

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	)	DOCKETS UE-200900, UG-200901,
	)	UE-200894 ( <i>Consolidated</i> )
Complainant,	)	
	)	
v.	)	
	)	
AVISTA CORPORATION d/b/a	)	
AVISTA UTILITIES	)	
Respondent.	)	
	)	
	)	
_____	)	
In the Matter of the Petition of	)	
	)	
AVISTA CORPORATION d/b/a	)	
AVISTA UTILITIES,	)	
	)	
For an Accounting Order Authorizing	)	
Accounting and Ratemaking Treatment of	)	
Costs Associated with the Company's	)	
Wildfire Resiliency Plan.	)	
	)	
_____	)	

**RESPONSE TESTIMONY OF BRADLEY G. MULLINS  
ON BEHALF OF  
ALLIANCE OF WESTERN ENERGY CONSUMERS**

**April 21, 2021**

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## **EXHIBIT LIST**

- Exhibit BGM-2: Regulatory Appearances of Bradley G. Mullins
- Exhibit BGM-3: Electric Service Revenue Requirement Calculations
- Exhibit BGM-4: Gas Service Revenue Requirement Calculations
- Exhibit BGM-5: Responses to Data Requests
- Exhibit BGM-6: Cost of Debt with New Debt Issuances
- Exhibit BGM-7: AWEC Proposed Pro Forma Plant Additions – Electric Services
- Exhibit BGM-8: AWEC Proposed Pro Forma Plant Additions – Gas Services
- Exhibit BGM-9: Operations & Maintenance Expense Analysis 2019 – 2020
- Confidential Exhibit BGM-10C: IT&S Expense Analysis 2019 – 2020

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is Vihiluoto 15, Kempele,  
4 Finland FI-90410.

5 **Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**  
6 **TESTIFYING.**

7 A. I am an independent energy and utilities consultant representing large energy consumers  
8 before state regulatory commissions, primarily in the Western United States. I am  
9 appearing in this matter on behalf of the Alliance of Wester Energy Consumers  
10 (“AWEC”). AWEC is a non-profit trade association whose members are energy  
11 consumers located throughout the Pacific Northwest, including electric and natural gas  
12 customers of Avista Corporation d/b/a Avista Utilities (“Avista”) in Washington State.

13 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

14 A. I have a Master of Accounting degree from the University of Utah. After obtaining my  
15 master’s degree, I worked at Deloitte in San Jose, California, where I specialized in  
16 performing research and developing tax credit studies. I later worked at PacifiCorp as an  
17 analyst involved in power cost forecasting. I currently provide services to utility  
18 customers on matters such as revenue requirement, power cost forecasting, and rate  
19 spread and design. I have sponsored testimony in several regulatory jurisdictions around  
20 the United States, including before the Washington Utilities and Transportation  
21 Commission (“Commission”). A list of cases where I have submitted testimony can be  
22 found in Mullins, Exh. BGM-2.

1 **Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?**

2 A. I discuss my review of Avista’s request to increase rates for electric services and natural  
3 gas services effective October 1, 2021. Specifically, I discuss Avista’s request to  
4 increase electric service revenue requirement by \$42,721,000, or 8.31%, and to increase  
5 natural gas margin revenue requirement by \$12,790,000, or 12.16%. I also discuss  
6 Avista’s proposal to use deferred revenues associated with a change of tax accounting to  
7 offset the proposed first year revenue requirement increases, pursuant to the regulatory  
8 accounting petitions the Commission approved in Docket Nos. UE-200895 and UG-  
9 200896.<sup>1/</sup>

10 **Q. WHAT WAS THE SCOPE OF YOUR REVIEW?**

11 A. I reviewed the Direct Testimony of Avista including its supporting workpapers. I also  
12 reviewed Avista’s responses to data requests submitted by AWEC and other parties to  
13 this proceeding. Finally, I performed an independent analysis of Avista’s revenue  
14 requirements, which may be found at Mullins, Exh. BGM-3 for electric services and  
15 Mullins, Exh. BGM-4 for natural gas services. Responses to discovery requests have  
16 been attached at Mullins, Exh. BGM-5.

17 **Q. BASED UPON YOUR REVIEW, WHAT ARE YOUR RECOMMENDATIONS**  
18 **AND CONCLUSIONS?**

19 A. Approximately one year ago in Docket Nos. UE-190334 and UG-190335, Avista’s 2019  
20 General Rate Case (“GRC”), Avista received approval for new electric and natural gas

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<sup>1/</sup> In re the Petition of Avista Corporation, d/b/a Avista Utilities for an Accounting Order Approving Accounting Change to Flow-Through Method for Regulatory Purposes for Federal Income Tax Expense associated with Industry Director Directive No. 5 and Meters; and Defer Benefits Associated with the Change in Tax Expense and Future Annual Benefits, Dockets UE-200895 and UG-200896, Order 01 (March 11, 2021).

1 rates effective April 1, 2020.<sup>2/</sup> In those Dockets, the Commission, recognizing the  
2 circumstances facing Avista ratepayers resulting from the COVID-19 pandemic,  
3 approved a revenue requirement increase while also requiring Avista to use Energy  
4 Recovery Mechanism (“ERM”) refunds and the 2015 GRC refunds, to achieve a net zero  
5 rate increase.<sup>3/</sup> As a result of the ongoing COVID-19 pandemic crisis, many of the  
6 ratepayers in Avista’s service territory continue to experience unprecedented hardship.  
7 Additionally, the rate mitigation tools used to achieve a net zero rate increase in the 2019  
8 GRC have since expired or been reduced. Accordingly, on April 1, 2021, Avista’s  
9 ratepayers experienced a material rate increase from the 2019 GRC. In this case, Avista  
10 is requesting another significant rate increase, only five months after the rate increases  
11 from the 2019 GRC began to impact billing rates.

12 Upon review, however, Avista’s proposal for another rate increase in this case is  
13 unjustified. Avista has selected an outdated test period based on the 12-months ending  
14 December 31, 2019. While the COVID-19 pandemic has been challenging for  
15 ratepayers, for Avista it has resulted in material cost reduction and a reduced rate of  
16 capital spending. By using an outdated test period coupled with an expansive set of pro  
17 forma adjustments, Avista is requesting the Commission ignore the savings it has  
18 recognized during 2020. Considering these circumstances, I am recommending a  
19 revenue requirement reduction of \$18,177,002 or -3.4% for electric services and a margin  
20 revenue requirement reduction of \$6,706,263 or -6.4% % for natural gas services. Table

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<sup>2/</sup> Docket Nos. UE-190334, UG-190335, and UE-190222 (Consolidated), Final Order 09 (March 25, 2020) (“2019 GRC”).

<sup>3/</sup> Id., ¶ 133.

1 provides a step-study between the revenue requirement included in the Company’s  
 2 initial filing and the revenue requirement calculated in my analysis. Brief summaries of  
 3 the proposed adjustments follow the table. New adjustments proposed in this testimony  
 4 begin with the number “7”.

**TABLE 1**  
Washington Revenue Requirement Impacts of Recommended Adjustments  
 (\$000)

		<u>Electric Service</u>	<u>Gas Service</u>
1	<b>Filed Rev. Req.</b>	<b>\$ 44,183</b>	<b>\$ 12,790</b>
2	<b><u>Adjustments</u></b>		
3	Cost of Capital	(10,284)	(2,455)
4	<sup>3.11-3.15, 7.01</sup> Pro-Forma Plant	(8,557)	(2,803)
5	<sup>7.02</sup> O&M Expense	(10,828)	(3,444)
6	<sup>3.18E</sup> EIM Expenditures	(3,729)	-
7	<sup>3.00T</sup> Wheeling Revenues	(557)	-
8	<sup>3.19</sup> Colstrip Pro Forma	(1,420)	-
9	<sup>3.17E</sup> Pro-form Wildfire	(3,784)	-
10	<sup>3.07</sup> Pro-Forma Insurance	(1,078)	(821)
11	<sup>3.08</sup> Pro Forma IT&S	(1,028)	(356)
12	<sup>3.17G</sup> LEAP Amortization	-	(874)
13	<sup>3.04</sup> Pro Forma Non-Exec. Labor	(3,417)	(1,022)
14	<sup>7.03</sup> Inter-Corporate Cost Allocation	(56)	(16)
15	<sup>3.16</sup> Advanced Metering Infrastructure	(3,619)	(1,263)
16	<sup>7.04</sup> AFUDC Deferral	(1,841)	(544)
17	<sup>4.00T</sup> Tax Accounting Change	(12,162)	(5,898)
18	<b>Total Adjustments</b>	<b>(62,360)</b>	<b>(19,496)</b>
19	<b>Adjusted Rev. Req.</b>	<b>(18,177)</b>	<b>(6,706)</b>
20		-3.4%	-6.4%

5 Revenue Requirement Adjustments:

- 6 • *Cost of Capital.* I recommend maintaining Avista’s currently approved 9.4%  
 7 Return on Equity (“ROE”) and capital structure. I also recommend a 4.75% cost  
 8 of debt. These components result in a cost of capital of 7.01%.

- 1 • *Pro-forma Plant Additions (3.11-3.15, 7.01)*. I recommend a pro-forma plant  
2 adjustment based on actual calendar year 2020 Average of Monthly Average  
3 (“AMA”) plant balances, including the offsetting impacts of accumulated  
4 depreciation.
- 5 • *Advanced Metering Infrastructure (“AMI”) (3.16)*. Avista did not adequately  
6 demonstrate the benefits of the AMI program are sufficient to justify the costs.  
7 Accordingly, I recommend an adjustment to calculate the return on the AMI  
8 investments at Avista’s cost of debt.
- 9 • *Pro-forma Operations and Maintenance (O&M) Expense (7.02)*. I recommend  
10 an adjustment to O&M expenses based on the actual expense levels Avista  
11 incurred in calendar year 2020.
- 12 • *Pro-forma Energy Imbalance Market (“EIM”) Costs (3.18E)*. I recommend that  
13 EIM costs not be considered as a pro forma plant addition in this proceeding,  
14 consistent with the Commission’s used and useful policy statement and prior  
15 decisions regarding EIM costs and benefits.
- 16 • *Pro-forma Wheeling Revenues (3.00T)*. I recommend using a 12-month average  
17 to calculate short-term firm wheeling revenues.
- 18 • *Pro-forma Colstrip Costs (3.19)*. Consistent with my recommendation on pro-  
19 forma plant, I modify adjustment 3.19 to be based on actual 2020 plant additions  
20 and depreciation expenses.
- 21 • *Pro-forma Wildfire Expenditures (3.17E)*. I recommend excluding certain pro-  
22 forma wildfire expenditures and rejecting the proposed balancing account and  
23 deferral.
- 24 • *Pro-forma Insurance Expense (3.07)*. I recommend establishing pro-forma  
25 insurance expense considering actual 2020 expense levels.
- 26 • *Pro-forma Information Technology & Services (“IT&S”) Expense (3.08)*. I  
27 recommend establishing pro forma IT&S expenses based on actual 2020 expense  
28 levels.
- 29 • *Pro-forma Line Extension Allowance Program Amortization (3.17G)*. I  
30 recommend amortizing the entire remaining LEAP balance over a five-year  
31 period ending in September 2026.
- 32 • *Pro-forma Non-Executive Labor (3.04)*. In recognition of the fact that labor  
33 expenses declined materially in 2020, I recommend no adjustment to non-  
34 executive labor expenses.
- 35 • *Inter-corporate Cost Allocation (7.03)*. I recommend allocating certain  
36 employee costs to non-utility operations.
- 37 • *Allowance for Funds Used During Construction (“AFUDC”) Deferral (7.04)*. I  
38 recommend that an outstanding AFUDC regulatory liability balance be  
39 amortized in base rates over a one-year period.



- 1 • *Tax Accounting Deferral (4.00T)*. I recommend amortizing the amounts  
 2 associated with Avista's tax accounting change deferral approved in Docket  
 3 Nos. UE-200895 and UG-200896 over a five-year period.

4 **II. COST OF CAPITAL**

5 **Q. WHAT COST OF CAPITAL HAS AVISTA PROPOSED?**

- 6 A. Avista has proposed a 7.43% cost of capital, consisting of a 9.9% ROE, a 4.95% cost of  
 7 debt and a 50/50 capital structure.<sup>4/</sup> Table 2 details Avista's proposed capital structure.

**Table 2**  
Avista Proposed Cost of Capital

Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	50.00%	4.97%	2.48%
Common	50.00%	9.90%	4.95%
Total	100.00%		7.43%

8 **Q. WHAT COST OF CAPITAL ARE YOU RECOMMENDING?**

- 9 A. I recommend a 9.4% ROE, a 4.75% cost of debt and a 51.5/48.5 capital structure. These  
 10 parameters, which yield a 7.01% cost of capital, may be found in Table 3, below.

**Table 3**  
AWEC Proposed Cost of Capital

Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	51.50%	4.75%	2.45%
Common	48.50%	9.40%	4.56%
Total	100.00%		7.01%

11 **Q. WHY DO YOU RECOMMEND RETAINING AVISTA'S CURRENT 9.4%  
 12 RETURN ON EQUITY?**

- 13 A. Where a utility has recently concluded a rate case, and absent significant changes in  
 14 capital markets, I recommend against making dramatic changes, which can send

<sup>4/</sup> Exh. EMA-2, at 3.

1 conflicting signals to rating agencies, investors, and can subject ratepayers to unnecessary  
2 rate volatility. Avista's current rates became effective approximately one year ago on  
3 April 1, 2020 in Docket Nos. UE-190334 and UE 190335. While capital markets have  
4 fluctuated with the COVID-19 pandemic, the circumstances at the present are not  
5 materially different than when Avista's current rates were approved, and certainly do not  
6 support a substantial increase to Avista's ROE from 9.4% to 9.9%.

7 **Q. WHAT IS THE IMPACT OF MAINTAINING AVISTA'S ROE AT 9.4%?**

8 A. Relative to Avista's initial filing, the impact of reducing Avista's ROE to the currently  
9 approved level is a revenue requirement reduction of \$6,214,656 for electric services and  
10 a revenue requirement reduction of \$1,483,215 for natural gas services.

11 **Q. WHAT COST OF DEBT HAS AVISTA PROPOSED?**

12 A. Avista has proposed a 4.97% cost of debt supported by Avista Witness Thies.<sup>5/</sup> The specific  
13 debt issuances associated with this recommendation can be found in Thies, Exh. MTT-2,  
14 Page 3. As can be seen, Avista's cost of debt calculation was based on actual issuances  
15 through the end of calendar year 2019, with a forecast debt issuance on September 30,  
16 2020.<sup>6/</sup>

17 **Q. DID AVISTA SUBSEQUENTLY ISSUE DEBT ON SEPTEMBER 30, 2020?**

18 A. Yes. In response to AWEC Data Request 13, Avista provided an updated version of its  
19 cost of debt with the actual terms from the September 30, 2020 issuance. The net terms  
20 of the debt issuance were roughly in line with the forecast, due in part to Avista's use of  
21 interest rate swaps to *lock in* the interest rate. In the response, Avista also updated the

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<sup>5/</sup> Thies, Exh. MTT-1T, at 2:15-16.

