

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

(Consolidated)

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with**
3 **Avista Corporation.**

4 A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as
5 Senior Manager of Revenue Requirements in the State and Federal Regulation Department.
6 My business address is 1411 East Mission, Spokane, Washington.

7 **Q. Have you previously provided testimony in these dockets?**

8 A. Yes, I was the primary revenue requirements witness in the 2015 general rate
9 case (i.e., this case), and provided direct testimony in June 2019 regarding the appeal and
10 Remand. As such, I am quite familiar with the various adjustments to rate base and
11 expenses, and the revenue requirements modeling associated with this case, as well as served
12 in the same capacity as a witness in each subsequent general rate case filing by the
13 Company. In this docket I have sponsored Exhs. EMA-1T through EMA-15 (Direct
14 Proceeding) and EMA-9T R – EMA-19 R (Remand Proceeding).¹

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

16 A. The purpose of my testimony is to, along with other Company witnesses,
17 provide Avista’s rebuttal to the testimony of Commission Staff (“Staff”), the Public Counsel
18 Section of the Attorney General’s Office (“Public Counsel”) and the Alliance of Western

¹ In filing Ms. Andrews’ direct testimony on Remand, the Company failed to recognize Cross-Examination exhibits EMA-9 through EMA-15 from the prior 2015 GRC portion of this proceeding. It therefore inadvertently labeled its Remand testimony and exhibits as EMA-9T through EMA-19. To correct for this labeling error by the Company, and use of by Parties within their responsive testimonies, the Company proposes to label Avista’s Remand testimony with an R, i.e., Andrews: EMA-9T R - EMA-24 R; Thies: MTT-6T R; and Miller: JDM-4T R - JDM-6 R. Ms. Andrews’ rebuttal Remand testimony is therefore labeled EMA-20T R.

1 Energy Consumers (“AWEC”), together referred to as the “Parties” in this Remand portion
2 of this proceeding.

3 In doing so, I will address what appears to be four of the main issues for
4 consideration by this Commission in these dockets, namely whether the amount to be
5 refunded to customers should include:

- 6 1. Attrition rate base only, or reflect the correction of what the Parties argue is a
7 “calculation error” related to the October 29, 2015 power supply update
8 and/or require the recalculation of the attrition adjustment;
9
- 10 2. A refund based on approved rates for the time period of approximately 11
11 months (January 11, 2016 – December 15, 2016), or approximately 2.3 years
12 (January 11, 2016 – April 30, 2018) as argued by the Parties;
13
- 14 3. An offset for actual “earnings sharing” already refunded to customers, or
15 ignore as proposed by Staff and AWEC²;
16
- 17 4. Use of data available to us now, but which did not exist when Order 05 was
18 entered, to calculate used-and-useful rate base for 2016.
19

20 All of these issues should also be addressed within the context of this Commission’s
21 prior Order 05 and 06 (on Reconsideration), and most importantly, should result in a final
22 decision that provides a reasonable “end result.”

23 **A table of contents for my testimony is as follows:**

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² Public Counsel argues inclusion of any “earnings sharing” offsets only be allowed if the “correction for the power supply cost update” is included (see Exh. DMR-27T, p. 3, l.17-20).

1 **Q. Are you sponsoring any exhibits with your response testimony?**

2 A. Yes. I am sponsoring the following exhibits: Exh. Nos. EMA-21 R – EMA-
3 24 R, as described below:

- 4 • **EMA-21 R** pages 1 and 3, provide the calculated “attrition” rate base using
5 the Commission approved rate base growth factor, while pages 2 and 4,
6 provide the calculated rate base with “attrition” rate base at 0%, for electric
7 and natural gas, for comparison purposes.
- 8 • **EMA-22 R** restates Staff witness Mr. McGuire’s Exh. Nos. CRM-8 and
9 CRM-9 to reflect “attrition” rate base using the Commission approved rate
10 base growth factor, for comparison purposes with Exh. EMA-21 R.
- 11 • **EMA-23 R** shows the summary tables reflecting calculated attrition rate base,
12 actual “earnings sharing” amounts refunded 2016-2018, and the pro-rated net
13 amounts due customers for 2016 (11 months).
- 14 • **EMA-24 R** restates Mr. McGuire Exh. Nos. CRM-11 and CRM-12 using
15 2015 end-of-period (EOP) rate base.
16

17 **Q. Please summarize the principle points of your testimony:**

18 A. A summary of my principle points discussed in my testimony are as follows:

- 19 • No further refunds are owed customers. Taking into consideration actual
20 2016 rate base in service and serving customers during the 2016 rate year,
21 either on a 2015 end-of-period (EOP) or a 2016 average-monthly-average
22 (AMA) basis, versus the “attrition” rate base approved in Order 05 of the
23 2015 GRC, no further refunds for electric customers are warranted. For
24 natural gas, the refund amount would be \$1.0 million for 2016. However,
25 reflecting amounts already refunded to customers through the “earnings
26 sharing” mechanism, also results in no further refunds owed customers.
27
- 28 • Alternatively, if this Commission were to not consider actual rate base in the
29 2016 rate year, ordered refunds should be no more than \$1.326 million for
30 electric and \$1.582 million for the 11 month period January 11, 2016 through
31 December 15, 2016.
32
- 33 • The Scope of the Remand proceeding, as ordered by the Court of Appeals, is
34 isolated to the electric and natural gas “attrition rate base”³ approved by the
35 Commission in its 2015 GRC Order 05. It does not otherwise require the

³ “Attrition rate base” approved for the 2016 rate year by the Commission in Order 05 of the 2015 GRC, above approved pro forma rate base, totaled \$28.0 million for electric and \$33.4 million for natural gas.

1 recalculation of the electric and natural gas “attrition allowance” or use of
 2 “attrition models,” nor does it require yet another review of the power supply
 3 “computational error.” Both of these issues were reviewed and resolved in
 4 Order 06 of the 2015 GRC. Further, as I will demonstrate the “models” relied
 5 on by AWEC and Staff included material errors, calling into question their
 6 usefulness and validity.

- 7
- 8 • The “Refund Period” should relate to no more than the 11 month period –
 9 January 11, 2016 through December 15, 2016. The 2015 GRC rate period
 10 ended on December 15, 2016. Thereafter, rates were re-examined in Docket
 11 Nos. UE-160228 and UG-160229, based on fresh evidence and a new test
 12 period, with an order received in that case on December 15, 2016. In the
 13 Commission’s Order in UE-160228/UG-160229, the Commission deemed
 14 the then-existing rates were just, reasonable and sufficient. No party
 15 challenged or appealed the Commission’s fresh determination of just,
 16 reasonable and sufficient rates.
 - 17
 - 18 • Pro-rated “earnings sharing” amounts already refunded to customers in 2016
 19 (11 months) must offset ordered refunds, in order to avoid double counting.
 20 These amounts are not in debate: i.e., the Company has refunded actual
 21 amounts to customers over the period 2016 – 2018. To ignore these amounts
 22 would provide a duplication of refunds to customers – a “double-dip” into
 23 earnings of the Company, and overstate refunds to customers. The subset of
 24 “earnings sharing” used to offset refunds by Avista total \$1.33 million for
 25 electric and \$1.58 million for natural gas for 2016 (11 months). Ordered
 26 refunds for the period of 2.26 years, if any, require offsets (subset) in the
 27 amount of \$2.76 million for electric and \$3.32 million for natural gas.⁴
 28
 - 29 • Party positions do not represent reasonable “end results”. The Parties’
 30 “primary” positions would impose refunds ranging from \$36 million to \$57.8
 31 million for electric, and \$7.1 million to \$19.2 million for natural gas. The
 32 ROE impact on the Company of any such level of refunds for 2016 and 2017,
 33 range as lows as 6.98% to a high of 8.37% – a staggering 113 to 252 basis
 34 points below the authorized 9.5% ROE.⁵ These results would fall near or
 35 well below the 8.22% this Commission found was not a reasonable “end
 36 result” and deemed insufficient by the Commission in its 2015 GRC Order
 37 06.

