staff recommends rejecting Avista’s approach of using  
18 2016 AMA rate base in favor of using 2015 EOP rate base, as that is the level of rate base  
19 in service as of the date the Commission entered Order 05.

20 It should be noted, however, that actual rate base on December 31, 2015, does not  
21 reflect the rate base calculated in accordance with the Commission’s rules on pro forma  
22 adjustments. Commission rules require that pro forma adjustments be known and

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<sup>43</sup> Order 07 at ¶ 2.

1 measurable and not offset by other factors.<sup>44</sup> Further, practicality dictates that pro forma  
2 plant additions subject to review in a general rate case be limited to those that are “major”  
3 and in-service early enough in the proceeding to allow for a full audit and review.

4 The rate base that meets these Commission standards is the rate base identified in  
5 Appendix A, Tables A1 and A2 of Order 05. This is also the rate base Staff uses as the  
6 basis for its calculations in Exhibits CRM-8 and CRM-9.

7  
8 **Q. Does this conclude your testimony?**

9 **A.** Yes, it does.

10

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<sup>44</sup> WAC 480-07-510(3)(c)(ii).