<sup>6/</sup> Thies, Exh. MTT-2, at 2-3.

1 balances and interest rates for short-term debt outstanding as of the time of the request.  
2 Considering these changes, Avista's cost of debt declined to 4.81% in its response to  
3 AWEC Data Request 13.<sup>7/</sup>

4 **Q. DOES AVISTA INTEND TO ISSUE NEW DEBT PRIOR THE RATE PERIOD?**

5 A. Yes. In response to AWEC Data Request 14, Avista indicated that it plans to issue  
6 \$120,000,000 on August 31, 2021 with a forecasted interest rate of 3.69% inclusive of  
7 hedging losses.<sup>8/</sup> The response to Data Request 14, however, did not consider the other  
8 updated debt costs that were identified in response to AWEC Data Request 13.

9 Accordingly, on Mullins, Exh. BGM-6, I consolidated the two responses. As can be  
10 noted from the exhibit, the new issuance will further reduce the cost of debt to 4.75%.

11 **Q. IS THE COST OF THE NEW ISSUANCE UNCERTAIN?**

12 A. Avista uses derivative contracts, known as interest rate swaps, to hedge the interest rates  
13 for its debt issuances. Accordingly, the cost of the August 31, 2021 can be determined at  
14 this time with reasonable certainty and does, therefore, meet the known and measurable  
15 standard.

16 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO AVISTA'S COST OF**  
17 **DEBT?**

18 A. I recommend the Commission adopt the 4.75% cost of debt identified in Mullins, Exh.  
19 BGM-6. Relative to Avista's initial filing, the revenue requirement impact of this cost of  
20 debt is a \$2,485,862 reduction to electric services revenue requirement and \$593,286  
21 reduction to gas services revenue requirement.

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<sup>7/</sup> AWEC-DR-013 Attachment A, at line 38 column W.

<sup>8/</sup> AWEC-DR-014 Attachment A, at line 27 column W.

1 **Q. HOW DOES AVISTA’S COST OF DEBT COMPARE TO OTHER UTILITIES IN**  
2 **WASHINGTON?**

3 A. Avista has one of the highest debt costs of any utility I have evaluated in the Northwest.  
4 I attribute this high cost of debt to Avista’s interest rate hedging practices. Since Avista  
5 began entering into interest rate hedges, it has lost a cumulative \$170,501,182, which is  
6 now being amortized to the cost of debt and which ratepayers will be required to repay  
7 through an increased cost of debt for many years to come.<sup>9/</sup> It is important to note that  
8 Avista’s interest rate hedging program is expensive, and in my opinion, unnecessary.  
9 Avista issues debt periodically, rather than in a single lump sum. This practice already  
10 provides ratepayers with a hedge against interest rate fluctuations by limiting ratepayers’  
11 exposure to interest rates at any given point in time. Going a step further and purchasing  
12 hedging contracts on forward interest rates does little to further smooth out the cost of  
13 debt for the benefit of ratepayers. In contrast, these hedging contracts are not free. These  
14 contracts represent a form of insurance, and the bank counterparties issuing them price in  
15 a premium to take on the floating market risk that Avista avoids by locking in its interest  
16 rate. Accordingly, one expects to pay more for the cost of debt when entering into  
17 hedging contracts, which is borne out in the historical hedging losses Avista has  
18 recognized. Avista is the only utility I have studied with such an interest rate hedging  
19 program. While I do not propose a disallowance with respect to these hedging losses, I  
20 do recommend that the Commission carefully monitor and study Avista’s interest rate  
21 practices and require Avista to better demonstrate the prudence of its interest rate hedging

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<sup>9/</sup> Mullins, Exh. BGM-6 (Calculated as the sum of Column (g)).

1 program in future proceedings. Moreover, these hedging practices are further reason to  
2 lock in the lower 4.75% cost of debt that Avista will experience during the rate period.  
3 As customers are paying for the cost of these hedges, they should also get the benefit of  
4 the known interest rates that they provide.

5 **Q. DO YOU RECOMMEND RETAINING AVISTA'S CURRENTLY APPROVED**  
6 **CAPITAL STRUCTURE?**

7 A. Yes. In Docket Nos. UE-190334 and UG-190335, the Commission approved a  
8 hypothetical capital structure of 51.5% debt and 48.5% equity, which I recommend be  
9 used in this proceeding.<sup>10/</sup>

10 **Q. WHAT CAPITAL STRUCTURE HAS AVISTA PROPOSED?**

11 A. Avista has proposed modifying its capital structure to consist of 50.0% debt and 50.0%  
12 equity.<sup>11/</sup>

13 **Q. IS AVISTA'S PROPOSAL CONSISTENT WITH THE RECOMMENDATION OF**  
14 **ITS COST OF CAPITAL WITNESS?**

15 A. No. The analysis of Avista Witness McKenzie supports a hypothetical capital structure  
16 of 52.8% debt and 47.2% equity.<sup>12/</sup> Thus, Avista's basis for its recommendation is not  
17 clear.

18 **Q. DO YOU AGREE WITH PROPOSED CAPITAL STRUCTURE?**

19 A. No. The analysis performed by Avista Witness Thies evaluates the debt and equity levels  
20 on Avista's financial statements. Avista's reliance on the financial statement data,  
21 however, is misleading because it ignores the fact that Avista's financial statements

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<sup>10/</sup> 2019 GRC, Final Order 09, ¶ 34 (March 25, 2020).

<sup>11/</sup> Thies, Exh. MTT-1T at 17:10.

<sup>12/</sup> McKenzie, Exh. AMM-5 (see ValueLine projected; preferred stock was assumed in the cost of debt).

1 includes many subsidiary and non-utility entities. For example, Avista’s capital structure  
2 does not consider bonds issued by Alaska Electric Light & Power (“AEL&P”), but does  
3 consider the associated equity attributable to AEL&P. Based on the segment reporting  
4 provided in Note 24 of Avista’s 2020 10-K, Avista’s actual capital structure based on its  
5 financial statements falls more in line with Mr. McKenzie’s analysis.

**Table 4**  
Avista Capital Structure Adjusted for Subsidiaries  
December 31, 2019

	<u>Amount</u>	<u>Percent of Total Capital</u>
Total Debt	\$ 1,973,500,000	53.9%
Total Common Equity	\$ 1,954,410,000	
Less: Subsidiary Equity	<u>(269,080,658)</u>	
Adjusted Common Equity	1,685,329,342	46.1%
Total	<u>\$ 3,658,829,342</u>	<u>100%</u>

6 Further, Avista’s analysis ignores the amount of short-term debt that it uses to  
7 capitalize its business operations. It also ignores the impact of deferred income taxes on  
8 Avista’s capitalization, which from a regulatory perspective are considered a source of  
9 zero interest financing. Given these considerations, I recommend against relying on  
10 Avista’s financial statement analysis and retaining Avista’s currently approved capital  
11 structure of 51.5% debt and 48.5% equity.

1 **Q. WHAT IS THE IMPACT OF RETAINING AVISTA’S EXISTING CAPITAL**  
2 **STRUCTURE?**

3 A. Relative to Avista’s initial filing, Avista’s currently approved capital structure results in a  
4 \$1,740,104 reduction to electric services revenue requirement and a \$415,300 reduction  
5 to gas services revenue requirement.

6 **Q. WHAT IS THE TOTAL IMPACT OF AWEC’S COST OF CAPITAL**  
7 **RECOMMENDATION?**

8 A. After considering the impacts on the tax benefits of interest expenses, AWEC’s  
9 recommended 7.01% cost of capital results in a \$10,283,667 reduction to electric services  
10 revenue requirement and a \$2,455,184 reduction to gas services revenue requirement.

11 **III. PRO-FORMA PLANT ADDITIONS (3.11-3.15, 7.01)**

12 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION WITH RESPECT TO**  
13 **PRO FORMA PLANT ADDITIONS.**

14 A. Avista’s use of an outdated test period, coupled with an expansive set of pro-forma  
15 adjustments is unfair to ratepayers and is not consistent with Avista’s actual capital  
16 spending following the test period. Capital spending slowed materially in 2020, and  
17 Avista’s proposal to include its capital budget for 2020 as a pro forma plant addition,  
18 while ignoring the offsetting impacts of accumulated depreciation and sales growth,  
19 presents a skewed and overstated rate base. Rather than trying to deconstruct the 2019  
20 test period rate base based on new plant additions that occurred in 2020, I propose using  
21 the actual 2020 rate base balances as the basis for pro forma plant additions in this  
22 proceeding. To better retain test period relationships, however, I recommend that the pro  
23 forma rate base balances be limited to AMA balances in 2020. Since Avista’s earnings  
24 are measured and evaluated against average rate base levels, retaining the effect of an

1 average rate base in the context of a comprehensive pro forma rate base adjustment is  
2 appropriate and reasonable.

3 **Q. WAS IT POSSIBLE FOR AVISTA TO USE A MORE CONTEMPORANEOUS**  
4 **TEST PERIOD?**

5 A. Yes. Avista filed this case on October 30, 2020 using a historical test period of the year  
6 ending December 31, 2019. By the time this case was filed, Avista's rate base was  
7 already over 10-months out of date. In contrast, Northwest Natural, which also filed a  
8 rate case in late 2020 used a historical test period of the year ending September 30, 2020.  
9 Puget Sound Energy, the other combined electric and gas utility in Washington, filed its  
10 most recent general rate case in June 2019 and used a test year ending December 31,  
11 2018. It follows that, when evaluating Avista's rate base in this proceeding, relaxing the  
12 Commission's policy on pro forma plant additions is not warranted based on the test  
13 period Avista selected. In fact, by selecting an outdated test period, Avista ignored  
14 significant cost reductions that occurred in 2020, which I discuss further below.

15 **Q. PLEASE PROVIDE AN OVERVIEW OF AVISTA'S PROPOSAL RELATED TO**  
16 **PRO FORMA PLANT ADDITIONS.**

17 A. First, Avista has proposed calculating rate base using an End-of-Period ("EOP")  
18 convention. In restating Adjustment 2.19, Avista restates the rate base levels to be based  
19 on December 31, 2019 levels, except for meters, which Avista handles separately through  
20 Pro Forma Adjustment 3.16 - Pro Forma AMI Capital.

21 Second, Avista has proposed a large volume of major pro forma plant additions  
22 through year end 2020. Collectively, Avista has proposed increasing rate base by  
23 \$130,631,000 for electric services and \$33,839,000 for gas services. These adjustments



1 include 3.11 Pro Forma 2020 Customer Center, 3.12 Pro Forma 2020 Large and Distinct,  
2 3.13 Pro Forma 2020 Programmatic, 3.14 Pro Forma 2020 Mandatory and Compliance,  
3 and 3.15, Pro Forma 2020 Short Lived. Pro forma capital is also embedded in other  
4 adjustments, such as 3.16 Pro Forma AMI Capital, 3.17, Pro Forma Wildfire Plan, 3.18  
5 Pro Forma EIM Expenditures, and 3.19 Pro Forma Colstrip Capital and Amortization,  
6 although I discuss these adjustments separately.

7 **Q. HOW DO THESE ADJUSTMENTS COMPARE TO AVISTA'S OVERALL**  
8 **CAPITAL BUDGET?**

9 A. Avista's proposal would have the effect of incorporating the majority, if not the entirety,  
10 of Avista's capital budget for 2020 as a pro forma plant addition. In Table 5, below, I  
11 perform a comparison of the pro forma capital Avista proposes in this proceeding,  
12 excluding AMI, to the historical change in gross plant for the respective services.

**Table 5**  
**Annual Gross Plant for Gas and Electric Services**  
**(AMA \$000 Washington Allocated)**

<b>Electric Service</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
General	155,104	179,134	196,867	212,726	233,266	242,339	260,548	279,556	287,734
Distribution	743,732	796,640	842,795	895,055	970,455	1,033,739	1,086,668	1,194,476	1,271,557
Transmission	342,382	359,941	371,971	401,700	430,613	451,003	477,024	509,897	540,754
Production	717,448	738,315	746,101	779,441	832,833	879,704	905,266	930,160	937,387
Intangible	85,247	91,466	102,620	144,970	156,057	163,474	189,271	211,035	216,378
Gross Plant	2,043,913	2,165,496	2,260,354	2,433,892	2,623,224	2,770,259	2,918,777	3,125,125	3,253,811
Less: AMI							(22,464)	(57,520)	(90,187)
Gross Plant Less AMI	2,043,913	2,165,496	2,260,354	2,433,892	2,623,224	2,770,259	2,896,313	3,067,605	3,163,624
Change	88,626	121,583	94,858	173,538	189,332	147,035	126,054	171,292	<b>96,019</b>
%	4.5%	5.9%	4.4%	7.7%	7.8%	5.6%	4.6%	5.9%	3.1%
AVA Pro Forma Gross Plant (Adj. 3.11-3.15, 3.17-3.19)									<b>136,794</b>
<b>Natural Gas Service</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
U.G. Storage	24,365	24,711	25,235	25,720	26,868	27,138	28,442	29,714	31,103
Distribution	296,152	313,469	337,894	360,612	390,508	422,774	455,595	505,864	542,960
General	44,809	52,223	59,169	75,514	82,624	93,491	114,053	141,661	154,768
Gross Plant	365,326	390,403	422,298	461,846	500,000	543,403	598,090	677,239	728,831
Less: AMI							(7,041)	(21,307)	(32,901)
Gross Plant Less AMI	365,326	390,403	422,298	461,846	500,000	543,403	591,049	655,931	695,930
Change	23,068	25,077	31,895	39,548	38,154	43,403	47,646	64,883	<b>39,998</b>
%	6.7%	6.9%	8.2%	9.4%	8.3%	8.7%	8.8%	11.0%	6.1%
AVA Pro Forma Gross Plant (Adj. 3.11-3.15)									<b>27,251</b>

1           As can be noted in Table 5, above, Avista’s proposed pro forma capital is roughly  
2           in line with Avista’s overall capital budgets and exceeds the scope of a pro forma  
3           adjustment. Further, it can be noted that Avista experienced a material decline in capital  
4           spending in the pro forma period. Table 5 shows the change in gross plant for both  
5           electric and gas services, an amount which approximates the level of capital spending in  
6           any given period. For electric services, gross plant increased by only 3.1%, which  
7           contrasts with prior years, when the level of capital spending was upwards of 7.8%.  
8           Further for gas services, the level of capital spending was just 6.1% of gross plant,  
9           compared to 11.0% in 2019. The pro forma capital budgets that Avista proposes do not

1 consider these reductions. In fact, for electric services, Avista’s pro forma capital budget  
2 exceeded the actual rate of capital expenditures in 2020.