⁴ If this Commission orders Remand refunds that include the "power supply correction" or recalculation using an attrition model, as proposed by the parties, total "earnings sharing" should be applied (rather than the above "subset" associated with rate base only) for electric of \$2.405 million (2016 rate year) and \$3.899 million (2.26 years). For natural gas, the amounts to apply would be \$2.711 million (2016 rate year) and \$5.340 million (2.26 years). See Exh. EMA-23 R.

⁵ In 2018, the results are slightly higher, mainly due to the May 1, 2018 effective date of new rates approved in Dockets UE-170485 and UG-170486, producing ROEs in the range of 8.13% to 8.45%.

1 “earnings sharing” mechanism for 2016, the Company’s position was that the Commission
 2 should find no further adjustment to electric or natural gas rates is warranted, as summarized
 3 in Table No. 1 below:

4 **Table No. 1 – Avista Position on Direct**

	Avista June 2019 Testimony
Electric Refund	\$0
Natural Gas Refund	\$0
Time Period	11 Months
Earnings Test Offset?	Yes
Rate Period Rate Base	Yes

9 **Q. Based on the issues raised by Avista and the Parties, what is Avista’s**
 10 **present position on Rebuttal?**

11 A. The Company continues to support our original position as set forth in my
 12 opening testimony in this Remand Proceeding (and as shown in Table No. 1 above).
 13 However, we have reviewed the testimony of the parties, and based on that review, we have
 14 prepared an alternative or compromise position, as shown in Table No. 2 below:

15 **Table No. 2 – “Compromise Position” of Avista on Rebuttal**

	Avista Ocotober 2019 Testimony
Electric Refund	\$1.326 Million
Natural Gas Refund	\$1.582 Million
Time Period	11 Months
Earnings Test Offset?	Yes
Rate Period Rate Base	No

1 In the “Compromise Position,” the “attrition” rate base revenue requirement, offset
2 by the subset of actual 2016 “earnings sharing”⁸ already returned to customers, results in
3 additional refunds owed of \$1.326 million for electric customers and \$1.582 million for
4 natural gas customers.⁹ This “Compromise Position” does not consider the effect of actual
5 2016 rate period rate base; rather it just uses approved pro formed rate base.¹⁰

6 **Q. Why is the Company willing to entertain what you have characterized as**
7 **a “Compromise Position”?**

8 A. It would provide a pathway for the Commission to resolve this case, while
9 still producing an “end result” that would be acceptable to the Company for the challenged
10 2016 rate year.

11 **Q. What other issues do you discuss in your rebuttal testimony?**

12 A. In my testimony, I first discuss the Company’s position versus that of the
13 Parties on the scope, timing of refunds, and use “earnings sharing” to offset any amounts
14 owed customers. In addition, and as further discussed by Company witness Mr. Thies, I also
15 discuss the negative impact on Company earnings (return on equity (ROE)) if the
16 Commission were to approve the level of refunds as suggested by the Parties for 2016, and

⁸ “Earnings sharing” refunds applied as an offset to refunds owed customers represented a subset of earnings sharing refunds, not the entire “earnings sharing” amounts refunded in 2016, i.e. 50% share of non-attrition rate base earnings sharing.

⁹ The calculation of the Company’s “Compromise Position” was also fully explained within my direct Remand testimony, see EMA-9T, starting at page 14. See also Exh. EMA-23 R.

¹⁰ Later in my testimony (see Section VII. Staff Alternative Recommendations), I explain that if the Commission finds persuasive the Parties’ arguments that the October 29, 2015 power supply update must be considered in this remand proceeding, or that an attrition model must be produced to determine the required refunds, one alternative method, as discussed by Mr. McGuire, making use of his “attrition” models, using EOP 2015 rate base, for the 2016 11-month period, would be acceptable to the Company. (The Company’s acceptance is predicated on using Staff’s models provided as Exh. CRM-11 and CRM-12, updated for 2015 EOP rate base and certain other minor changes.)

1 for 2017 and 2018 if the Commission decides a multi-year impact is appropriate. In
2 summary, the 2016 ROE's that would result from the Parties positions, if approved by this
3 Commission, range from 6.98% to 8.37% for overall Washington operations.¹¹ Even lower
4 results occur in 2017, ranging from 6.99% to 8.04%. In 2018, the results are slightly higher,
5 mainly due to the May 1, 2018 effective date of new rates approved in Dockets UE-170485
6 and UG-170486, producing ROEs in the range of 8.13% to 8.45%. None of these annual
7 outcomes produce reasonable "end result" ROEs that should be considered by this
8 Commission as appropriate, not coming close to the 9.5% ROE actually approved by this
9 Commission for the periods 2016 – 2018.

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III. SCOPE OF REMAND AND ANNUAL REFUNDS

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**Q. Please summarize the Company's position in this proceeding on the
13 scope of this remand case as it relates to any ordered refunds.**

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A. For the Company's part, and as discussed in my direct testimony in this
Remand Proceeding, Avista believes that the Court of Appeals remanded back to the
Commission only issues related to "attrition rate base." Avista has determined the rate base
associated with isolating the escalated rate base portion of the attrition model compared to
the pro forma rate base approved in Order 05, produces "attrition" escalated rate base of
\$28.0 million for electric and \$33.4 million for natural gas. Prior to considering 2016 actual
rate base, the resulting revenue requirement, after including actual "earnings sharing" offsets

¹¹ For 2016, the proposed refunds would result in Washington operation ROEs of 6.98% (AWEC), 8.24% (Staff), and 8.37% (PC).

1 already paid to customers, and the 11-month refund period for 2016, produces refund
 2 amounts of \$1.326 million for electric and \$1.582 million for natural gas¹² as shown in
 3 Table No. 2 above. See Exh. EMA-9T pages 14 – 21 for further discussion and Exh. EMA-
 4 23 R which provides the electric and natural gas calculations.¹³

5 If this Commission were to consider the actual 2016 AMA rate base, **or** 2015 EOP
 6 rate base¹⁴, for electric, on those merits alone, the result is no further refunds owing to
 7 customers. Table No. 3 below demonstrate how this is true:

8 **Table No. 3 – “Attrition” Electric Rate Base Approved vs Pro Forma or Actual Rate Base**

(000s)	Pro Forma Rate Base Per Order 05	Actual 2015 EOP Rate Base	Actual 2016 AMA Rate Base
Total Rate Base	\$ 1,316	\$ 1,386	\$ 1,443
Attrition Rate Base Per Order 05 ¹	\$ 1,344	\$ 1,344	\$ 1,344
Attrition Rate Base <u>Above or (Below)</u> Pro Forma or Actual Rate Base	\$ 28	\$ (42)	\$ (99)
Annual Revenue Requirement Owed Customers (prior to pro-rata and "earnings sharing")^{2/3}	\$ 2.9	\$ 0.0	\$ 0.0
¹ "Attrition" escalated rate base of \$1.36 million is grossed down by the "revenue growth factor" of 1.013115, resulting in approved "attrition rate base of \$1.34 million. ² Offset by benefit impact of debt interest. ³ Amount of refund prior to "earnings sharing" offsets and pro-rated for 11-month period.			

16 As previously discussed, and shown in Table No. 3, although approved “attrition” electric
 17 rate base is greater than the pro forma rate base approved per Order 05, actual rate base for
 18 both 2016 AMA and 2015 EOP far exceed the “attrition” rate base approved by this

¹² These balances represent Avista’s Compromise Position in this Remand proceeding, taking into consideration issues raised by Parties related to the use of actual 2016 AMA rate base.

¹³ Included in Andrews’ Exh. EMA-23 R are calculations for 2016 annual and prorated amounts, as well as for 2017 and 2018, if this Commission orders refunds associated with the approximate 2.3 year period.

¹⁴ See Exh. EMA-24 R, page 3.

1 Commission. These results prove that no further refunds are due customers if the
 2 Commission “recalculate[s] Avista’s rates without relying on rate base that is not used and
 3 useful,” as required in the April 16, 2019 Order Granting Remand, at page 1.

4 For natural gas, as shown in Table No. 4 below, if this Commission were to consider
 5 the actual 2016 AMA rate base, **or** 2015 EOP rate base¹⁵, the result, prior to consideration of
 6 actual “earnings sharing” already paid customers, would be that approximately \$1 million
 7 would be owed customers.¹⁶

8 **Table No. 4 – “Attrition” Natural Gas Rate Base Approved vs Pro Forma or Actual Rate Base**

(000s)	Pro Forma Rate Base Per Order 05	Actual 2015 EOP Rate Base	Actual 2016 AMA Rate Base
Total Rate Base	\$ 264	\$ 287	\$ 287
Attrition Rate Base Per Order 05 ¹	\$ 297	\$ 297	\$ 297
Attrition Rate Base Above Pro Forma or Actual Rate Base	\$ 33	\$ 10	\$ 10
Annual Revenue Requirement Owed Customers (prior to pro-rata and "earnings sharing")^{2/3}	\$3.4	\$ 1.0	\$ 1.0
¹ "Attrition" escalated rate base of \$1.36 million is grossed down by the "revenue growth factor" of 1.013115, resulting in approved "attrition rate base of \$1.34 million.			
² Offset by benefit impact of debt interest.			
³ Amount of refund prior to "earnings sharing" offsets and pro-rated for 11-month period.			

16 As discussed later in my testimony, once “earnings sharing” already paid customers
 17 are considered, no further refunds would be due natural gas customers. Further, as discussed
 18 in Section IV “Time Period of Refunds,” the Company’s position is that any refunds
 19 determined in this Remand Proceeding relate only to the 11 month period January 15, 2016
 20 to December 15, 2016.

¹⁵ See 2015 EOP natural gas rate base balance per Company ROO report filed with the Commission on May 11, 2016 in Docket UG-160207. See page 1 of report “UG-160207 G-ROR-12E.pdf”.

¹⁶ See Exh. EMA-21 R, page 3.

1 **Q. Please summarize the position of each of the Parties regarding the scope**
 2 **of this remand proceeding and their proposed refunds?**

3 A. Each of the Parties have proposed significantly larger refunds than Avista for
 4 both electric and natural gas customers, including refunds for a period of 2.3 years from
 5 January 11, 2016 to April 30, 2018. I discuss below each Parties' recommended refunds,
 6 which encompass refunds associated with "attrition" rate base, power supply (the
 7 "computational error") and other expenses, refunds based on recalculated "attrition
 8 allowances," and the exclusion of "earnings sharing" already paid customers as offsets,
 9 doing so separately by year for 2016-2018. The various positions of the Parties, as compared
 10 to Avista, are shown in Table No. 5 below:

11 **Table No. 5 – Position of Each Party**

	Avista	Commission Staff	Public Counsel	AWEC
Electric Refund	\$0	\$36.0 Million	\$36.2M or \$12.0M ¹	\$57.8 Million
Natural Gas Refund	\$0	\$7.1 Million	\$4.9M or \$8.7M ¹	\$19.2 Million
Time Period	11 Months	2.3 Years	2.3 Years	2.3 Years
Earnings Test Offset?	Yes	No	Yes if Power Supply Calculation Adjusted	No
Actual 2016 Rate Base	Yes	No	No	No
¹ Public Counsel <u>includes</u> "earnings sharing" amounts already paid to customers, <u>only</u> if the power supply "computational error" is included, resulting in \$36.2 million for electric and \$4.9 million for natural gas. Otherwise, their proposed refunds (<u>excluding</u> the power supply correction and "earnings sharing") are \$12.0 million for electric and \$8.7 million for natural gas.				

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 18 Public Counsel, through witness Ms. Ramas, used Avista's methodology of
 19 separately identifying the attrition rate base portion they recommend be removed on an
 20 annual basis, albeit at an overstated amount from that proposed by the Company. (Their
 21 associated annual refund related to "attrition rate base" only, totaled \$5.3 million (electric) /

1 \$3.9 million (natural gas), prior to consideration of “earnings sharing”).¹⁷ However, Public
 2 Counsel also separately includes \$12.3 million annually of refunds associated with “the
 3 correction for the power supply cost update”¹⁸ in their determination of overall electric
 4 annual refunds, even though as Ms. Ramas notes at page 6 of Exh. DMR-27T, “[s]ince the
 5 Appellate Court remanded the case on other grounds, it did not specifically discuss or
 6 address the computational errors in its conclusion.” She then further describes the October
 7 29, 2015, power supply update, the past “Motion for Clarification” by AWEC and Public
 8 Counsel, and Staff’s “Motion to Reconsider” the Commission’s Order 05.¹⁹ Public Counsel
 9 determines that no “earnings sharing refunds should be applied unless “the correction for the
 10 power supply cost update” is included.

11 Public Counsel’s overall recommended refunds are shown in Table No. 6 below:

12 **Table No. 6 – Public Counsel Proposed Refunds (\$ in 000s)²⁰**

Public Counsel Proposed Refunds				
Refunds Including Power Supply and Offsets¹				
	2016	2017	2018	Total
Electric	\$ (14,562)	\$ (16,075)	\$ (5,551)	\$ (36,188)
Natural Gas	\$ (1,875)	\$ (1,928)	\$ (1,105)	\$ (4,908)
Total	\$ (16,437)	\$ (18,003)	\$ (6,656)	\$ (41,096)
Refunds Excluding Power Supply and Offsets²				
	2016	2017	2018	Total
Electric	\$ (5,165)	\$ (5,310)	\$ (1,521)	\$ (11,996)
Natural Gas	\$ (3,750)	\$ (3,855)	\$ (1,105)	\$ (8,710)
Total	\$ (8,915)	\$ (9,165)	\$ (2,626)	\$ (20,706)

¹Public Counsel proposes “earnings sharing” refunds should only be applied if the power supply update is included. See Exh. DMR-27T, p. 3, ll. 8-24.
²With regards to natural gas, Public Counsel’s argument that “earnings sharing” should be excluded if the power supply correction is excluded, is entirely inappropriate as costs associated with power supply are entirely unrelated to natural gas operations.