3 **Q. WHAT IS THE COMMISSION POLICY TOWARDS PRO FORMA CAPITAL**  
4 **ADDITIONS?**

5 A. Following changes to Washington’s used and useful statute at RCW 80.04.250, the  
6 Commission initiated Docket No. U-190531, Inquiry into Valuation of Public Service  
7 Company Property Used and Useful after Rate Effective Date. In its January 30, 2020  
8 policy statement, the Commission affirmed that its “longstanding ratemaking practice is  
9 to set rates using a modified historical test year with post-test-year rate-base adjustments  
10 using the known and measurable standard, the matching principle, and the used and  
11 useful standard, all while exercising considerable discretion under each of these standards  
12 in the context of individual cases.”<sup>13/</sup> The Commission also emphasized that “the  
13 matching principle continues to require netting of known and measurable changes with  
14 any offsetting factors that diminish the impact of the known and measurable event.”<sup>14/</sup>  
15 The Commission also stated that including “post-test-year plant in rates without  
16 considering these offsetting factors creates a mismatch that overstates the effect of the  
17 known and measurable event, thus distorting the rate-year relationship among revenues,  
18 expenses, and rate base.”<sup>15/</sup>

19 In addition, the Commission has typically only included a limited set of pro forma  
20 plant additions, not a utility’s entire capital budget. In Puget Sound Energy’s 2019

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<sup>13/</sup> In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date, Docket No. U-190531, Policy Statement ¶ 21 (Jan. 31, 2020).

<sup>14/</sup> Id. ¶ 24 (internal citations omitted).

<sup>15/</sup> Id. ¶ 24.

1 general rate case, for instance, the Commission did not allow all pro forma additions the  
2 utility requested. While the Commission found that “adopting a bright-line threshold is  
3 not an appropriate solution,”<sup>16/</sup> it still evaluates “multiple factors relevant to the particular  
4 proposed adjustment, including, but not limited to, the life of the asset, whether the asset  
5 is used and useful, whether the costs of the asset are known and measurable, and whether  
6 the costs were prudently incurred.”<sup>17/</sup>

7 **Q. WHY IS IT NECESSARY FOR PRO FORMA PLANT ADDITIONS TO BE**  
8 **LIMITED IN SCOPE?**

9 A. Rate base is established in the context of a long-term depreciation study, not in the  
10 context of individual retirements and additions. Over time, gross plant might grow as  
11 new facilities are built and old ones replaced. Depreciation reserves, however, also grow,  
12 in a manner taking into consideration the way property is expected to retire over time.  
13 Accordingly, when performing rate base valuation, there is an inherent *matching*  
14 *principle* requiring gross plant balances and depreciation reserve balances to be  
15 calculated at the same point in time.

16 Consideration of a post-test period plant addition, however, is a departure from a  
17 rigid application of that matching principle. Since the Commission’s policy on post-test  
18 period capital additions represents a loosening of the matching principle, for the purpose  
19 of addressing regulatory lag, it is necessary to limit the types of plant additions that are  
20 considered on a post-test period basis to avoid an excessive mismatch between gross  
21 plant and depreciation reserve balances.

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<sup>16/</sup> Docket Nos. UE-190529 and UG-190530 (Consolidated), Final Order 08/05/03 ¶ 556 (July 8, 2020).  
<sup>17/</sup> Id. ¶ 560.

1 **Q. DOES AVISTA’S PRO FORMA CAPITAL RESULT IN A COHERENT TEST**  
2 **PERIOD?**

3 A. No. In this case, Avista proposes to include only the plant additions that increase rate  
4 base following the test period, without considering the corresponding reductions to rate  
5 base associated with incremental accumulated depreciation. Also, Avista does not  
6 consider increased sales associated with load growth, nor offsetting reductions to  
7 operations and maintenance expenses, which otherwise offset the revenue requirement  
8 associated with the pro forma plant additions. The result is an incoherent test period,  
9 which does not correspond to the matching principle.

10 **Q. WHAT AMOUNT OF DEPRECIATION RESERVES ACCUMULATED IN 2020**  
11 **TO OFFSET NEW CAPITAL ADDITIONS?**

12 A. Avista provided its depreciation expenses for calendar year 2020 in response to AWEC  
13 Data Request 23. Avista reported depreciation expense of \$111,280,342 for Washington  
14 electric services and \$25,866,015 for Washington natural gas services. These  
15 depreciation expenses accumulate to depreciation reserves and are sufficient to offset  
16 almost the entirety of Avista’s proposed pro forma capital additions in this case.

17 **Q. DID AVISTA CONSIDER ANY INCREMENTAL DEPRECIATION RESERVES**  
18 **IN ITS PRO FORMA PLANT ADJUSTMENTS?**

19 A. Avista did model a small amount of depreciation reserves associated with the new pro  
20 forma additions but ignored the reserves that would otherwise accumulate on existing  
21 plant in service. Further, the depreciation reserves that Avista did consider were  
22 calculated on an AMA basis, even though the associated plant and depreciation expense  
23 were modeled on an EOP basis. Thus, even the small amount of depreciation reserves

1 that Avista did include was understated and inconsistent with the way it modeled its  
2 proposed pro forma additions.

3 **Q. DO YOU RECOMMEND APPLYING THESE INCREMENTAL**  
4 **DEPRECIATION RESERVES AGAINST RATE BASE IN THIS PROCEEDING?**

5 A. As noted, I propose an alternative approach below which calculates a pro forma  
6 adjustment based on actual 2020 plant levels. My adjustment considers both the plant  
7 additions and the accumulated depreciation. To the extent that the Commission accepts  
8 the pro forma adjustments Avista has proposed, however, I recommend including the  
9 incremental depreciation expense of \$111,280,342 for Washington electric services and  
10 \$25,866,015 for Washington natural gas services. Considering these reserves would  
11 reduce the proposed revenue requirement by approximately \$9,570,068 for electric  
12 services and \$2,224,468 for gas services.

13 **Q HAVE SALES REVENUES INCREASED IN 2020?**

14 A. It's not clear. In response to AWEC Data Requests 9 and 10, Avista provided the actual  
15 sales for gas and electric services in 2020. These sales levels were mixed, and as a result  
16 of the COVID-19 pandemic, do not result in a clear indication of the sales levels as of  
17 December 31, 2020. It is highly likely that the easing of pandemic restrictions will result  
18 in material pent-up load growth in the 2022 rate period, which has not been priced into  
19 Avista's proposed rates.

20 Spokane's residential real estate market has appreciated significantly since the  
21 pandemic began, which will drive new construction, and commercial usage is expected to  
22 increase as businesses resume in-person operations. According to the Spokane  
23 Association of Realtors, 2021 Monthly Home Sales Report, the average closed price for

1 single family homes in Spokane county in March 2021 increase by 20.7% relative to  
2 March 2020.<sup>18/</sup>

3 In addition, in response to AWEC Data Request 121, Avista acknowledged that  
4 Amazon is in the process of building a new fulfillment center in Spokane, which is  
5 expected to be finished before the rate period. This new fulfillment center will increase  
6 loads and will add new jobs, accelerating growth in the region. Thus, the potential for  
7 load growth in Avista's service territory is significant.

8 **Q. HOW DO YOU RECOMMEND CONSIDERING PRO FORMA PLANT?**

9 A. Since the 2020 plant balances are now known, I recommend an approach that adjusts  
10 both the plant levels, accumulated depreciation, and deferred taxes to be based on the  
11 actual known and measurable levels for 2020. Specifically, I recommend using the 2020  
12 AMA plant balances as the basis for a pro forma plant adjustment. Normally such an  
13 approach would not be preferred as it has the potential to create mismatches between rate  
14 base costs and revenue items. This case is somewhat unique, however, due to the length  
15 of time between the test period and intervenor testimony, as well as the uncertainty  
16 associated with the COVID-19 pandemic on revenue growth. This approach will have  
17 the effect of resolving all of the pro forma plant additions that Avista has proposed in this  
18 proceeding, albeit limited to those which have actually been placed into service.  
19 Additionally, this approach is consistent with the Commission's previously stated

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<sup>18/</sup> Spokane Association of Realtors, 2021 Monthly Home Sales Report, available at:  
<https://www.spokanerealtor.com/market-snapshot/> (accessed Apr. 20, 2021).

1 intention to evaluate pro forma adjustments on a case-by-case basis, taking into account  
2 the individual circumstances of each case.<sup>19/</sup>

3 **Q. DO YOU ALSO PROPOSE TO UPDATE DEPRECIATION EXPENSES BASED**  
4 **ON 2020 ACTUAL LEVELS?**

5 A. Yes.

6 **Q. WHY DO YOU RECOMMEND USING THE 2020 PLANT BALANCES**  
7 **CALCULATED ON AN AMA BASIS?**

8 A. Rate base accrues ratably over the course of a test period, and it is necessary to use the  
9 2020 AMA balances as the basis of a pro-forma adjustment to maintain a coherent set of  
10 test period results. The Commission has affirmed that average rate base is the most  
11 favored methodology for establishing revenue requirement.<sup>20/</sup>

12 **Q. IN WHAT CIRCUMSTANCES HAS THE COMMISSION APPROVED EOP**  
13 **RATE BASE?**

14 A. The Commission has approved the use of test period EOP rate base when it has been  
15 shown to be appropriate. The Commission has not necessarily considered whether it is  
16 appropriate to use an EOP rate base that extends beyond the end of the test period. In  
17 Pacific Power's 2014 general rate case, the Commission discussed four conditions under  
18 which test period EOP rate base may be an appropriate regulatory tool:

19 (a) Abnormal growth in plant,

20 (b) Inflation and/or attrition,

21 (c) Significant regulatory lag, or

22 (d) Failure of utility to earn its authorized ROR over an historical period.<sup>21/</sup>

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<sup>19/</sup> Docket Nos. UE-190529 and UG-190530 (Consolidated), Final Order 08/05/03, ¶ 560 (July 8, 2020).

<sup>20/</sup> Docket No. UE-140762, Order 08, ¶ 145 (March 25, 2015).

<sup>21/</sup> Id.



1 The Commission further clarified in PSE’s 2019 rate case that test period EOP rate base  
2 is “one of many tools available to address regulatory lag *when a sufficient showing has*  
3 *been made* that, absent the use of EOP rate base, a utility will experience losses.”<sup>22/</sup>

4 **Q. DOES AWEC OPPOSE A TEST PERIOD EOP RATE BASE ADJUSTMENT?**

5 A. At this time AWEC is not taking a position on a restating adjustment to establish test  
6 period rate base at December 31, 2019 EOP levels. AWEC would, however, oppose an  
7 approach that would apply a second EOP adjustment in an attempt to establish rate base  
8 on December 31, 2020 EOP balances. Such an approach is not appropriate because it  
9 results in comparing a rate base value to revenue and expense levels that are  
10 approximately 12 months past the end of the test period and does not consider the ratable  
11 way that expenses and revenues are considered over the course of a test period.

12 **Q. HAS AVISTA PROVIDED ADEQUATE JUSTIFICATION FOR USING EOP**  
13 **RATE BASE IN THIS CASE?**

14 A. No. Avista has not established the existence of any of the criteria necessary to justify  
15 using an EOP rate base value in this case. Avista’s testimony on the use of EOP rate base  
16 can be found at Andrews, EMA-1T Page 50, and contains just a paragraph describing the  
17 mechanics of its restating adjustment, which is not sufficient to establish the need for an  
18 EOP adjustment. On the contrary, indications are that Avista does not necessarily require  
19 an EOP adjustment. Avista’s capital budgets and actual capital spending have declined  
20 and are less than its historical capital requirements. Further, Avista has not argued in this  
21 case that it is subject to attrition, nor prepared any type of attrition analysis. In addition,

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<sup>22/</sup> Docket UE-190529 and UG-190530 (Consolidated), Order 08/05/03 ¶ 228 (July 8, 2020) (emphasis added).

1 the extent to which Avista may be subject to regulatory lag in this proceeding is primarily  
2 a byproduct of Avista's use of an outdated test period. Thus, even if the Commission  
3 accepts EOP rate base for 2019, making a further adjustment to 2020 EOP rate base  
4 levels would not be appropriate because the minimal amount of support Avista provides  
5 for EOP rate base applies to 2019 plant balances only, and no support at all has been  
6 provided for 2020 plant balances.

7 **Q. PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT.**

8 A. The calculations supporting my adjustment may be found in Mullins, Exh. BGM-7 for  
9 electric services and Mullins, Exh. BGM-8 for natural gas services. Avista provided its  
10 2020 unadjusted results of operations, including AMA plant balances and associated  
11 depreciation expense, in response to AWEC Data Requests 93 and 96 for electric and  
12 natural gas services, respectively. I compared the balances from the 2020 results to the  
13 EOP balances included in the restated results in Avista's filing. Since AMI meters and  
14 investments are being considered in the AMI Adjustment 3.16, which I discuss separately  
15 below, it was necessary to deduct those balances from both the 2019 EOP and the 2020  
16 AMA balances in the analysis. Similarly, I calculated the actual depreciation expenses  
17 accrued in 2020 in comparison to the EOP depreciation expenses Avista included in its  
18 restated results.

19 **Q. WHAT WAS THE RESULT OF YOUR ANALYSIS?**

20 A. With respect to electric services, Avista's 2020 AMA rate base, including incremental  
21 accumulated depreciation, increased by \$19,602,883 relative to the 2019 EOP balances.  
22 Approximately \$6,871,209 of the increase, however, was attributable to AMI

1 investments, which are being considered separately in Adjustment 3.16. Thus, after  
2 excluding AMI, Avista's relevant electric rate base increased by only \$12,731,674. This  
3 contrasts with the \$130,630,924 of 2020 pro forma rate base additions that Avista is  
4 proposing for electric services.

5 The analysis also shows that electric depreciation expenses increased by  
6 \$10,250,340 relative to the 2019 amount included in restated results. Of that amount,  
7 however, \$2,481,577 was attributable to AMI investments. Thus, after considering AMI,  
8 Avista's depreciation expenses increased by \$7,768,763. This contrasts with the  
9 approximate \$6,255,789 of incremental depreciation expenses that Avista had included in  
10 its electric proforma plant addition adjustments.

11 For natural gas services, Avista's 2020 AMA rate base, including incremental  
12 accumulated depreciation, increased by \$7,484,683 relative to restated results.  
13 Approximately \$1,771,474 of this amount, however, was attributable to AMI  
14 investments. After excluding the AMI investments, Avista's natural gas service rate base  
15 increased by \$5,713,209 between 2019 and 2020. This contrasts with Avista's proposal  
16 to include \$33,839,128 of rate base additions in its pro forma plant addition adjustments.

17 The analysis also shows that natural gas services depreciation expenses increased  
18 by \$2,498,012 relative to restated results. Of that amount, however, \$955,620 of the  
19 increase was attributable to AMI. After adjusting for AMI, gas service depreciation  
20 expenses increased by \$1,542,392, which contrasts to the approximate \$1,910,561 of  
21 incremental depreciation expenses that Avista had included in its pro forma plant addition  
22 adjustments.

1 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

2 A. There are several steps to determine the revenue requirement impact of my  
3 recommendation. First, Pro Forma Adjustments 3.11 through 3.15 were reversed,  
4 eliminating the pro forma capital Avista proposed in its initial filing. Second a new  
5 adjustment, numbered 7.01, was added to incorporate the pro forma plant and  
6 depreciation expenses identified in Mullins, Exh. BGM-7 and Mullins, Exh. BGM-8. For  
7 electric services, the net impact of these changes was a \$117,899,249 reduction to rate  
8 base and a corresponding \$1,512,974 increase to depreciation expenses, resulting in a  
9 revenue requirement reduction of \$8,556,795. For natural gas services, the net impact of  
10 these changes was a \$28,125, 918 reduction to rate base and a corresponding \$368,169  
11 reduction to depreciation expenses, resulting in a \$2,803,278 revenue requirement  
12 reduction.