17 See Exh. Nos. DMR-28 (electric) and DRM-29 (natural gas.)

18 See Exh. No. DMR-31.

19 Exh. No. DMR-27T, pages 5 – 9.

20 See Exh. Nos. DMR-29 – DMR-31.

1 **Q. What do you understand AWEC’s position to be?**

2 A. AWEC through witness Mr. Mullins, begins by observing:

3 The Appeals Decision simply struck “all portions of the attrition allowance
4 attributable to Avista’s rate base.” Given the nature of the attrition models
5 that were used in Order 05, determining the portions attributable to rate
6 base is not a clear-cut exercise. (see Exh. BGM-7T, p.2 l. 19-21)
7

8 Mr. Mullins then proceeds to separately identify various changes he believes
9 appropriate to reflect pro forma rate base, power supply expense, and depreciation expense.
10 To do so, he starts with the “Commission-approved attrition models” – and proceeds to
11 recalculate his proposed revised revenue requirement to compare to that approved by the
12 Commission. In doing so, he applies attrition methodology approved by the Commission
13 (typically used for determining rate period balances) by applying the approved escalators to
14 certain costs, and mixes in pro forma rate base and depreciation expense balances – claiming
15 that what has now become an apples-to-oranges attrition model – establishes the basis for
16 AWEC’s recommendation for refunds for the 2.3 year period. Mr. Mullins, therefore, mixes
17 attrition escalated balances with pro forma balances in such a way the attrition model used
18 for determining rate period expected results, no longer has a matching of revenues, expenses
19 and rate base within the attrition model.

20 In an attrition study, escalated rate base, revenues and expenses (and resulting net
21 operating income (NOI)) are adjusted downward by the attrition revenue growth factor to
22 adjust escalated rate year levels to historic billing determinate levels. In this manner there
23 continues to be a matching of revenues, expenses and rate base. To inter-mix attrition
24 escalated balances with pro forma balances as Mr. Mullins has done, and then apply the

1 attrition growth factor, causes a miss-match between revenues, expenses, NOI and rate base
2 – understating each.

3 Mr. Mullins also rehashes his and other party arguments against an attrition
4 adjustment, and the Motions for Clarification and Reconsideration filed by Public Counsel,
5 AWEC and Staff regarding the Order 05 power supply “technical error.”²¹ Mr. Mullins
6 argues that actual “earnings sharing” refunded to customers through the decoupling
7 mechanism should not be applied.²²

8 AWEC’s overall recommended refunds are shown in Table No. 7 below:

9 **Table No. 7 – AWEC Proposed Refunds (\$ in 000s)²³**

AWEC's Proposed Refunds				
	2016	2017	2018	Total
10 Electric	\$ (26,022)	\$ (24,321)	\$ (7,467)	\$ (57,810)
11 Natural Gas	\$ (8,653)	\$ (8,087)	\$ (2,483)	\$ (19,223)
12 Total	\$ (34,675)	\$ (32,408)	\$ (9,950)	\$ (77,033)

13 **Q. Would you now address Staff’s position?**

14 A. Yes. Commission Staff witness Mr. McGuire takes yet another approach.
15 Mr. McGuire argues that his understanding is “the Court’s conclusion is that the Remand
16 requires the Commission to re-determine rates by recalculating the attrition allowance,” and
17 to do so requires a re-run of the attrition models. As explained by Mr. McGuire in Exh.
18 CRM-10, he starts with Exhibits EMA-6 and EMA-7 updated for Commission Order 05
19 approved escalation factors, the October 29, 2015 power supply update, and removal of the

²¹ Exh. BGM-7T, starting at p. 4, l. 15.

²² Mr. Mullin’s argues that if the impact of the “earnings sharing” refunds are considered, he recommends that adjustment only apply to those customers subject to decoupling. See BGM-7T, p. 33, ll. 11-13. Company witness Mr. Miller discusses the Company’s proposed rate spread of the Commission imposed refunds within his rebuttal testimony in this Remand proceeding. See Exh, No. JDM-4T.

²³ See Table 1 of Exh. No. BGM-7T, p. 3.

1 rate base (Net plant after ADFIT) escalator.²⁴ Mr. McGuire’s newly calculated “attrition
 2 studies,” which include the power supply update, are the basis for Staff’s primary
 3 recommendations, which he then applies for 2.3 years, and ignores any “earnings sharing”
 4 amounts already refunded to customers for the same period. Table No. 8 summarizes Staff’s
 5 primary refund recommendations:

6 **Table No. 8 – Staff Proposed Refunds (\$ in 000s)**²⁵

Staff Proposed Refunds ¹				
	2016	2017	2018	Total
Electric	\$ (14,488)	\$ (15,642)	\$ (5,847)	\$ (35,977)
Natural Gas	\$ (2,862)	\$ (3,090)	\$ (1,155)	\$ (7,107)
Total	\$ (17,350)	\$ (18,732)	\$ (7,002)	\$ (43,084)

¹Mr. McGuire does not include "earnings sharing" offsets within his primary recommendation. However, he does provide several alternatives, some including the effect of offsets and actual 2016 rate base, to provide the Commission options to choose from, that are not shown here. These will be discussed below.

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12 **Q. Does Staff’s approach attempt to ask this Commission to revisit the**
 13 **“power supply calculation, similar to Public Counsel and AWEC?”**

14 A. In taking this approach, Mr. McGuire attempts to side-step the power supply
 15 issue altogether. Mr. McGuire discusses this issue at Exh. CRM-7T, page 9, lines 8-13:

16 **Q. By incorporating the October 29, 2015, Power Supply Update into**
 17 **Exhibit EMA-6, is Staff attempting to revisit the Commission’s**
 18 **calculation of Power Supply costs, or otherwise attempting to re-litigate**
 19 **the issue of Power Supply costs in this proceeding?**
 20

21 A. No, it is not. In fact, Staff is doing the opposite. As Ms. Andrews notes,
 22 the Court “did not disturb the Commission’s order on the calculation of the
 23 power supply adjustment.” ...
 24

²⁴ See Exh. CRM-10.

²⁵ See Exh. No. CRM-7T, Table 2 (electric) and Table 3 (natural gas). Tables 2 and 3 show amounts for 2016 (11 months) and 2.3 years. Annual amounts shown (2017) per page 13 of Exh. No. CRM-7T, ll. 8-13. 2018 pro-rated amounts based on the difference between the 2.3 year total, less 2016 and 2017 amounts.

1 **Q. Do you agree?**

2 A. No. I do not. Although Mr. McGuire agrees that the Court “did not disturb the
3 Commission’s order on the calculation of the power supply adjustment,” by insisting that the
4 recalculation of the “attrition model” is necessary in order to determine the refunds in this
5 proceeding, he is doing just that – i.e., asking this Commission to revisit the power supply
6 adjustment included in his “attrition model”. His approach, therefore, revisits power supply
7 issues raised by Staff in their January 19, 2016 “Motion to Reconsider,” which was
8 previously denied by this Commission in its Order 06, as I detail further below.

9 Of further interest is Staff’s explanation of their opposition to Avista’s approach of
10 simply separately identifying the escalated rate base (McGuire, CRM-7T, pp: 20:21 –
11 21:14):

12 First, Avista relies on an “Attrition Study Rate Base” even though the
13 Commission did not supply the record with its Attrition Study, and Avista did
14 not produce an Attrition Study in the Remand. ...

15
16 Second, Avista does not attempt to recalculate the Attrition Allowances.
17 Rather, the Company presents a generic and confined analysis of how a change
18 in rate base relates to a change in revenue requirement. In doing so, the
19 Company fails to evaluate which portions of the Attrition Allowance were
20 stricken by the Court, and which were not.

21
22 Given that the Commission did not provide an Attrition Model with Order 05,
23 it’s impossible to know which portions of the Attrition Allowance were
24 attributable to the escalation of rate base items versus non-rate base items.
25 Therefore, Avista’s analysis of rate base changes performed outside of the
26 Attrition Model is useless – there is no way to know how that rate base relates
27 to the composition of the authorized Attrition Allowance. (emphasis added)

28

1 It is troubling, that given the Commission did not supply their attrition model with
2 respect to Order 05, and his assertion that it is “impossible to know which portions of the
3 Attrition Allowance were attributable to the escalation of rate base items versus non-rate
4 base items”, that he could now proceed to produce his proposed refund amounts based on his
5 own entire recalculated attrition model. A model which includes revenues, expenses, and
6 most importantly, net operating income, none of which can be verified against what was
7 actually approved in Order 05. Essentially, he would have this Commission recalculate the
8 entirety of the revenue requirement based on his view of the whole panoply of revenues and
9 expenses – i.e., the many moveable parts. He eschews the simple dictate of the court to
10 recalculate the revenue requirement to remove only the “attrition rate base.”

11 Both Mr. Mullins and Mr. McGuire attempt to support their recommendations by re-
12 running “attrition” models for electric and natural gas, even though Mr. McGuire admits the
13 Commission did not supply their attrition model for verification of items within Order 05,
14 and Mr. Mullins notes there were “irreconcilable differences.”²⁶ This is the very position the
15 parties argued in their Motions for Clarification, Reconsideration or to Reopen the Record,
16 and are now once again being placed before this Commission.

17 In fact, it goes even beyond that. Both Staff and AWEC now ask the Commission to
18 review yet another set of complicated models, with another layer of shortcomings (as
19 discussed later in my testimony) – which yet again cannot be reconciled to the Commission’s
20 final result determined in Order 05. This approach overreaches the mandate of the Court and
21 needlessly introduces further complications and uncertainty around what should be a simple

²⁶ Exh. No. BGM-7T, p. 9, ll. 16-17.

1 and straightforward exercise of identifying and “stripping out” the one element that was
2 remanded – i.e., “attrition rate base.” (See my prior testimony at EMA-9T starting at page 3.)

3 **Q. Can “attrition rate base” easily be established?**

4 A. Yes. The fact is, the “attrition rate base,” standing alone, can be separately
5 identified and verified, is easily reproduced, and should be used for the purpose of
6 determining what the Court of Appeals remanded to this Commission.²⁷ Further, Avista’s
7 approach matches what the Commission itself defined the scope of this proceeding to be:
8 “Testimony filed in this proceeding must address the portions of rates that incorporate or
9 rely on rate base, rather than, for example, operations and maintenance expenses.”²⁸ Staff’s
10 modeling however, goes beyond that directive, e.g. includes operations and maintenance
11 expenses, and beyond.

12 Later in my testimony I will discuss my concerns with the overstatement of rate base
13 removed by each of the Parties, the time period to be used for refunds (11 months versus 2.3
14 years), use of “earnings test” refunds and other issues raised by the Parties – all of which are
15 inflating their proposed refunds; but first, I will address the “power supply correction,”
16 otherwise referred to as the “computational error,” reflected in the proposed refunds of each
17 Party.

18

²⁷ See Andrews’ Exh. EMA-28 pages 1 through 4 for electric and natural gas rate base, separately identified as the Commission’s Order 05 approved attrition rate base (see p. 1 (electric) and p. 2 (natural gas)), and with the rate base escalator removed per the Court of Appeals Remand (p. 2 (electric) and p. 4 (natural gas)). See also Exh. EMA-30 for revised Staff exhibits CRM-8 and CRM-9 showing what the attrition rate base would be using Order 05 approved rate base escalation factors. AWEC, for its part, also calculated attrition rate base, which matches that of the Company for natural gas, but varies slightly for electric (see BGM-9 and BGM-10). AWEC used an approved escalator of 7.83% in error resulting in \$1.358 billion total rate base for electric, rather than the correct approved 8.41%, resulting in \$1.361 billion total rate base, as shown in EMA-30, p 2.

²⁸ Prehearing Order 07, at ¶11.

1 **Power Supply Update**

2 **Q. With regards to the October 29, 2015 power supply update, please**
3 **explain why the Company believes this issue should not be open for reconsideration in**
4 **this Remand proceeding, and therefore excluded from approved refund amounts.**

5 A. The Commission resolved the power supply update issues raised by the
6 parties in its 2015 GRC Orders 05 and 06 – albeit not to the liking of certain parties. Public
7 Counsel’s petition for judicial review requested that the Court determine whether the
8 Commission correctly determined the power supply adjustment. The Court of Appeals did
9 not forget about this issue, and specifically stated that it did not remand the power supply
10 update back to the Commission; therefore, this issue should not be re-considered again here.
11 Indeed, it was quite clear in that regard: (Court of Appeals Opinion No. 48982-1-II, fn 13):

12 PCU alleges that the WUTC erred in its calculations of the final attrition
13 adjustment based on confusion relating to Avista’s updated power supply
14 costs. The WUTC denied PCU’s and ICNU’s motions for clarification of its
15 order and Staff’s motion for reconsideration, finding that the electric rates set
16 by Order 05 were a fair, just, reasonable, and sufficient end result based on
17 substantial evidence. Because we resolve the case on other grounds, we do not
18 reach the alleged computational errors and do not discuss them further.
19 (emphasis added)
20

21 And yet, the Parties persist in rearguing power supply previously rejected by the
22 Commission on Reconsideration (Order 06, ¶31), and which were specifically not remanded
23 back to the Commission.

24 **Q. Please summarize the impact of the power supply issue on each of the**
25 **positions of each of the Parties?**

26 A. As noted above, Public Counsel and AWEC both argue the Commission
27 should refund annual power supply costs, totaling approximately \$12.3 million and \$12.1

1 million, respectively. Given that Staff does not specifically call out its attempt to correct for
 2 the power supply “computational error” embedded in their calculation (and in effect, side-
 3 steps this issue by arguing that recalculating the attrition allowance is required), it is not easy
 4 to determine Staff’s amount related to the power supply adjustment standing alone –
 5 especially given we do not have the Commission’s Order 05 model to compare any changes
 6 to approved revenues, expenses or net income. Staff’s proposed refund, however,
 7 interestingly results in a similar annual refund to that proposed by Staff in their “Motion to
 8 Reconsider” filed with the Commission and rejected by the Commission on Reconsideration,
 9 as shown in Table No. 9 below.²⁹

10 **Table No. 9 – Comparison of Staff’s Position on Reconsideration vs Remand (\$ in 000s)**

	Jan. 2016 Staff Reconsideration	Sep. 2019 Staff Remand
Order 05 Revenue Requirement	(\$8.10)	
Power Supply "Correction"	(\$11.50)	(\$11.00)
"Attrition Rate Base"		(\$4.60)
Staff Position	(\$19.60)	(\$15.60)
¹ "Attrition Rate Base" and Power Supply "Correction" estimated based on Avista's understanding of Mr. McGuire's models.		

16 A side-by-side comparison of Staff’s position in January 2016 (Motion for Reconsideration)
 17 versus here (Remand), shows that once again Staff is including a similar position of
 18 approximately \$11 million adjustment for the power supply “correction.” Based on Staff’s
 19 model provided as Exh. CRM-8, Avista believes Staff’s rate base and power supply portions

²⁹ As noted in Order 06 at page 10, ¶26 “In its Motion to Reopen, Staff proposes its third electric revenue requirement reduction amount – this time in the amount of \$19.6 million.” Netting the \$19.6 million reduction versus the \$8.1 million reduction approved by the Commission, Staff argued the power supply correction produced an incremental \$11.5 million reduction.