13 **IV. PRO FORMA OPERATIONS & MAINTENANCE EXPENSE (7.02)**

14 **Q. PLEASE DESCRIBE THE ANALYSIS YOU PERFORMED WITH RESPECT TO**  
15 **TEST PERIOD O&M.**

16 A. In Mullins, Exh. BGM-9, I performed a comparison of the actual O&M amounts in the  
17 2019 test period to the amounts actually incurred in calendar year 2020. The analysis  
18 was performed for natural gas and electric services. The purpose of the analysis was to  
19 determine whether O&M costs had increased or decreased subsequent to the 2019 test  
20 period.

1 **Q. WHERE DID YOU RECEIVE THE O&M DATA FOR CALENDAR YEAR 2020**  
2 **TO PERFORM YOUR ANALYSIS?**

3 A. Avista provided updated, unadjusted results in response to AWEC Data Request 93 for  
4 electric services and AWEC Data Request 96 for natural gas services.

5 **Q. WHAT DOES YOUR ANALYSIS SHOW?**

6 A. Avista's O&M expenditures declined materially in calendar year 2020 for both electric  
7 and natural gas services. Table 6, below, details the changes from 2019 to 2020.

**Table 6**  
O&M Comparison 2019 - 2020  
Washington Allocated

	<u>2019</u>	<u>2020</u>	<u>Change</u>
<b>Electric</b>			
Production O&M	43,985,652	41,708,139	(2,277,513)
Transmission O&M	9,230,070	7,443,282	(1,786,788)
Distribution O&M	26,746,543	22,661,083	(4,085,460)
Customer Accounts O&M	9,912,519	11,908,557	1,996,038
Customer Service O&M	28,423,928	24,225,240	(4,198,688)
		Total	(10,352,411)
<b>Natural Gas</b>			
Storage O&M	1,883,262	1,864,977	(18,285)
Distribution O&M	13,669,309	11,795,735	(1,873,574)
Customer Accounts O&M	6,398,047	5,575,280	(822,767)
Customer Service O&M	9,663,655	9,084,811	(578,844)
		Total	(3,293,470)

8 As can be noted, electric O&M expenses declined by 8.8% in calendar year 2020.

9 Natural gas O&M expenses declined by 10.4% in calendar year 2020.

10 **Q. HAVE THESE REDUCTIONS BEEN CONSIDERED IN REVENUE**  
11 **REQUIREMENT RESULTS?**

12 A. No. Because Avista used an outdated test period, it did not capture the O&M cost  
13 reductions that occurred in calendar year 2020.

1 **Q. WHAT DO YOU RECOMMEND?**

2 A. Avista used an outdated test period in this case based on the 12-months ending December  
3 31, 2019. The O&M costs in that period, however, no longer provide an accurate  
4 representation of Avista's cost structure. The more recent data above shows that there  
5 have been material O&M cost reductions since the test period. It would be unreasonable  
6 to ignore these cost reductions. They represent a known and measurable change and are  
7 appropriately considered in developing test period results. Accordingly, I recommend  
8 adjusting the test period O&M for the changes identified in Table 6. There is no valid  
9 reason to ignore changes of this magnitude, and Avista's action of filing a rate case in the  
10 middle of a pandemic while ignoring these changes that have materially reduced its costs  
11 is not reasonable.

12 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

13 A. Updating the O&M values results in a \$10,828,108 reduction to revenue requirement for  
14 electric services and an \$3,444,035 reduction to revenue requirement for gas services.

15 **V. PRO FORMA EIM COSTS (3.18E)**

16 **Q. WHAT HAS AVISTA PROPOSED WITH RESPECT TO EIM COST AND**  
17 **BENEFITS EXPENDITURES?**

18 A. Avista proposes a pro forma adjustment 3.18 in electric revenue requirement to  
19 incorporate expenditures and costs associated with its planned entrance into the western  
20 Energy Imbalance Market ("EIM") in April 2022. The adjustment includes \$2,796,000  
21 of operations and maintenance expenses, plus an additional \$9,358,000 in pro forma  
22 capital. The revenue requirement impact of these costs is \$3,739,756.

1 **Q. DO THESE AMOUNTS REPRESENT KNOWN AND MEASURABLE COSTS?**

2 A. No. The amounts are generally described in the Direct Testimony of Avista Witness  
3 Kinney. The amounts were based on estimates provided in a scoping assessment  
4 performed by a consulting firm, Utilicast, and include amounts for contingency. The  
5 expenditures will not be placed into service until six months following the rate effective  
6 date in this proceeding. Therefore, the amount of the expenditures will not be known and  
7 measurable by the time this proceeding has concluded.

8 **Q. IS THE INCLUSION OF THESE EIM INVESTMENTS CONSISTENT WITH**  
9 **THE POLICY STATEMENT IN U-190531?**

10 A. In U-190531, the Commission outlined a rate plan procedure for utilities to incorporate  
11 into rates investments, such as these, which are expected to be placed into service after  
12 the rate effective period. Avista, however, did not propose such a rate plan. Similarly, in  
13 the 2019 PSE rate case, the Commission identified the used and usefulness of the  
14 investment and whether the costs associated with the investment are known and  
15 measurable, two factors that are absent with respect to Avista's EIM costs. Therefore,  
16 including EIM investments in rates in this proceeding is inconsistent with the  
17 Commission's used and useful policy.

18 **Q. ARE THERE BENEFITS ASSOCIATED WITH AVISTA PARTICIPATING IN**  
19 **THE EIM?**

20 A. Yes. Avista estimates that it will recognize system annual benefits from \$2 million to  
21 \$12 million by participating in the EIM.<sup>23/</sup> Avista states that "[t]here is a high likelihood  
22 that Avista could see benefits move closer to the upper end of the study range (\$12

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<sup>23/</sup> Kinney, Exh. SJK-1T at 14:9-11.

1 million system) based on the actual benefits that have been published for existing EIM  
2 participants.”<sup>24/</sup> Washington’s Production/Transmission allocation factor for 2020 was  
3 65.94%. Thus, there is a high likelihood that annual Washington allocated benefits of  
4 \$7,864,800 will be recognized from Avista participating in the EIM.

5 **Q. DID AVISTA CONSIDER THESE OFFSETTING BENEFITS IN DEVELOPING**  
6 **ITS PROPOSED REVENUE REQUIREMENT?**

7 A. No. While Avista proposes to include an estimate of the costs of participating in the  
8 EIM, it proposes to exclude the benefits. Once again, the exclusion of the associated  
9 EIM benefits also directly contradicts the Commission’s used and useful policy  
10 statement, which states the following:

11 When companies use projections for seeking recovery of investment in the  
12 rate effective period, the Commission will consider these proposals viable  
13 *only* if the projections employ identifiable and distinct escalation factors,  
14 are supported by clear, easily comprehensible models, and *separately*  
15 *demonstrate offsetting factors.*<sup>25/</sup>

16 Avista has proposed ignoring the offsetting factors with respect to the EIM, and  
17 therefore, its proposal to include capital expected to be placed into service after the rate  
18 effective period cannot be considered under the Commission’s policy statement.

19 **Q. ARE THE EIM BENEFITS LESS CERTAIN THAN THE ASSOCIATED COSTS?**

20 A. No. Avista’s cost estimates for EIM expenditures are themselves uncertain, requiring the  
21 use of a contingency allowance when arriving at the estimated amounts. The expected  
22 EIM benefits are no less certain than these costs. Avista’s witness, Mr. Scott Kinney,  
23 even provides a pinpoint estimate of the annual benefits from the EIM of \$5.8 million.<sup>26/</sup>

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<sup>24/</sup> Kinney, Exh. SJK-1T at 15:3-5.

<sup>25/</sup> Docket No. U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date ¶ 37 (Jan. 31, 2020) (emphases added).

<sup>26/</sup> Exh. SJK-1T at 14:17-19.



1 The EIM is no longer a new market. Avista is one of the last utilities on the West Coast to  
2 begin participating in the market. Even the Bonneville Power Administration plans to  
3 begin participating in the market in March 2022. The EIM is now a mature market and,  
4 as Avista recognizes, the level of benefits that have been recognized by other utilities  
5 have exceeded initial estimates. Accordingly, since the EIM benefits are no less certain  
6 than the costs, it is not valid to impose the costs on ratepayers without providing an offset  
7 for the associated benefits.

8 **Q. DO YOU RECOMMEND THE EIM COSTS BE CONSIDERED IN AVISTA'S**  
9 **ENERGY RECOVERY MECHANISM ("ERM")?**

10 A. No. Avista's ERM contains a \$4,000,000 deadband and sharing between the Company  
11 and ratepayers at levels ranging from 70% to 90%. To the extent that Avista recognizes  
12 savings from the EIM in the ERM, that will result in Avista retaining more of the savings  
13 from the deadbands and sharing bands in the ERM. Avista has historically been in a  
14 position of over-recovering net power costs, and EIM benefits will increase that over-  
15 recovery.

16 **Q. WHAT DO YOU RECOMMEND?**

17 A. I recommend treating the EIM capital and associated costs no different than any other  
18 capital and cost item in revenue requirement. In this case, the expenditures are expected  
19 too far beyond the end of the test period to be considered as a pro forma adjustment, and  
20 it would be inconsistent with the Commission's policy statement to consider them  
21 without considering the corresponding benefits. Given that Avista did not file for a rate  
22 plan, and the fact that it has been making frequent rate filings, history suggests that  
23 Avista will file a new rate case prior to April 2022, anyway.

1 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

2 A. Eliminating the pro forma EIM costs and expenditures results in a \$3,729,262 reduction  
3 to the electric service revenue requirement.

4 **VI. PRO FORMA WHEELING REVENUES (3.00T)**

5 **Q. HOW HAS AVISTA FORECAST SHORT-TERM FIRM WHEELING**  
6 **EXPENDITURES IN THE TEST PERIOD?**

7 A. Avista's wheeling revenue forecast is described by witness Schlect at 6:7-16:12. Based  
8 on several adjustments, Avista revises its wheeling revenue forecast down by \$2,105,000.  
9 Approximately \$812,000 of this reduction was attributable to short-term firm wheeling  
10 revenues. In 2019, Avista received \$5,473,825 in short-term firm wheeling revenues.  
11 Notwithstanding, in pro forma Adjustment 3.00, Avista reduces its short-term firm  
12 transmission forecast by \$812,000 to \$4,662,384 using a three-year average calculated  
13 over the period 2017-2019.

14 **Q. WHY WAS THE THREE-YEAR AVERAGE OF WHEELING REVENUES**  
15 **DIFFERENT THAN THE 2019 VALUE?**

16 A. Table 7, below, details the short-term firm wheeling revenues Avista recognized over the  
17 period 2017-2019:

**Table 7**  
Avista Short-Term Firm Wheeling Revenues 2017-2019  
System / Whole Dollars

2017	3,193,165
2018	5,320,163
2019	<u>5,473,825</u>
Average	4,662,384

1 As can be seen, the wheeling revenue levels were materially lower in 2017,  
2 followed by an increase in 2018 and 2019.

3 **Q. WHAT CAUSED THE INCREASE IN 2018-2019?**

4 A. The increase in wheeling revenues can be attributable to utilities such as PacifiCorp,  
5 purchasing more short-term transmission on Avista's transmission system to deliver  
6 power to loads located in the Northwest. In Wyoming Docket No. 20000-578-ER-20,  
7 PacifiCorp acknowledged that it increased the amount of short-term firm transmission it  
8 was purchasing on Avista's system by \$1,787,366 in the 12-month period ending June  
9 2019.<sup>27/</sup> This increased usage of PacifiCorp explains most of the increase in wheeling  
10 revenues that Avista recognized in 2018 and 2019.

11 **Q. IS PACIFICORP'S INCREASED SHORT-TERM FIRM TRANSMISSION**  
12 **USAGE WITH AVISTA EXPECTED TO CONTINUE?**

13 A. Yes. In the Wyoming Docket No. 20000-578-ER-20, PacifiCorp opposed using a 48-  
14 month average of Avista wheeling expenses, and instead, proposed to use the most recent  
15 year as the basis for its wheeling expense forecast on Avista's system. PacifiCorp  
16 explained that it intended to continue to rely on Avista transmission, and that therefore,  
17 the most recent year of costs was most reflective of the costs it would incur in the test  
18 period in that docket. PacifiCorp stated:

19 "PacifiCorp observed market opportunities to transfer lower cost power  
20 from the east side of the system to the west side of the system during the  
21 winter time and purchased the transmission capacity from Avista to  
22 facilitate this kind of power transfer. This market opportunity is anticipated  
23 to exist during the test period of 2021 based on system conditions and  
24 market price differences between the east and the west. The transmission

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<sup>27/</sup> Wyoming Docket No. 20000-578-ER-20, Mullins Direct at 36:19.

1 expense related to Avista is appropriately reflected in the forecasted NPC  
2 in the case and WIEC's adjustment should be rejected."<sup>28/</sup>

3 **Q. WHAT DO YOU RECOMMEND IN THIS PROCEEDING?**

4 A. Consistent with PacifiCorp's representation to the Wyoming Commission, I recommend  
5 forecasting wheeling revenues for Avista based on the actual revenues recognized in  
6 2019, rather than using a 3-year average. This adjustment results in an \$811,441 increase  
7 to system wheeling revenues, and a corresponding \$557,105 reduction to Washington-  
8 allocated revenue requirement.

9 **VII. PRO FORMA COLSTRIP COSTS (3.19)**

10 **a. Colstrip Pro Forma Capital**

11 **Q. WHAT DO YOU RECOMMEND FOR COLSTRIP PRO FORMA CAPITAL?**

12 A. I recommend considering pro forma capital at Colstrip in the same manner as other pro  
13 forma plant additions in this proceeding, on the basis of actual 2020 AMA plant balances.  
14 In my recommendation to update the pro forma plant addition based on actual 2020 plant  
15 levels, I have already considered incremental Colstrip plant additions that occurred in  
16 calendar year 2020.

17 **Q. HOW DO YOU RECOMMEND CONSIDERING THE 2021 PLANT**  
18 **ADDITIONS?**

19 A. I recommend that the 2021 plant additions not be considered in this proceeding. Further,  
20 I also recommend that the incremental accumulated depreciation after 2020 not be  
21 considered in this proceeding. Since the accumulated depreciation is growing faster than  
22 the plant balances, it is a benefit to Avista if the Commission does not consider the

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<sup>28/</sup> Wyoming Docket No. 20000-578-ER-20, Rebuttal Testimony of David G. Webb at 22:23-23:7.

1 expenditures, and offsetting expected depreciation, in 2021. The net impact of the  
2 incremental capital additions and the accumulated depreciation in Avista's proposal was  
3 an \$11,339,926 reduction to rate base.

4 **Q. ARE THERE QUESTIONABLE INVESTMENTS IN AVISTA'S 2021 CAPITAL**  
5 **FORECAST FOR COLSTRIP?**

6 A. The capital forecast for 2021 was provided in the confidential response to Staff Data  
7 Request 108. Among the projects in the confidential response are several questionable  
8 expenditures, which may be attributable to extending the life at Colstrip beyond 2025. In  
9 the Stipulation in Avista's 2019 GRC, Avista agreed not to support capital expenditures  
10 beyond routine capital maintenance costs at Colstrip that will extend the plant's  
11 operational life beyond December 31, 2025.<sup>29/</sup> Thus, by not including those pro forma  
12 capital additions in revenue requirement it is not necessary to evaluate the prudence of  
13 the investments.

14 **Q. HAS AVISTA OTHERWISE REVISED ITS PRO FORMA CAPITAL**  
15 **ADJUSTMENT RELATED TO COLSTRIP?**

16 A. In response to Staff Data Request 107, Avista acknowledged that its 2020 actual transfers  
17 to plant at Colstrip were well below the amounts that it had forecast in its filings. Based  
18 on Avista's revised forecast, including actual 2020 transfers to plant, for Colstrip, Avista  
19 proposed reducing the requested electric revenue requirement by approximately  
20 \$837,000.

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<sup>29/</sup> 2019 GRC, Final Order 09 ¶ 51.

1 **Q. HOW HAVE YOU MODIFIED ADJUSTMENT 3.19 TO BE CONSISTENT WITH**  
2 **THE USE OF 2020 AMA PLANT BALANCES?**

3 A. In my adjustment I removed the incremental accumulated depreciation and plant  
4 additions after December 31, 2019, resulting in an increase to rate base of \$11,339,926.  
5 Actual 2020 plant additions and accumulated depreciation for Colstrip are considered in  
6 my Adjustment 7.01- 2020 AMA Rate Base. Since the accelerated depreciation  
7 associated with a 2025 closure only began on April 1, 2020, however, it is still necessary  
8 to make an adjustment to the 2020 depreciation expenses assumed in my pro forma  
9 capital analysis. It is also still necessary under my proposal to add in the offsetting  
10 regulatory asset and amortization for 2020, which was not considered in the plant  
11 balances in my pro forma capital analysis.

12 With respect to depreciation expenses, I modified the expense adjustment to  
13 reflect only three months of incremental depreciation expenses associated with the early  
14 retirement date stipulated in the 2019 general rate case. The actual depreciation expenses  
15 considered in Adjustment 7.01 for 2020 considered the incremental depreciation  
16 expenses associated with the early retirement date for nine of 12 months of the year, since  
17 the incremental depreciation went into effect on April 1, 2020. Avista's adjustment  
18 included 12 months of incremental depreciation expenses. Relative to Avista's  
19 adjustment, my adjustment resulted in a \$2,289,718 reduction to expense. The net impact  
20 of these changes is a \$1,419,702 reduction to revenue requirement.

1 **b. 2018 Colstrip Outage**

2 **Q. PLEASE DESCRIBE THE ISSUE YOU HAVE IDENTIFIED RELATED TO**  
3 **COLSTRIP'S OUTAGE RATES.**

4 A. In 2018, there was a significant outage at Colstrip, which the Commission determined the  
5 Colstrip owners subject to its jurisdiction did not demonstrate the prudence of in Docket  
6 No. UE-190882. As a result, the Commission ordered Avista to refund an additional  
7 \$3,274,000 of replacement power costs. In this case, Avista has included the 2018  
8 Colstrip outage in its outage rate calculation for purposes of forecasting net power costs.  
9 In response to AWEC Data Request 1, Avista confirmed that the disallowed 2018 outage  
10 was included in the Colstrip outage rate calculation in this proceeding.

11 **Q. IS THE 2018 OUTAGE APPROPRIATELY CONSIDERED IN THE OUTAGE**  
12 **RATE FOR COLSTRIP IN THIS PROCEEDING?**

13 A. No. Avista failed to demonstrate that its actions were prudent in the time leading up to  
14 the outage. Accordingly, it is not reasonable to include the outage in the outage rate  
15 calculation in this case. Not only is this outage not reflective of the expected  
16 performance of Colstrip in the rate year but including it in the outage rate would  
17 effectively require ratepayers to pay for a portion of that outage, even though the  
18 Commission has already disallowed the costs associated with that outage.

19 **Q. WHAT IS THE IMPACT OF REMOVING THE 2018 OUTAGE?**

20 A. I have not reviewed the Aurora modeling in this case, and therefore, have not prepared a  
21 power cost study to calculate the precise impact of the adjustment. Accordingly, I  
22 recommend that the Commission require Avista to remove the 2018 Colstrip outage from  
23 its net power supply cost forecast in a compliance filing prior to establishing new rates.

1 **VIII. PRO FORMA WILDFIRE EXPENSE (3.17E)**

2 **Q. WHAT HAS AVISTA PROPOSED WITH RESPECT TO ITS PRO FORMA**  
3 **WILDFIRE PLAN?**

4 A. Avista proposes a pro forma adjustment to include \$13,535,934 in expenditures  
5 associated with its wildfire plan accumulated over the period August 1, 2020 through  
6 September 2022. The pro forma rate base balance is based on an AMA balance  
7 calculated over the period October 2021 through September 2022, including estimated  
8 expenditures through that period.

9 Avista also proposes to include incremental O&M expenses of \$4,338,000  
10 associated with its wildfire management activities, along with a balancing account to  
11 track the expenses.

12 **Q. DOES AWEC SUPPORT AVISTA'S PROPOSAL?**

13 A. No. AWEC is supportive of Avista taking preventative measures to mitigate the risks  
14 associated with wildfires ignited by electrical facilities. It would be imprudent, for  
15 example, if Avista did not take such measures. Notwithstanding, it is unnecessary to  
16 provide Avista with extraordinary ratemaking treatment with respect to these items.  
17 Avista is obligated to maintain its system in a safe and reliable manner, and these  
18 investments are not so extraordinary in nature or amount to warrant special ratemaking  
19 treatment. Further, it is difficult to distinguish between routine capital maintenance  
20 activities and those intended to mitigate wildfire risk. Given the high level of capital  
21 spending observed in past years and the corresponding reductions to capital spending in  
22 2020, the wildfire mitigation costs at issue can be assumed in Avista's overall capital  
23 budgets related to system reinforcements and recovered as any other type of expenditure.



1 **Q. IS THERE A COMPELLING REASON TO DEVIATE FROM THE**  
2 **COMMISSION’S USED AND USEFUL STANDARD FOR WILDFIRE**  
3 **EXPENDITURES?**

4 A. No. As mentioned previously, the Commission’s policy is to not consider capital beyond  
5 the rate effective date, except in the context of a rate plan. Avista could have filed to  
6 incorporate these costs into a rate plan, but the Company did not. Therefore, it is  
7 appropriate to consider wildfire expenses in the same vein as any other capital  
8 expenditure, regardless of the perceived importance of the nature of the work to be  
9 performed. It goes without saying, of course, that ensuring the reliability of Avista’s  
10 electrical system is also of paramount importance, but investments that further this goal  
11 are not treated differently than any other investment the Company makes.

12 **Q. WHAT AMOUNT OF CAPITAL HAS AVISTA PROPOSED?**

13 A. Avista provided detail supporting its wildfire capital budget in response to Staff Data  
14 Request 71. There, Avista details transmission and distribution investment of \$3,567,131  
15 in calendar year 2020 and \$10,295,017 between August and November of calendar year  
16 2021. Collectively, this amounts to \$13,535,934 in capital.

17 **Q. HAS YOUR ANALYSIS CONSIDERED THE 2020 EXPENDITURES**  
18 **ASSOCIATED WITH AVISTA’S WILDFIRE INVESTMENTS?**

19 A. Yes. My proposal to use actual 2020 rate base levels already incorporates the actual  
20 wildfire investments Avista made in calendar year 2020.

21 **Q. IS THERE SUFFICIENT TIME IN THIS PROCEEDING TO REVIEW THE**  
22 **INVESTMENTS IN 2021?**

23 A. No. Avista does not plan to begin the 2021 wildfire expenditures until August 2021.  
24 Since the hearing in these dockets is scheduled for July 2021, it will not be possible to

1 review Avista's proposed 2021 wildfire expenses in these dockets. Therefore, those  
2 amounts are not appropriately considered as a pro forma adjustment in this case.

3 **Q. DO THESE EXPENDITURES WARRANT EXTRAORDINARY RATEMAKING**  
4 **TREATMENT THROUGH A BALANCING ACCOUNT?**

5 A. No. While it is important for Avista to perform the capital maintenance activities to  
6 maintain its system in a safe and reliable state, projects of this type can be effectively  
7 recovered through traditional ratemaking procedures, without requiring a new complex  
8 ratemaking mechanism. As noted, Avista had the opportunity to include the investments  
9 in the form of a rate plan filing, but Avista did not make such a proposal. I recommend  
10 avoiding developing new ratemaking procedures until the existing procedures have been  
11 exhausted.

12 **Q. IS A WILDFIRE BALANCING ACCOUNT SINGLE-ISSUE RATEMAKING?**

13 A. Yes. Avista's proposed wildfire balancing account is a form of single-issue ratemaking,  
14 which would attempt to true up the impact of changes to one type of expenditure, without  
15 considering how other expenditures might change. If wildfire expenses are going up, it  
16 may mean that other expenses are going down. If Avista's employees are spending more  
17 time on wildfire activities, they are necessarily spending less time on other activities.  
18 The proposal also ignores the effects of accumulated depreciation and other factors that  
19 would otherwise offset the expenditures that Avista would recover through the balancing  
20 account.

1 **Q. IS IT POSSIBLE TO DIFFERENTIATE BETWEEN WILDFIRE ACTIVITIES**  
2 **AND OTHER MAINTENANCE ACTIVITIES?**

3 A. There is no clear line to differentiate between what constitutes a wildfire expenditure and  
4 what is a normal maintenance activity. Establishing a balancing account for items such  
5 as net power costs is more straightforward because the amounts are reported in separate  
6 FERC accounts. With wildfire expenditures, however, subjective judgements must be  
7 applied to the accounting data to determine what amounts constitute a wildfire  
8 expenditure, and what amounts are related to maintaining the safety and reliability of the  
9 distribution and transmission system for reasons other than wildfires.

10 The Public Utilities Commission of Nevada (“PUCN”) is currently faced with this  
11 issue, where NV Energy is allowed by statute to recover costs incurred annually in  
12 support of an approved “Natural Disaster Protection Plan” (“NDPP”). In Docket 21-  
13 03040, NV Energy has sought to increase its NDPP budget by over \$31 million for pole  
14 replacements. One question before the PUCN in that case will likely be whether those  
15 pole replacements are truly associated with natural disaster protection efforts or are  
16 simply a part of routine utility maintenance that should be recovered in a general rate  
17 case. There is no obvious way to distinguish between these types of expenditures.

18 **Q. ARE THERE ANY PROTECTIONS THAT COULD BE PUT INTO PLACE IF A**  
19 **BALANCING ACCOUNT IS APPROVED?**

20 A. In Oregon Docket No. UE 374, the Oregon Public Utility Commission (“OPUC”)  
21 recently considered a wildfire cost recovery mechanism for PacifiCorp.<sup>30/</sup> In that case the  
22 Oregon Commission recognized that PacifiCorp’s wildfire recovery mechanism was a

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<sup>30/</sup> OPUC Docket No. UE 374, Order 20-473 at 120-125 (Dec. 18, 2020).

1 form of single-issue ratemaking. In that case, however, the Oregon Commission  
2 approved an annual recovery mechanism for an initial 3-year period, subject to several  
3 requirements.

4 First, the Oregon Commission required an earnings test. While the earnings test  
5 the Oregon Commission imposed was multi-faceted and based on vegetation  
6 management violations that do not exist in Washington, the primary earnings test the  
7 Oregon Commission imposed on incremental wildfire expenditures was set at  
8 PacifiCorp's authorized ROE. Such a requirement would be appropriate in this case as it  
9 ensures that a utility is not using a single-issue ratemaking mechanism to improve its  
10 earnings, in years when it is already earning at its authorized cost of capital.

11 Second, the Oregon Commission established the balancing account based on a  
12 retroactive review of wildfire costs, not as a deferral. For example, a filing in 2022  
13 would include incremental expenditures in calendar year 2021, excluding any interest or  
14 carrying charges. Thus, the incremental revenue requirement associated with the costs  
15 was still subject to the same regulatory lag as if it had been included in a rate case. Given  
16 Avista's pattern of frequent rate cases, such a requirement will ensure that it is not able to  
17 recover wildfire costs from a historical period, while also using those historical costs as  
18 the basis for a general rate increase in a separate docket.

19 Further, the Oregon Commission required that the balancing account "update  
20 plant balances for all investments being recovered through the mechanism, in order to  
21 account for accumulated depreciation as new capital investments are added." This

1 requirement is necessary to ensure that these offsetting factors are appropriately  
2 considered in revenue requirement.

3 While I recommend against adopting a balancing account in this case, adopting  
4 these requirements would mitigate some of the harms of using a balancing account for a  
5 single-issue ratemaking item.

6 **Q. DO YOU SUPPORT AVISTA'S PROPOSAL FOR A DEFERRAL OF WILDFIRE**  
7 **EXPENDITURES BETWEEN JANUARY 1, 2021 THROUGH SEPTEMBER 30,**  
8 **2021?**

9 A. No. At Andrews, Exh. EMA-1T, page 85, Avista discusses its proposal to also defer  
10 transmission and distribution costs associated with its wildfire plan. Such a deferral,  
11 however, is unnecessary. As noted above, Avista's actual distribution and transmission  
12 costs have declined materially subsequent to the test period. In 2020, distribution and  
13 transmission O&M costs declined by 15.2% and 11.0% respectively. Further, capital  
14 spending on distribution and transmission have also declined. In 2020, distribution  
15 capital expenditures declined by 25.5% and transmission capital expenditures declined by  
16 6.1%. Thus, it cannot be said that the wildfire plan activities represent an incremental  
17 cost to Avista, when its overall costs have been declining. Avista has always been  
18 obligated to spend funds to maintain the safety and reliability of its system, including  
19 addressing wildfire risks, and nothing has changed since Avista's last rate case to warrant  
20 a deferral.

21 **Q. DO YOU RECOMMEND SOME LEVEL OF INCREMENTAL O&M EXPENSE**  
22 **WITH RESPECT TO WILDFIRE?**

23 A. Given the recent events in the West, it is evident that wildfires pose a risk to electric  
24 utilities, as well as to the safety and wellbeing of their customers. While some increase to

1 Avista's wildfire mitigation budget may be warranted, the amount Avista has proposed is  
2 not well justified in the context of the wildfire expenditures incurred in the base period.  
3 In Avista's analysis, all of the costs it identifies are incremental, which implies that there  
4 were no wildfire expenses in the test period. If this is accurate, this would indicate that  
5 Avista was not prudently managing its system. The reality is, however, that Avista  
6 probably was doing many things to prevent wildfires in the test period. The costs just  
7 were not being discretely tracked. Therefore, it is difficult to determine the incremental  
8 amount of wildfire expenses in the rate period.