1 of its refund are approximately \$4.6 million and \$11.0 million, respectively, as shown in
2 Table No. 9 above.^{30 / 31}

3 **Q. Do the Parties' positions appear to be yet another "request to**
4 **reconsider" the previous decision by this Commission - one that was not remanded**
5 **back by the Court of Appeals?**

6 A. Yes. Each of the proposed positions by the Parties are just another attempt to
7 ask this Commission to reconsider the alleged power supply "calculation error" already
8 rejected by this Commission in Order 06 "Order Denying Joint Motion for Clarification,
9 Denying Petition For Reconsideration, And Denying Motion to Reopen the Record."
10 Specifically, in Order 06, the Commission fully recognizing the arguments laid out by the
11 Parties, summarized the Parties' requests for reconsideration and motion to reopen the
12 record for the alleged power supply "computational error" as follows:

13 Staff states that it followed the computation of each adjustment and decision
14 that the Commission made in Order 05 and arrived at an electric revenue
15 requirement decrease of \$27.4 million. Using Avista's proposed attrition
16 model, Staff contends that the Commission may have erred when it updated the
17 Company's power supply costs within the model. Staff explains that:

18
19 [T]he cells in the pro forma power supply worksheet ("PF Power
20 Supply 09.2014 load") would have linked to dependent cells in a
21 hidden worksheet related to incremental load expense
22 ("incremental load expense"). If not controlled for, these
23 dependent cells would have updated column [J] of the attrition tab
24 ("Attrition 09.2014 to 2016"). The resulting update would have,
25 in effect, offset changes in column [I] of the attrition tab that

³⁰ Mr. McGuire does not specifically call out the portion of his proposed electric refund associated with power supply. However, given that his proposed removal of annual rate base (\$45.01 million) is approximately \$4.61 million (revenue requirement), the power supply portion of his annual proposed refund is assumed to be approximately \$11.03 million.

³¹ Differences between the two power supply "correction" amounts are due to differences in model adjustments, that I have not attempted to reconcile, as they cannot be readily compared with the Commission approved model.

1 would have been carried forward from the pro forma power
2 supply worksheet.

3
4 Staff, like Joint Parties, “recommends that the Commission input the October
5 29, 2015, power supply update (\$12.3 million) outside of, rather than within,
6 the attrition model.” This is in spite of Staff’s recognition that “there are
7 multiple interdependent formulas in the attrition model,” which, as previously
8 discussed, is precisely why it is inappropriate to consider Avista’s power cost
9 update outside the attrition model. (Order 06, ¶19, footnotes omitted)

10
11 Staff did not provide its work papers with its Petition to Reconsider. The
12 Commission accordingly issued Bench Request Nos. 19 and 20. Upon
13 examination of Staff’s computations, filed in response to the Bench Requests
14 on January 26, 2016, it became clear that the Staff’s revised revenue
15 requirement decrease, now \$27.7 million, was due, in part, to various errors
16 and erroneous assumptions in Staff’s calculations. Staff also made changes to
17 the attrition model relative to what is in the evidentiary record that the
18 Commission relied on in Order 05. (Order 06, ¶20)

19
20 To address the computational questions raised in both Joint Parties’ and Staff’s
21 Motions, the Commission convened in its main hearing room on February 3,
22 2016, a second order conference with Administrative Law Judge Marguerite
23 Friedlander presiding and led by the Commission’s Accounting Advisor.
24 Having reviewed the work papers supporting the Motion for Clarification and
25 the Petition for Reconsideration, Mr. Kermode presented a careful, step-by-step
26 explanation of the Commission’s use of data, and its calculations and the
27 resulting impacts when the various adjustments are included in Staff’s attrition
28 model reflected in Order 05. Mr. Kermode demonstrated conclusively that the
29 results reflected in Order 05 are correct, based on the evidentiary record in
30 these proceedings and that the Commission’s application of Staff’s attrition
31 methodology is proper. (Order 06, ¶24)

32
33 **Motion to Reopen the Record.** On February 4, 2016, Staff filed a Motion to
34 Reopen the Record for the Limited Purpose of Receiving into Evidence
35 Instruction on Use and Application of Staff’s Attrition Model (Staff’s Motion
36 to Reopen). . . . Staff argues that the Commission could address the “perceived
37 limitations on the Commission’s ability to effectively use Staff’s attrition
38 model and input the results of Avista’s [power cost update] filed October 29,
39 2015.” It recommends that the evidentiary record be reopened to allow
40 introduction of “helpful information . . . on the application and use of its
41 attrition model, including the impacts of Commission determinations in Order
42 05.” According to Staff:

1 By reopening the record, the Commission will be able to address
2 its specific issues, and remove any limitations on its ability to
3 calculate Avista's revenue requirement based on Staff's *updated*
4 attrition model. Moreover, reopening the record would not
5 prejudice any party. This is so even if the Commission's review
6 results in a properly revised revenue requirement. No party can
7 claim to be harmed by Commission action *correcting* a
8 calculation. (Order 06, ¶26, footnotes omitted)
9

10 In its Motion to Reopen, Staff proposes its third electric revenue requirement
11 reduction amount – this time in the amount of \$19.6 million. (Order 06, ¶26,
12 footnotes omitted)
13

14 In addition, Joint Parties assert that Staff's attrition model is not functioning as
15 intended when Avista's updated power cost data are added. Specifically, Joint
16 Parties allege that Avista did not provide the pro forma 2016 load information
17 in its October 29, 2015, update. While they acknowledge that Staff's attrition
18 model functions as designed "using the information provided to it," Joint
19 Parties claim that this "missing information" produces a number that is
20 incorrect. They recommend that the Commission either recalculate Avista's
21 power supply cost update outside of Staff's attrition model or reopen the record
22 for the limited purpose of the inclusion of Staff's additional updates to its
23 model. (Order 06, ¶29, footnotes omitted)
24

25 After summarizing the Parties positions, excerpted above, the Commission explained

26 its decision as follows:

27 **COMMISSION DETERMINATIONS:** ... That said, during two order
28 conferences the Commission's Accounting Advisor clarified why and how
29 Staff's and Joint Parties' computations produce incorrect results in the context
30 of the record in this proceeding. During these conferences, all parties,
31 including Staff, Public Counsel, and ICNU [now AWEC], were invited to ask
32 unlimited clarifying questions regarding the calculations and incorporations of
33 the Commission's various decisions into Staff's attrition model. Given all of
34 this, we certainly have made clear the Commission's results determined in
35 Order 05 and have demonstrated their correctness as simply and as
36 comprehensively as we can. To the extent not fully resolved to the satisfaction
37 of the parties by Order 05 itself and by these post-Final Order clarification
38 conferences, we conclude that no further clarification is required and
39 determine that Staff's Petition for Reconsideration and Joint Parties' Motion
40 for Clarification should be denied. (emphasis added) (Order 06, ¶¶. 30-31,
41 footnotes omitted)
42

1 **Q. What other evidence is there that this proceeding should not consider the**
2 **“alleged computational error”?**

3 A. For its part, the Company opposed the Parties requests for reconsideration of
4 Order 05, and stated it did not otherwise challenge the “end result” of the Commission’s
5 order because it was within the “bounds of reasonableness.” The Commission itself
6 recognized this, and added at Order 06, ¶23:

7 Avista states that it does not challenge the end result of the
8 Commission’s order decreasing the Company’s electric revenue
9 requirement by \$8.1 million, and argues that the decrease is within the
10 “bounds of reasonableness” when compared to the Company’s
11 recommendation of a decrease in electric revenues of \$5.7 million and
12 other parties’ recommendations for much larger decreases. ...The
13 Company argues that the \$19.8 million revenue requirement decrease
14 proposed by Joint Parties and the \$27.7 million decrease recommended
15 by Staff “would not come close to providing a reasonable opportunity
16 for Avista to earn the agreed-upon 9.5 [percent] authorized ROE for
17 2016.” Thus, Avista focuses appropriately on the end result reflected in
18 Order 05 and cites specifically to the Commission’s reliance on the ‘end
19 result’ principle in the Hope Natural Gas Co. case that provides “it is
20 the result reached not the method employed which is controlling.”
21 (emphasis added, footnotes omitted)
22

23 The Commission also commented on Avista’s concerns regarding Staff’s statement
24 above that “reopening the record would not prejudice any party” and “No party can claim to
25 be harmed,” at Order 06, ¶¶27- 28 (footnotes omitted):

26 Avista opposes Staff’s Motion to Reopen, emphasizing the importance and
27 fundamental nature of the end result test that the Commission and the U.S.
28 Supreme Court use as a key guiding principle in determining rates for
29 jurisdictional utilities such as Avista. Even with Staff’s third revised electric
30 revenue requirement of \$19.6 million, calculated using Staff’s “corrected”
31 attrition model, Avista argues it would have an opportunity to earn an ROE of
32 no more than 8.22 percent, which is nearly 130 basis points lower than the 9.5
33 percent agreed to in the parties’ settlement and approved by the Commission.
34

1 Avista says in addition that the entire record may need to be reopened if the
2 Commission decides to allow additional, however limited, attrition evidence.
3 In the Company's view, the Commission's decision resulting in an \$8.1
4 million reduction is based on a full examination of the record evidence
5 relevant to each issue and adjustment that affects Avista's revenue
6 requirement, and leads to fair, just, reasonable, and sufficient end results. This
7 is a reduction that still allows Avista a reasonable opportunity to earn its
8 authorized return. To the extent the adjustments proposed by Staff and Joint
9 Parties result in rates that make it highly unlikely that Avista could earn the
10 rate of return the Commission approved in Order 05, Avista is correct that
11 such adjustments do not produce acceptable end results **[8.22% ROE]** in
12 accordance with the *Hope* and *Bluefield* standards. Rates that have such an
13 effect cannot be said to be fair, just, reasonable, and sufficient. (emphasis
14 added)
15

16 The Commission further clarified at Order 06, ¶¶35 - 37:

17
18 As Avista aptly notes, much more goes into the revenue requirement number
19 than simply the power supply adjustment or even the attrition model results. If
20 we were to open up the record for either of those issues, we might be required
21 to reopen the record in its entirety to protect all parties' rights to due process.
22 The myriad adjustments in the interrelated cells of the models that inform our
23 decisions in this matter that create final revenue requirements numbers cannot
24 be considered separately or on an ad hoc basis.
25

26 Finally, Avista has made clear, contrary to Staff's assertion, that it would be
27 prejudiced, perhaps seriously prejudiced, by our reopening the record at this
28 late date, a date well after the statutory deadline for the Commission to reach
29 finality in these dockets. There comes a point in any case when parties directly
30 impacted by the outcome are entitled to repose. We reach that point today
31 insofar as our rules governing adjudicative proceedings take us. We determine
32 that Staff's Motion to Reopen should be denied along with Staff's Petition for
33 Reconsideration and Joint Parties' Motion for Clarification. (emphasis added)
34

35 The Commission's Final Order, Order 05, approved an \$8.1 million decrease
36 in Avista's electric revenue requirement as a fair, just, reasonable, and
37 sufficient end result, based on substantial record evidence. None of the
38 Petitions, Motions, or Replies discussed in this order have offered convincing
39 factual or legal arguments to alter that decision.
40

41 **Q. If this Commission had re-opened the record or reconsidered the power**
42 **supply "computational error" in 2016 when asked by the Parties, or had this**

1 **Commission known attrition rate base was not available to it, when making its decision**
2 **on a fair “end result,” what other options were available to the Commission?**

3 A. If the Commission knew it was unable to use “attrition” rate base as one of its
4 tools to provide the Company an “end result” which would allow it the opportunity to earn
5 the ROE of 9.5% it was authorizing, or if had arrived at different results based on the
6 October 29, 2015 power supply update, it may have reached different determinations of
7 other issues – i.e., it could have allowed the Company to include a higher level of
8 “threshold” pro forma capital projects, it might have determined that a higher O&M
9 escalation was appropriate, or that a hypothetical capital structure was warranted. I am not
10 going to try to opine on all options the Commission had at its disposal, but I do believe the
11 Commission was mindful of producing an “end result” that would provide a “fair, just and
12 reasonable” outcome. I know this, because they said so, declaring an 8.22% ROE to be an
13 unreasonable “end result,” based on essentially the same recommendations that are being
14 once again brought before the Commission.³² At the very least, if the Commission had
15 chosen to reopen the record at that time, it would have given all parties, including the
16 Company, an opportunity to suggest other means of producing a reasonable “end result.”
17 That opportunity is now gone.

18 **Q. Leaping forward now to 2019, did the Court of Appeals remand the**
19 **power supply issue back to the Commission?**

20 A. No, as previously noted.

³² Order 06, ¶¶27- 28.

1 **Q. Did the Commission, itself, give guidance as to what this Remand**
2 **proceeding should address, and what the scope of testimony submitted should entail?**

3 A. Yes. As Prehearing Order 07 appropriately noted:

4 The court [Court of Appeals] remanded the proceeding to the Commission to
5 “recalculate Avista’s rates without relying on rate base that is not used and
6 useful,” that is, removing the attrition adjustment applied to property that was
7 not used and useful as of the date that the Commission entered Order 05. (see
8 ¶2 - footnotes omitted, emphasis added)
9

10 Testimony filed in this proceeding must address the portions of rates that
11 incorporate or rely on rate base, rather than, for example, operations and
12 maintenance expenses. Portions of rates that incorporate rate base may or may
13 not include, for example, components of power costs. (see ¶2, emphasis
14 added)
15

16 In summary, the Commission had all the information it needed to make its
17 determination regarding the power supply update, and the appropriate “end result,” and it
18 made its decision. At that time, the Commission denied the request of the Parties –
19 recognizing to do otherwise would have not produced “fair, just, reasonable, and sufficient”
20 rates. The Court of Appeals also did not remand this issue back for consideration to the
21 Commission, nor did this Commission provide guidance in its Pre Hearing Conference
22 Order that it wished the Parties to revisit the power supply issue, except as it might relate to
23 “power supply rate base.”

24 **Q. Is there any “attrition rate base” associated with the power supply**
25 **calculation here at issue?**

26 A. No. As discussed in my direct Remand testimony (see Exh. EMA-9T, pages
27 8-11), power supply net costs are separate and distinct from all other expenses and rate base
28 costs normally included in the Company’s electric rate filings. Both power supply revenues

1 and expenses (net power supply costs) are determined based on separate modeling in order
2 to determine the proper power supply net costs to set within a general rate case, for purposes
3 of establishing the Company's Energy Recovery Mechanism (ERM) base. They are
4 calculated as a pro forma adjustment added to all other revenue requirement costs, to reflect
5 the projected net power supply costs during the specified rate year. Total net power supply
6 costs are not established based on historical levels and then escalated by a certain "escalation
7 factor" one or more years into the future to establish the level of rate year net costs, and for
8 Avista do not include components of rate base.