9 **Q. WHAT DO YOU RECOMMEND?**

10 A. In recognition of the risk involved, some increase to Avista's O&M expenses for wildfire  
11 mitigation is appropriate in this proceeding. In the pro forma O&M analysis discussed  
12 above, O&M expenses were adjusted to 2020 levels. Accordingly, my revenue  
13 requirement already considers the \$1,506,000 increase in O&M expenses related to  
14 wildfire management that occurred in 2020.<sup>31/</sup> In addition to that amount, I recommend  
15 an additional \$1,799,000 O&M adjustment to arrive at an O&M value that is consistent  
16 with Avista's proposed 2021 wildfire budget, or \$3,305,000.

17 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

18 A. The impact of this recommendation is a \$3,784,499 reduction to revenue requirement.

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<sup>31/</sup> Andrews, Exh. EMA-1T at 85:16-19.

1 **IX. PRO FORMA INSURANCE EXPENSE (3.07)**

2 **Q. WHAT PRO FORMA ADJUSTMENT HAS AVISTA PROPOSED WITH**  
3 **RESPECT TO INSURANCE EXPENSES?**

4 A. Avista has proposed a pro forma adjustment rolling forward its insurance premiums by  
5 two years from 2019 levels to 2021 levels. Based on its analysis, Avista forecasts  
6 material increases to its insurance expenses, and a proposed \$3,702,000 increase to  
7 electric revenue requirement and a \$1,128,000 increase to natural gas revenue  
8 requirement.

9 **Q. WHAT IS DRIVING THE PROPOSED INCREASE?**

10 A. Avista described the nature of the estimated increase in response to Staff Data Request  
11 44. The primary driver of the increase is premiums associated with general liability  
12 insurance. Avista noted large jury settlements and wildfire exposure as two of the main  
13 drivers of the increases.

14 **Q. HAVE THE PREMIUMS ACTUALLY INCREASED AS AVISTA ORIGINALLY**  
15 **EXPECTED?**

16 A. Not in the way that Avista had forecast. Liability insurance premiums rose by 26% in  
17 2020, which was slightly greater than the 15% increase Avista anticipated. Property  
18 insurance premiums, however, rose by 18.5%, which was less than the 27% increase  
19 Avista proposed in its filing.

20 **Q. HAS AVISTA ACKNOWLEDGED THAT ITS INSURANCE PREMIUM**  
21 **ESCALATION WAS OVERSTATED?**

22 A. Yes. In response to Staff Data Request 44, Avista acknowledged that as a result of  
23 overstating its estimated insurance expenses, revenue requirement was overstated by  
24 approximately \$1,078,375 and \$820,887 for electric and natural gas services,

1           respectively. I have incorporated that difference into my revenue requirement  
2           recommendation.

3                   **X.    INFORMATION TECHNOLOGY & SERVICES EXPENSE (3.08)**

4   **Q.    WHAT HAS AVISTA PROPOSED WITH RESPECT TO IT&S O&M**  
5   **EXPENSES?**

6   A.    Avista has proposed a pro forma adjustment that increases information technology O&M  
7        expenses, primarily for software licenses, based on a forecast of expenses in 2021.  
8        Avista started with 2019 and applied two years of O&M escalation based on an internally  
9        developed forecast. Based on Avista Witness Andrews' workpapers, Avista incurred  
10       IT&S expenditures of \$12,962,722 in 2019. Avista forecast this amount to increase by  
11       \$1,963,005 in 2020 to \$14,925,727. Avista forecasts another increase of \$1,912,827 in  
12       2021 to \$16,838,554. Thus, Avista is proposing a 30% increase to this expense category  
13       in revenue requirement.

14   **Q.    HAVE YOU REVIEWED THE SOFTWARE LICENSING EXPENSES?**

15   A.    Yes. In response to AWEC Data Request 80, Avista provided detail of software licensing  
16        expenses in 2019, as well as actual expenditures in calendar year 2020. A comparison of  
17        2019 versus 2020 expenditures has been detailed in Confidential Mullins, Exh. BGM-  
18        10C.

19               Based on that analysis, Avista actually incurred \$15,202,935 of IT&S expenses in  
20        calendar year 2020, which was slightly larger than Avista had forecast in the rate case.  
21        As can be seen, however, the increase in expenses is being driven by a small number of  
22        software vendors, which I have highlighted in the attachment.



1 **Q. HAVE YOU BEEN ABLE TO IDENTIFY THE RATEPAYER BENEFITS**  
2 **ASSOCIATED WITH THE IT&S SERVICES BEING PERFORMED?**

3 A. I reviewed the top ten contributors to the increase in IT&S expenses between 2019 and  
4 2020. For the most part, the vendors could be attributed to security, enterprise resource  
5 planning software, virtualization, and cloud services. There was one vendor, however,  
6 which contributed \$414,087 to IT&S expenses in 2020, which I was unable to tie to a  
7 ratepayer service, and which may have been acquired for the purpose of benefitting a  
8 subsidiary.

9 **Q. HAVE ANY OF THE CORRESPONDING BENEFITS OF THESE SOFTWARE**  
10 **APPLICATIONS BEEN CONSIDERED IN REVENUE REQUIREMENT?**

11 A. No. To the extent that cloud-based services are being relied upon, that obviates the need  
12 for internal systems. Thus, one expects that increased usage of cloud-based services will  
13 reduce capitalized software and hardware balances, along with the associated  
14 depreciation and amortization expenses. These offsetting factors were not directly  
15 considered in Avista's analysis, nor in its pro forma capital proposal. My  
16 recommendation on pro forma capital, however, would consider the offsetting benefits  
17 associated with the IT&S O&M budget in 2020, since those offsets are be embedded in  
18 the 2020 rate base levels.

19 **Q. WHAT DO YOU RECOMMEND?**

20 A. Consistent with using actual 2020 plant levels, I recommend a pro forma adjustment  
21 based on actual 2020 IT&S expenses, adjusted by \$414,087 for the vendor expenses  
22 identified in Confidential Mullins, Exh. BGM-10C, which I have been unable to tie to a  
23 purpose benefitting ratepayers. I recommend against a further adjustment to forecast

1 these expenses based on 2021 levels. The 2021 amounts do not meet the known and  
2 measurable standard and cannot be verified to be providing Washington ratepayer  
3 benefits.

4 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

5 A. My recommendation results in a test period IT&S expense of \$14,793,635.72,  
6 corresponding to a reduction of \$2,049,706, relative to Avista's filing on a System basis.  
7 This reduction amounts to a \$1,027,877 reduction in electric service revenue requirement  
8 and a \$356,408 reduction to natural gas services revenue requirement.

9 **XI. LEAP AMORTIZATION (3.17G)**

10 **Q. WHAT HAS AVISTA PROPOSED WITH RESPECT TO THE LINE**  
11 **EXTENSION ALLOWANCE PROGRAM ("LEAP") DEFERRAL?**

12 A. Avista's Washington natural gas revenue requirement includes a \$1,550,390 adjustment  
13 to account for amortization of excess line extension costs associated with the LEAP  
14 program. The LEAP program was originally approved in Docket No. UG-152394, and  
15 allowed Avista to pay a rebate to natural gas customers for the installation of high  
16 efficiency natural gas space and/or hot water heating equipment. The program allowed  
17 Avista to defer the rebate amounts for later inclusion in rates. The program was  
18 originally approved for a three-year period beginning March 1, 2016 and expired  
19 February 28, 2019.

20 The amortization amount was approved in two tranches corresponding to Avista's  
21 2017 and 2019 general rate cases. First, in Docket No. UG-170486, amortization was

1 approved for amounts deferred over the period April 2016 through March 2017.<sup>32/</sup> This  
2 amount began amortization in May 2019, over a five-year period. Second, in Docket No.  
3 UG-190335, amortization was approved for amounts deferred over the period April 2017  
4 through February 2019.<sup>33/</sup> This amount began amortization in April 2020. Rather than  
5 combining and amortizing the deferred amounts as a single balance, however, Avista  
6 amortized the second deferred amounts over a separate five year period.

7 **Q. DO YOU SUPPORT AVISTA'S APPROACH?**

8 A. No. Because the amounts are being amortized in two separate tranches, the amount that  
9 Avista is proposing to amortize in the test period is higher than if the balances had been  
10 combined in a single amortization stream. Ratepayers are paying for the full amount of  
11 the first tranche of amortization, as well as the full amount of second tranche of  
12 amortization. As a result, a greater amount will be amortized when the two amortization  
13 tranches overlap, followed by a reduction when the first amortization tranche ends. This  
14 approach is not preferred because it results in an unstable level of amortization expense.

15 **Q. WHAT DO YOU RECOMMEND?**

16 A. Rather than continuing to treat these deferrals as two separate balances, I recommend  
17 consolidating them into a single balance beginning on the rate effective date in this  
18 docket. Further, given the rate pressures facing natural gas customers, I recommend an  
19 extension of the amortization period, spreading the remaining balance over a five-year  
20 period from October 2021 through September 2026.

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<sup>32/</sup> Docket No. UE-170485 et al., Order 07 ¶ 253-286 (Apr. 26, 2018).

<sup>33/</sup> Docket No. UE-190334 et al., Final Order 09 ¶ 60 (Mar. 25, 2020).

1 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

2 A. My recommendation reduces the amortization expenses associated with the LEAP  
3 deferral from \$177,887 per month, to \$105,857. On an annual basis, this approach  
4 reduces natural gas revenue requirement by \$874,137 after considering the rate base  
5 effects of the change in amortization period.

6 **XII. WAGES AND SALARIES**

7 **a. Non-Executive Wages and Salaries Escalation (3.04)**

8 **Q. WHAT HAS AVISTA PROPOSED WITH RESPECT TO WAGES AND**  
9 **SALARIES?**

10 A. Avista has proposed applying three years of wage escalation to its labor expenses for  
11 2019, 2020 and 2021. For non-union wages, Avista applies escalation of 0.519% for  
12 2019, 3% for 2020 and 3% for 2021, for a total wage increase of 6.6%. For union wages,  
13 Avista applies escalation of 0.714% for 2019, 3% for 2020, and 3% for 2021, for a total  
14 wage escalation of 6.8%. For electric services, the result of this escalation is a  
15 \$3,267,390 increase to labor expenses. For natural gas services, the result of this  
16 escalation is a \$977,889 increase to labor expenses.

17 **Q. WHAT INFORMATION DID AVISTA PROVIDE TO SUPPORT THESE WAGE**  
18 **INCREASES?**

19 A. Avista's proposal is described in Andrews, Exh. EMA-1T at 56:3-57:15. As Avista  
20 describes, the non-union wage increases were based on increases effective March 2019,  
21 and include a 3.0% adjustment for increases which were effective March 2020. Avista  
22 acknowledged that the 2021 wage increases had not yet been approved but assumed 3%  
23 escalation for 2021. Similarly for union employees, Avista applied a wage increase

1 annualizing the impact of the 3% increase approved in 2019 and an additional 3% for the  
2 increase approved in 2020. Avista also acknowledged that the current contract with its  
3 union employees expires on March 25, 2021, but assumed the contract renewal would  
4 provide for 3% escalation in 2021.

5 **Q. IS AVISTA’S PROPOSAL REASONABLE?**

6 A. No. Given the current economic environment, assuming significant wage increases  
7 which have not yet been approved and which extend beyond the rate effective date is not  
8 reasonable. Avista acknowledges in testimony that the 2021 wage increases are not yet  
9 known and measurable.

10 Further, the accounting data for 2020 does not support Avista’s proposal for a  
11 wage increase in 2020, either. As noted above, expenses charged to O&M accounts,  
12 where most of the wages of the union employees are being charged, declined in 2020.

13 Similarly, the salaries of administrative employees also declined materially in  
14 2020. In 2019 the amount charged to FERC Account 920 was \$23,838,413 for electric  
15 services and \$6,965,982 for natural gas services.<sup>34</sup> In 2020, Account 920 declined to  
16 \$19,086,659 for electric services and \$5,993,834 for natural gas services.<sup>35</sup> That  
17 represents a 20% reduction for electric services and a 14% reduction for natural gas  
18 services. Given that level of reduction, it is not reasonable to assume any wage increase  
19 for non-union employees for 2020.

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<sup>34/</sup> See Andrews workpapers, 1.00 Results of operations, 12E-2019.12-Avista Electric Pull Tab “E-OPS” and 12E-2019.12-Avista Gas North Pull, tab “G-OPS”

<sup>35/</sup> See Attachments in response to AWEC DRs 93 and 96, tables “E-OPS” and “G-OPS”, respectively.

1 **Q. HOW DO YOU RECOMMEND HANDLING THESE WAGE INCREASES?**

2 A. Since I have proposed an adjustment to O&M expenses based on 2020 levels, the 2020  
3 wage increase for union employees and non-union employees assigned to O&M accounts  
4 is already embedded in my analysis. Accordingly, no further adjustment is required for  
5 these employees in adjustment 3.04.

6 For other employees, I recommend no wage increase from the 2019 levels.  
7 Because the Account 920 expense declined by such a significant amount in 2020, it is  
8 apparent that Avista's proposal for a 3% wage increase in 2020 is not consistent with  
9 actual experience.

10 Further, the 2021 wage increases for both union and non-union employees have  
11 not yet been approved and therefore are also not appropriately considered at this time.

12 **Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?**

13 A. Implementing this recommendation results in a \$3,417,120 reduction to electric services  
14 revenue requirement and a \$1,021,665 reduction to natural gas services revenue  
15 requirement.

16 **b. Inter-Corporate Cost Allocation (7.03)**

17 **Q. PLEASE DESCRIBE AVISTA'S CORPORATE STRUCTURE.**

18 A. The operating utility of Avista is organized as a business unit and is not a legally distinct  
19 entity from Avista Corporation. Notwithstanding, Avista Corporation has developed an  
20 increasing list of subsidiaries, including AEL&P, a series of venture capital investments  
21 through Avista Capital, a broadband company called Avista Edge, and a land  
22 development company, including a brew pub called the Steam Plant. The relationship

1 between these entities may be found in the entity relationship diagram provided in  
2 response to AWEC Data Request 11. Under this structure it is difficult to ringfence the  
3 Washington utility operations because all the subsidiaries are consolidated into the same  
4 entity where the utility assets are being held. This structure has the potential to be  
5 problematic as ratepayers could be put in a position of subsidizing an Avista subsidiary's  
6 interest.

7 **Q. HOW DOES AVISTA ALLOCATE COMMON COSTS BETWEEN THESE**  
8 **SUBSIDIARY ENTITIES AND ITS UTILITY OPERATIONS?**

9 A. In AWEC Data Request 12, Avista was requested to provide its cost allocation manuals  
10 for allocating common costs between subsidiaries and its utility business operations.  
11 Avista responded that it “does not maintain any corporate cost allocation manuals used to  
12 allocate costs among its intercorporate affiliates.”<sup>36/</sup> Thus, Avista has little to no  
13 controls, policies, or procedures in place to allocate corporate costs from Avista  
14 Corporation to these subsidiary entities. Avista does have a practice of assigning its  
15 executive labor costs to non-utility activities. For example, Avista's VP and Chief  
16 Strategy Officer, employee number 76183, who oversaw Avista Edge, assigned 90% of  
17 its time to non-utility operations. There is no similar process with respect to non-  
18 executive employees, however.

19 **Q. IS AVISTA USING ITS UTILITY OPERATIONS TO SUBSIDIZE ITS**  
20 **SUBSIDIARY BUSINESSES?**

21 A. Yes. This subsidy occurs on many levels. First, from a financial perspective, Avista uses  
22 the credit of its utility business to finance its subsidiary operations. These operations

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<sup>36/</sup> Mullins, Exh. No. BGM-5 at 15 (Avista Resp. to AWEC DR 12)

1 make Avista a higher risk utility, which translates into higher ratepayer costs in terms of  
2 debt and equity costs. Avista confirmed that none of its subsidiaries maintain a separate  
3 credit rating, including AEL&P.

4 Second, there are many shared services costs that Washington ratepayers are  
5 paying, which are actually benefitting subsidiaries. Avista's accounting systems, its  
6 information technology systems, its SEC reporting, and its executive labor are all  
7 examples of the types of costs that benefit subsidiary entities, which are not being  
8 assigned to the subsidiaries.

9 For instance, the managers of several of Avista's subsidiaries are actually  
10 employees of Avista Corporation and included in revenue requirement even though they  
11 are performing work for subsidiary entities. In response to AWEC Data Request 69,  
12 Avista confirmed that individuals such as Dennis Vermillion, Bruce Howard, Ed Schelct,  
13 Mark Gustafson, and Tony Dehnel are all employed by Avista Corporation, but are also  
14 managers of a subsidiary. I confirmed that the wages of each of these employees was  
15 included in Avista's 2019 results.

16 **Q. HAVE YOU IDENTIFIED ANY SPECIFIC EXAMPLES?**

17 A. Yes. In response to AWEC Data Request 08, Avista provided transaction data supporting  
18 its operations and maintenance expenses. In the response, I identified several instances  
19 where employees of Avista Corporation were providing support to affiliates.

20 An Account 232 miscellaneous expenses in the amount of \$14 contained the  
21 following description: "Cab Fare, went to the Steamplant to remove a computer from the  
22 C07 domain. there were no loaner cars available and at this time of day there would



1 likely be no parking spots for my truck. I've attempted to park @ the steamplant bu...".  
2 Thus, it appears that Avista is using its corporate IT staff to manage the IT requirements  
3 of its affiliate brew pub, and then charging ratepayers for the cab fare. Another IT entry  
4 read "Parking, I was at the CGG (Steamplant) this morning working on TRACKER  
5 AU578116 & AU578117," leading to the same conclusion.

6 Another set of entries with Perfect Clean Services, LLC in the amount of \$5,200  
7 were for janitorial services at the Steamplant but were included in Washington utility  
8 rates.

9 I also identified a number of entries by Mark Gustafson on behalf of Avista Edge,  
10 such as "Mileage, City of Cheney Avista Edge" and "Misc, Innovation Station Polling  
11 software Pitch Jam 2019." These entries are being assigned to Washington ratepayers  
12 even though they relate to affiliate operations.

13 **Q. WHAT DO YOU RECOMMEND?**

14 A. Since there appear to be many costs incorrectly assigned and no clear policy to effectuate  
15 intercorporate cost allocations, deriving an adjustment to properly capture these costs is  
16 challenging. I performed the analysis for a limited number of cost centers which I could  
17 directly attribute to non-utility operations. Specifically, I considered the employees that  
18 report to the VP and Chief Strategy Officer, which are primarily assigned to the Avista  
19 Edge organization, but included in utility results. These employees are in the business  
20 development department and include job titles such as "VP Ntwrk Engr Avista Edge."  
21 The Washington allocated labor amounts for these employees are detailed in Table 8,  
22 below.

**Table 8**  
Proposed Business Development Costs to Allocate to Subsidiaries  
Whole Dollars

ID	Department	WA Electric	WA Gas
03337	Bus Dev Service Optimizat	33,798	10,492
04025	Bus Dev Service Optimizat	1,447	-
04617	Bus Dev Service Optimizat	18,502	5,163
	Total	53,747	15,655

1 I recommend that these costs be eliminated from revenue requirement in this  
2 proceeding, resulting in a \$56,217 and \$16,371 reduction to electric service and natural  
3 gas service revenue requirement, respectively. While I believe there are likely other  
4 costs, such as information technology, financial reporting and human resources costs  
5 which are not being allocated to subsidiary and non-utility operations, I am not proposing  
6 an adjustment for those amounts at this time. I do recommend, however, that the  
7 Commission require Avista to better document its inter-corporate cost allocation policies  
8 in its next rate filing by, for instance, developing cost allocation manuals for Commission  
9 review and approval.

10 **XIII. ADVANCED METERING INFRASTRUCTURE (3.16)**

11 **Q. PLEASE PROVIDE AN OVERVIEW OF AVISTA’S AMI PROGRAM.**

12 A. Beginning in 2017, Avista began an investment program prematurely retiring existing  
13 electric meters and natural gas Encoder Receiver Transmitters (“ERTs”) and replacing  
14 these meters with Advanced Metering Infrastructure capable metering equipment. In  
15 contrast to other technologies such as Automatic Meter Reading (“AMR”), AMI provides  
16 for two-way communication between the utility and the meter. Avista has been  
17 undertaking a program to install AMI capable meters for all customers in Washington,

1 except for electric Schedule 25 and natural gas transportation customers.<sup>37/</sup> As of  
2 December 31, 2020, Avista had installed AMI meters on 99.8% of eligible service points  
3 in Washington.<sup>38/</sup>

4 **Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED AVISTA'S AMI**  
5 **PROGRAM?**

6 A. Although Avista's AMI program has been a topic of controversy in several prior rate  
7 cases, this is the first case where the actual investments are being considered by the  
8 Commission. In Docket Nos. UE-150204 and UG-150205, Avista had proposed to  
9 include Pro Forma Capital related to the AMI program in rates. In Order 05, however,  
10 the Commission rejected the AMI program, stating the following:

11 We decline Avista's requested action because this issue is not ripe for  
12 Commission determination. The Commission's longstanding practice is to  
13 review the prudence of a utility's investment in plant after that plant is  
14 placed in service and is used and useful.<sup>39/</sup>

15 Later, in Order 01 of Docket No. UE-160100, however, the Commission  
16 approved the creation of a regulatory account associated with the unrecovered book value  
17 of replaced electric meters. In that Docket, the Commission stated that it was making no  
18 finding on the prudence of the AMI program:

19 [O]ur decision in no way constitutes a preapproval of the Company's AMI  
20 investment, and the Commission makes no finding regarding the prudence  
21 of the investment. Avista recognizes that a determination of prudence and  
22 the eligibility for recovery of any costs associated with the Company's AMI  
23 investment will be addressed in a future regulatory proceeding.<sup>40/</sup>

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<sup>37/</sup> See Mullins, Exh BGM-5 at 30 (Avista's response to AWEC DR 108).

<sup>38/</sup> See Mullins, Exh BGM-5 at 29 (Avista's response to AWEC DR 106).

<sup>39/</sup> Docket Nos. UE-150204 and UG-150205 (Consolidated), Order 05 ¶ 191 (Jan. 6, 2016) (emphasis original) (internal citations omitted).

<sup>40/</sup> Docket No. UE-160100, Order 01 ¶ 9 (March 15, 2016).

1 Further, in Order 01 of Dockets No. UE-170327 and UG-170328, the  
2 Commission approved regulatory accounting treatment for the associated AMI  
3 investments and the unrecovered investment in natural gas ERT devices. The  
4 Commission reiterated that it was making no finding on the prudence of the AMI  
5 program, stating the following:

6 Avista's Amended Petition expressly recognizes that a determination of  
7 prudence and the eligibility for recovery of any costs associated with the  
8 Company's AMI investment will be addressed in a future regulatory  
9 proceeding.<sup>41/</sup>

10 Since Avista has almost completed deployment of AMI meters to eligible rate  
11 schedules, it is now seeking to include the associated investments in rate base, including  
12 an evaluation of the prudence of the program.

13 **Q. DO YOU RECOMMEND THE COMMISSION CONSIDER THE PRUDENCE OF**  
14 **AVISTA'S AMI INVESTMENTS IN THIS PROCEEDING?**

15 A. Yes. The majority of AMI meters that will be deployed have been deployed.  
16 Notwithstanding, it is still difficult to evaluate the prudence of the AMI investment  
17 because Avista has not yet developed any specific programs or service offerings that  
18 utilize the new AMI technology. Avista is not proposing, for example, time  
19 differentiated rates, real-time pricing, or any other customer service that will rely on  
20 AMI. At least for now, Avista is using the new technology in the same way as the old  
21 meters, except that instead of employing meter readers, Avista now pays for the software  
22 and the cost of the new meters. Further, Electric Schedule 25 and natural gas  
23 transportation customers are excluded from the program, making it difficult to evaluate

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<sup>41/</sup> Docket Nos. UE-170327 and UG-170328, Order 01 ¶ 16 (Sep. 14, 2017).

1 the benefits for those customers.<sup>42/</sup> Given these challenges, I recommend the  
2 Commission consider AMI in this case, albeit based on the services and benefits  
3 associated with AMI that are available in this case.

4 **Q. THE COMMISSION HAS PREVIOUSLY FOUND THAT “MOVING TO A**  
5 **SMART METER PLATFORM HAS BECOME THE INDUSTRY STANDARD.”<sup>43/</sup>**  
6 **IS THAT SUFFICIENT FOR AVISTA TO CARRY ITS BURDEN TO**  
7 **DEMONSTRATE THE PRUDENCE OF ITS DECISION TO INVEST IN AMI?**

8 A. No. In the same case that the Commission made this statement – PSE’s 2019 rate case –  
9 it also found that PSE had failed to demonstrate any quantifiable benefit from its  
10 transition to smart meters and, as a consequence, did not allow PSE to recover any return  
11 on its investment in rates set in that case. Notably, PSE’s smart meter deployment was  
12 significantly behind Avista’s, with PSE projecting full deployment in 2022 or 2023. The  
13 Commission reserved final judgment on the prudence of PSE’s smart meter investment  
14 until it was fully deployed, suggesting that it could disallow all or a portion of the return  
15 on PSE’s investment if PSE cannot “satisfactorily demonstrate[] the benefits of the AMI  
16 system as a whole.”<sup>44/</sup>

17 A similar analysis should apply to Avista, though with effectively full  
18 deployment, the Commission has the information now to render a complete decision on  
19 prudence for Avista based on the benefits Avista alleges from its AMI system. These  
20 benefits should not be hypothetical, based on things Avista might be able to do in the  
21 future. Rather, the benefits should be real based on things that Avista is doing today and

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<sup>42/</sup> See Mullins, BGM-5 at 29 (Avista’s Resp. to AWEC DR 106).

<sup>43/</sup> Docket Nos. UE-190529 and UG-190530 (consolidated), Order 08 ¶ 153 (July 8, 2020).

<sup>44/</sup> Id. ¶ 155.

1 included in this case. Purchasing a power plant, for example, which is not expected to  
2 generate for five years, would not be considered a prudent investment.

3 **Q. WHAT TYPES OF BENEFITS ARE EXPECTED FROM THE AMI**  
4 **INVESTMENTS?**

5 A. One may consider the benefits of AMI both in quantitative and qualitative terms. Stated  
6 differently, the benefits may come in the form of a reduction to the cost of the service  
7 provided to ratepayers (i.e., quantitative benefits) or an improvement in the quality of the  
8 service provided to ratepayers (i.e., qualitative benefits). If Avista cannot demonstrate  
9 that the cost reductions and the service quality improvements exceed the costs, then the  
10 investment cannot be found to be beneficial to ratepayers. Making a discretionary  
11 investment in the absence of demonstrable net benefits represents economic waste and  
12 such investments do not satisfy the prudence standard for utilities to include the  
13 investment in utility rates.

14 **Q. WHAT IS THE COST OF THE AMI PROGRAM TO RATEPAYERS?**

15 A. The revenue requirement impacts of the AMI investments and associated deferrals are a  
16 significant driver of Avista's proposed rate increase in this case. For electric services, the  
17 AMI investments represent \$18,537,000 in revenue requirement. Accordingly, on a  
18 stand-alone basis, the AMI investments represent a 3.5% rate increase to electric service  
19 customers. For natural gas services, the AMI investments represent \$6,861,000 in  
20 revenue requirement. Similarly, on a stand-alone basis, the AMI investments represent a  
21 6.5% margin rate increase to natural gas customers, including transportation customers  
22 who recognize zero benefits from the program.

1 **Q. WHAT QUANTIFIABLE BENEFITS HAS AVISTA CONSIDERED IN**  
2 **REVENUE REQUIREMENT?**

3 A. In the revenue requirement impacts above, Avista deducted \$3,189,057 and \$1,063,019  
4 for quantifiable O&M benefits for electric and natural gas services, respectively.<sup>45/</sup> These  
5 offsets were derived from the “elimination of meter reading, remote service connectivity  
6 and conservation voltage reduction.”<sup>46/</sup> Prior to these offsetting O&M adjustments, the  
7 revenue requirement impact of the AMI program would have been approximately  
8 \$21,726,057 for electric services and \$7,924,019 for gas services. Based on these  
9 amounts, the benefits that Avista proposes to include in revenue requirement in this case  
10 represent only 15% of the cost for electric services and 13% of the costs for gas services.  
11 Thus, the cost of Avista’s previous metering infrastructure, including the cost of meter  
12 reading, was only a fraction of the cost associated with transitioning to AMI. It follows  
13 that the qualitative service benefits must be substantial to reach a finding that the overall  
14 benefits of AMI justify such a significant increase in ratepayer expense.

15 **Q. DID AVISTA QUANTIFY OTHER QUANTITATIVE BENEFITS THAT ARE**  
16 **NOT INCLUDED IN THIS CASE?**

17 A. Yes. In the benefits study provided in Exh. JDD-2, Avista identified an exhaustive list of  
18 potential quantifiable benefits, including a broad array of potential monetary benefits that  
19 are not incorporated as an offset in revenue requirement in this case. Avista provided the  
20 detail behind the benefit calculations in response to Public Counsel Data Request 148.

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<sup>45/</sup> See workpaper of Avista Witness Andrews titled “/3,16 AMI/1) AMI Capital and Regulatory Asset.xlsx”,  
Tab “Adjustment” Excel Row “28.”

<sup>46/</sup> Andrews, Exh. EMA-1T at 71, fn. 50.

1 From Avista’s response, it can be noted that the majority of benefit items included in the  
 2 benefits study were not considered in revenue requirement in this case.

**Table 9**  
Avista AMI Benefits Proposed in Revenue Requirement  
Rate Period Amounts, Washington Allocated, Whole Dollars

<u>Category</u>	<u>Benefits Study Total</u>	<u>Included in Rev. Req.</u>	<u>Excluded From Rev. Req.</u>
Meter Reading and Meter Salvage	5,019,659	4,686,255	333,405
Remote Service Connectivity	1,490,913	639,740	851,173
Outage Management	3,463,904	-	3,463,904
Energy Efficiency	1,974,735	1,154,349	820,386
Energy Theft and Unbilled Usage	1,972,920	-	1,972,920
Billing Accuracy	926,962	43,304	883,658
Utility Studies	97,132	-	97,132
<b>Total</b>	14,946,225	6,523,647	8,422,578
	Less: 2019 Benefits	<u>(2,449,498)</u>	
	Avista O&M Adjustment	4,074,149	

3 As can be seen in Table 9, Avista forecast \$14,946,225 of savings in the rate  
 4 period. Notwithstanding, Avista only proposes to include \$4,074,149 as an offset to  
 5 revenue requirement, representing less than half of the total benefits in Avista’s benefits  
 6 study. Avista excludes the majority of benefits in the benefits study from revenue  
 7 requirement either because they are too under certain to be included or do not result in a  
 8 genuine benefit to ratepayers. The benefit categories that have been excluded include a  
 9 long list of items such as Account Open/Close/Transfer, Reduced Major Storms Cost,  
 10 Grid-Interactive Efficient Buildings, Estimated Bills, Bill Inquiries, Earlier Outage  
 11 Notification, Theft and Diversion and Behavioral Energy Efficiency, among others.



1 With respect to the \$6,523,647 of rate period benefit amounts that have been  
2 considered in revenue requirement, in its workpapers, Avista refers to these amounts as  
3 the “True Reductions in Revenue Req.” Based on this nomenclature, it follows that the  
4 categories of all other benefits, which Avista excludes from revenue requirement, are  
5 “false reductions in revenue requirement,” or at a minimum, appropriately characterized  
6 as speculative benefits.

7 **Q. CAN AVISTA DEMONSTRATE A NET BENEFIT WITHOUT THESE**  
8 **SPECULATIVE BENEFITS?**

9 A. No. Avista’s benefits study has many problems. Taking the study at face value,  
10 however, excluding the speculative benefits identified above results in a net cost to  
11 ratepayers. Avista claims that, on a net present value basis, the AMI project is expected  
12 to cost \$169,700,000 and is expected to produce benefits of \$220,000,000, resulting in a  
13 net benefit of \$50,300,000.<sup>47/</sup> Notwithstanding, absent the speculative amounts, which  
14 have not been considered in revenue requirement, the net present value of the benefits is  
15 just \$103,761,332.<sup>48/</sup> Thus, considering the only the benefits that are certain enough to  
16 include in revenue requirement in this case, AMI results in a net cost of \$65,938,668, not  
17 a net benefit.

18 **Q. ARE THERE SERIOUS ISSUES WITH AVISTA’S BENEFITS STUDY?**

19 A. Yes. Apart from the use of speculative benefits, there are numerous problems with  
20 Avista’s study. Foremost, Avista’s study is not a present value revenue requirement

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<sup>47/</sup> DiLuciano, Exh. JDD-2 at 12.

<sup>48/</sup> This value may be found in Avista’s response to Public Counsel Data Request 148, “PC-DR-148-Attachment A AMI Benefits,” tab “Revenue Requirement Reductions”, cell “G46”.

1 study. Avista calculates the present value of AMI costs based on mismatch of capital  
2 outlays and depreciation expense, not based on revenue requirement.

3 For example, Avista considers the meter depreciation as a cost but does not also  
4 consider the associated return on rate base that ratepayers must pay with respect to AMI  
5 meters and software. The return on rate base associated with AMI meters is  
6 approximately \$7,000,000 per year, which Avista's analysis does not consider.  
7 Considering the return on rate base associated with the AMI meters increases the cost  
8 forecast by an additional \$60,000,000 on a present value basis. Avista also does not  
9 consider the returns that it has accrued on its AMI deferrals and the way that those  
10 amounts impact revenue requirement. There are many other revenue requirement factors  
11 that Avista did not properly capture, such as income taxes, property taxes, and ADFIT  
12 that are considered in a properly constructed net present value revenue requirement  
13 analysis. Avista's cost study is a mismatch of capital and cost items presented in a way  
14 that is not congruent.

15 Further, Avista does not consider replacement costs. For example, Avista's  
16 forecast of costs includes \$32,996,856 of capital costs related to the meter data  
17 management ("MDM") system. The MDM system, however, only has a useful life of  
18 12.5 years. Accordingly, Avista will need to replace the software sometime around the  
19 year 2030. Avista did not consider the need to replace the software, which is a major  
20 portion of the AMI cost. Assuming 3% annual cost escalation, consistent with the other  
21 elements of Avista's study, the replacement software can be estimated to cost around

1           \$47,702,686 in 2030, and including these software replacement cost in the net present  
2           value calculation results in an approximate \$18,000,000 increase.

3           Further, Avista removed 56.7% of the MDM system from its cost estimate,  
4           without explanation. If the full amount of the MDM system costs is included, it increases  
5           the net present value cost by a further \$30,376,500.

6           Moreover, when calculating the net benefits, Avista used a 6.58% discount rate.  
7           In contrast, Avista is requesting an 8.75% pre-tax cost of capital (based on a 7.43% post  
8           tax cost of capital). Ratepayers would gladly accept using a 6.58% discount rate in this  
9           proceeding, if Avista believes that is its actual cost of money, but that is at odds with the  
10          cost of capital testimony that Avista has filed in this case. The impact of using Avista's  
11          actual pre-tax cost of capital in Avista's benefits model is a \$20,000,000 reduction to the  
12          overall benefit level.

13          Finally, Avista's benefits study is based on aggressive escalation assumptions.  
14          For most benefit items, Avista assumes generic escalation of 3%. In addition, Avista also  
15          increases the benefits for customer growth, using an additional escalation rate equal to  
16          1%. It is important to note that, while Avista did not assume any customer growth when  
17          calculating revenue requirement in this case, it did assume extensive customer growth  
18          when establishing its benefits forecast for the AMI investments.

19          Due to all these problems, I have not attempted to reconstruct Avista's benefits  
20          study in the proper manner. Notwithstanding, based on the gross deficiencies of Avista's  
21          benefits model, and the impacts of the speculative benefit categories, I have not been able  
22          to conclude that the AMI program will produce a net benefit for ratepayers. In fact,

1 consistent with the effects on revenue requirement in this case, I have concluded the  
2 opposite.

3 **Q. WHAT QUALITATIVE SERVICE BENEFITS HAS AVISTA IDENTIFIED?**

4 A. AMI does have the potential to produce qualitative benefits that improve the nature of  
5 services being provided to ratepayers. Avista Witness DiLuciano describes some of these  
6 qualitative benefits, including time-of-use rates; real-time energy use feedback for  
7 customers; behavior-based programs; data disaggregation, Grid-interactive efficient  
8 buildings; and CVR or volt/VAR optimization.<sup>49/</sup> It appears that some of the speculative  
9 benefit categories discussed above may have been excluded from revenue requirement on  
10 the basis that they represent a qualitative benefit.

11 **Q. IS IT POSSIBLE TO ASSIGN A VALUE TO THESE BENEFITS?**

12 A. The value associated with qualitative benefits is subjective by nature. The value of an  
13 improved service depends on the preferences of individual customer. Some customers,  
14 for example, may assign a high value to a web-portal providing greater visibility into the  
15 customers' load, and may therefore be willing to pay, say, 6.52% more in rates as a result  
16 of the improved service offering. Other customers, however, might assign little or no  
17 value to such a service. Notwithstanding this difficulty in valuation, where an improved  
18 service offering has been identified, the Commission can use its judgment to determine  
19 whether the improvement in services is worth a 3.5% rate increase for electric customers  
20 and a 6.5% margin rate increase to natural gas customers, which Avista is proposing in  
21 this case. I have not been able to reach that conclusion.

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<sup>49/</sup> DiLuciano, Exh-JDD-2 at 10-11.

1 **Q. IS AVISTA PROPOSING TO IMPLEMENT ANY IMPROVED SERVICES IN**  
2 **THIS CASE?**

3 A. No. While AMI has the potential to enable improved service programs, Avista is not  
4 actually proposing to implement any programs in this proceeding. Avista is not, for  
5 example, proposing real-time time of use rates, or a real-time interface for customers to  
6 view current usage patterns. Therefore, there are no additional qualitative benefits that  
7 are relevant to the rate period in this proceeding.

8 Storing the vast amounts of AMI data in a database on Avista's system, without  
9 actually doing anything with the data, provides no incremental service benefits to  
10 ratepayers. Avista can hire droves of analysts to sort through the data, but from my  
11 perspective, for the data to be useful, it needs to be put into the hands of ratepayers who  
12 can make use of it. Such systems, however, have not been developed and implementing  
13 them would come at additional cost, which also is not being considered in Avista's  
14 proposal.

15 **Q. WHAT DO YOU RECOMMEND?**

16 A. Given the discrepancy between costs and benefits associated with the AMI proposal in  
17 revenue requirement in this case, I recommend the Commission limit Avista's return on  
18 its investment in AMI to the cost of debt until Avista can demonstrate concrete benefits  
19 associated with the AMI program, which are sufficient to justify the costs. This treatment  
20 is appropriate because it is not reasonable for Avista to propose such a large investment  
21 without thoroughly considering ways to deliver quantitative and qualitative benefits  
22 supporting the investment to ratepayers. Avista did not actually take any initiative to  
23 develop the types of services that will deliver benefits to ratepayers, such as time of use

1 rates or behavior-based programs or grid-interactive efficient buildings. It is possible that  
2 these benefits may be enabled in the future, but the new meters and the associated  
3 software are relatively short-lived assets. The meter data management software has a  
4 useful life of just 12.5 years. Thus, by the time Avista comes around to developing and  
5 proposing improved service offerings, Avista might be looking at replacing the AMI  
6 infrastructure with the next new meter technology, or at a minimum, replacing the  
7 underlying software.

8 Including the AMI meters in rates now, however, is a reasonable approach  
9 because the meters are being used to serve customers, and it is not desirable to continue  
10 to defer amounts and accumulate large deferrals with respect to the AMI program for  
11 future customers to pay. Thus, including the AMI investments in rates in this proceeding  
12 at the cost of debt, along with the regulatory asset amortizations, strikes a fair balance for  
13 ratepayers. Further, to the extent Avista develops actual qualitative services that provide  
14 demonstrable benefits, sufficient to offset the costs, then it would be possible for the  
15 Commission to revisit the cost of capital applied to AMI in the future.

16 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATIONS ON AMI?**

17 A. In my analysis, I applied a cost of debt grossed up for taxes equal to 5.63%. In doing so,  
18 I assumed that the equity component of the cost of capital was reduced to the cost of debt  
19 level, and that income taxes would still be paid on a portion of the rate formerly  
20 attributable to equity, an assumption which is necessary so as to not distort the utility's  
21 capital structure. I recalculated the return on rate base associated with AMI at this rate  
22 and included the result as an operating cost, in contrast to other returns which are

1 considered in the revenue requirement formula. I also retained the regulatory  
2 amortization and other operating expense adjustments Avista had proposed in results,  
3 with no retroactive adjustment to amounts previously accrued. This calculation resulted  
4 in a \$3,618,909 reduction to the electric service revenue requirement and a \$1,262,773  
5 reduction to the natural gas services revenue requirement. This is a reasonable approach  
6 particularly considering the \$8,422,578 of purported benefits identified in Table 9, above,  
7 that Avista included in its benefits forecast, but has been unable to deliver in revenue  
8 requirement in this proceeding.

9 **XIV. AFUDC DEFERRAL (7.04)**

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE AFUDC DEFERRAL THAT THE**  
11 **COMMISSION APPROVED IN DOCKET NOS. UE-190074 AND UG-190075.**

12 A. In response to AWEC Data Request 44, Avista notes that it has recorded a regulatory  
13 liability from transitioning to a flow through method of accounting for tax impacts  
14 associated with the equity portion of AFUDC. Avista notes that it currently has a  
15 regulatory liability of \$1,760,296 for electric customers and \$519,844 for natural gas  
16 customers.

17 **Q. DID AVISTA PROPOSE AMORTIZING THOSE BALANCES IN THIS**  
18 **PROCEEDING?**

19 A. No. Those balances were not considered in revenue requirement.

20 **Q. WHAT DO YOU RECOMMEND?**

21 A. I recommend those balances be returned to ratepayers in this proceeding.

1 **Q. WHAT AMORTIZATION PERIOD DO YOU PROPOSE?**

2 A. I propose an amortization period that roughly aligns with the frequency of Avista's rate  
3 filings in Washington. Since Avista has been making nearly annual filings, I recommend  
4 a one-year amortization period for these remaining balances.

5 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

6 A. This recommendation reduces revenue requirement by \$1,841,182 for electric services  
7 and \$543,609 for natural gas services.

8 **XV. TAX ACCOUNTING CHANGE AMORTIZATION (4.00T)**

9 **Q. PLEASE DESCRIBE AVISTA'S REGULATORY LIABILITY ASSOCIATED**  
10 **WITH THE TAX ACCOUNTING CHANGES APPROVED IN DOCKETS NO.**  
11 **UE-200895 & UG-200896.**

12 A. On October 30, 2020, Avista made a filing with the Commission to approve changes in  
13 tax accounting related to meters and IDD#5 shared services expenditures. These amounts  
14 had historically been capitalized and amortized under the modified accelerated cost  
15 recovery system for tax purposes. Based on guidance from its tax advisors, Avista  
16 changed its accounting method for these items, treating them as service expenses, rather  
17 than capital, for tax purposes. Avista proposed to defer the revenue requirement impacts  
18 of these changes. As a result of expensing the items, Avista was able to deduct the  
19 remaining tax basis associated with these items on its 2019 tax return, leading to  
20 significant tax savings. In addition, Avista has proposed to use a flow through method of  
21 accounting with respect to these tax items for regulatory purposes, such that the benefits  
22 may be passed back to customers.



1 **Q. WHAT IS THE AMOUNT OF THE REGULATORY LIABILITY?**

2 A. Based on Avista's deferral filing, it estimated regulatory liability balances of  
3 \$58,136,820 for electric services and \$28,200,361 for natural gas services, as of  
4 December 31, 2020. The regulatory liability balance, however, will continue to grow in  
5 2021, and throughout the rate period as new meters are installed and activated, and shared  
6 services expenses are made.

7 **Q. HOW HAS AVISTA RECOMMENDED HANDLING THESE REGULATORY**  
8 **LIABILITY BALANCES?**

9 A. Avista had proposed using these regulatory liability balances to offset the first-year rate  
10 increase in this case through a separate rate schedule, with the remainder amortized over  
11 a ten-year period.

12 **Q. DO YOU SUPPORT THIS APPROACH?**

13 A. While I support amortizing the balances in a manner that offsets the rate increase in this  
14 case, I recommend against a proposal that would embed a large sur-credit in rates, which  
15 will expire after a one-year amortization period. Such an approach will lead to a  
16 significant rate increase once the sur-credit expires, and the rate increase may be  
17 compounded to the extent that Avista files another rate case next year.

18 **Q. WHAT DO YOU PROPOSE?**

19 A. I recommend spreading the amortization of the balance over a five-year period, rather  
20 than a one-year period. This will provide ratepayers with a benefit for an extended  
21 period, while returning the funds in a reasonably expeditious manner.

1 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

2 A. Use of a five-year amortization period results in an approximate \$12,161,645 revenue  
3 requirement reduction for electric services and a \$5,897,915 reduction to revenue  
4 requirement for gas services.

5 **Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?**

6 A. Yes.