9 The Company's rate base includes generating assets that impact the Company's
10 power supply costs. However, while generation rate base was escalated by the Commission
11 through the use of attrition (and are now being removed), power supply costs were not, and
12 therefore are outside of the scope of the remand. Put another way, rate base, including
13 generation assets, are treated separate and distinct from the calculation of net power supply
14 costs (revenues and expenses). Where variable power supply revenue and expense related
15 amounts are isolated and adjusted independently (not escalated) within both Avista and
16 Staff's attrition models, as previously discussed, net plant related rate base (including the
17 fixed generation assets impacting power supply costs) has been removed in accordance with
18 the directives of the Court.³³

19 **Q. Does this smack of single-issue rate making?**

³³ Unlike Puget Sound Energy (PSE), who previously through their Power Cost Only Rate Case (PCORC) had included fixed generation assets in determining their power supply base. It is our understanding, they have since removed fixed assets from their power supply calculation, much like Avista.

1 A. Yes. It is one thing to correct for a court-mandated removal of “attrition rate
2 base,” but quite another to seek to reintroduce a power supply calculation. The Parties now
3 once again seek reconsideration of the power supply issue at this late date – nearly 4 years
4 later. This is tantamount to “single issue rate making,” and to do so, either directly as Public
5 Counsel and AWEC have done, or indirectly as Staff has done, is inappropriate.
6 Furthermore, for the Commission to include this issue now on Remand, would prejudice the
7 Company and retroactively impose refunds that would cause significant reduced ROEs for
8 the periods 2016 to 2018 as proposed by the Parties, without any opportunity for the
9 Company to remedy those deficiencies through aggressive cost-cutting.

10 As discussed later in my testimony, and further by Mr. Thies, refunds of the
11 magnitude proposed by the Parties, would cause Avista to be “prejudiced, perhaps seriously
12 prejudiced” with resulting ROE’s lower than the 8.22% identified in Order 06 as being
13 insufficient to produce a reasonable “end result.”^{34 / 35}

14 **Attrition Rate Base**

15 **Q. Please summarize Avista’s calculation of attrition rate base, and the**
16 **resulting revenue requirement.**

17 A. As discussed in my direct Remand testimony (EMA-9T, p. 4, ll. 13-26), the
18 mandate from the Court in its remand Order is to “recalculate Avista’s rates without relying
19 on rate base that is not used and useful.” (emphasis added) But it was not to simply stop

³⁴ As discussed later in my testimony, the electric proposed refunds by the Parties would result in Washington electric ROE’s for Avista of 7.03% (AWEC), 8.08% (Public Counsel) or 8.02% (Staff), if the Commission were to approve any one of these levels as proposed for 2016.

³⁵ At Order 06, ¶ 28, this Commission stated “such adjustments do not produce acceptable end results... Rates that have such an effect cannot be said to be fair, just, reasonable, and sufficient.”

1 there; rates were then to be “recalculated ... without relying on rate base that is not “used
 2 and useful.” Avista has supplied actual “used and useful” plant data in several iterations:
 3 year end 2015; AMA actual rate base for 2016, 2017 and 2018. Those levels of actual “used
 4 and useful” plant should be substituted for the “attrition rate base” levels.

5 **Q. Please walk us through the steps in your analysis of rate base.**

6 A. The first step is to separately identify “attrition rate base” to be removed. To
 7 do this, I provided in Exh. No. EMA-15 for both electric and natural gas, the “attrition rate
 8 base” balances approved by the Commission, and then showed the calculation of rate base to
 9 be removed based on 1) approved “attrition” rate base versus 2) pro forma rate base
 10 approved by the Commission in Order 05, and thereby isolating the **annual** resulting
 11 revenue requirement associated with that calculation (prior to “earnings sharing” offsets).
 12 Table No. 10 provides a simplified table of the results included in Exh. EMA-21R³⁶:

13 **Table No. 10 – Step 1: Removal of “Attrition Rate Base” (2016 Rate Year) (\$ in 000s)**

Avista Proposed Reduction to Rate Base And Revenue Requirement Impact				
	ELECTRIC		NATURAL GAS	
	Rate Base	Revenue Requirement ¹	Rate Base	Revenue Requirement ¹
Avista	\$ (27,976)	\$ (2,865)	\$ (33,357)	\$ (3,416)

¹Revenue Requirement includes the benefit of debt interest. Amounts are on an annual basis. Prorated for the 2016 11-month period would be \$2.653 million electric and \$3.163 million natural gas, prior to any offsets.

18 **Q. What level of “attrition rate base” did the other Parties remove?**

19 A. A simplified table for each of the Parties is provided in Table No. 11 below,
 20 providing the rate base portion and associated revenue requirements of their positions for
 21 2016:

22 _____
³⁶ This information was previously shown in Andrews’ direct Remand Exh. EMA-15 R.

Table No. 11 – Party Rate Base and Associated Revenue Requirement (\$ in 000s)

Party Proposed Reduction to Rate Base And Revenue Requirement Impact				
	ELECTRIC		NATURAL GAS	
	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement ¹
Staff	\$ (45,011)	\$ (4,610)	\$ (36,372)	\$ (3,725)
Public Counsel	\$ (51,847)	\$ (5,310)	\$ (37,651)	\$ (3,855)
AWEC	\$ (41,417)	\$ (4,242)	\$ (36,372)	\$ (3,725)

¹Revenue Requirement includes the benefit of debt interest and is only a subset of the overall proposed refunds of each Party on an annual basis.

Q. There is a significant difference between the electric and natural gas “attrition” rate base amounts proposed to be removed by Avista versus that proposed by the other Parties as shown in Table No. 11 above. Can you please explain these differences?

A. Yes. Table No. 12 shows the electric differences between Avista and the Parties. I then describe these differences.

Table No 12 – Calculation of 2016 Electric Attrition Rate base (\$ in 000s)

Approved Escalated Attrition Rate Base Amount (per Exh., EMA-15, pg 2, Column [G])	\$ (52,527)		
Applied Revenue Growth Factor (1.013115)	\$ (51,847)	Public Counsel	
	Avista	Staff	AWEC
Approved Overall Attrition Study Rate Base	1,361,492	1,361,492 ¹	1,357,851 ²
Applied <u>Attrition</u> Revenue Growth Factor (1.013115)	1,343,867	1,343,867	1,340,273 ²
Pro Forma Study Rate Base per Order 05	1,315,891	1,315,891	1,315,891
Applied <u>Attrition</u> Revenue Growth Factor (1.013115)	N/A	1,298,856	1,298,856 ³
Net Rate Base Removed	\$ (27,976)	\$ (45,011)	\$ (41,417)

¹ Value based on Staff's attrition model CRM-8 updated with approved escalation rate of 8.41% approved in Order 05. (See Exh. EMA-30, page 2 for revised CRM-8)

²Amounts vary slightly from Avista's. AWEC used 7.83% in error, rather than Order 05 approved rate of 8.41%. See BGM-9.

³Staff and AWEC incorrectly apply the Revenue Growth Factor of 1.013115 to pro forma rate base, understating rate base, and overstating the revenue requirement amount of refunds. See Staff at CRM-8 and BGM-11.

1 Table No. 12 illustrates at least two issues with the approaches taken by the Parties.
2 First, Public Counsel, as shown on line 2, by considering only the escalated attrition rate
3 base amount, ignores altogether the pro forma rate base approved by the Commission in
4 Order 05, thus overstating the attrition rate base to remove, and thereby overstating their
5 proposed refund (for 2.3 years). This has the effect of removing a portion of the pro forma
6 level of rate base actually approved by the Commission in Order 05 that did not rely on an
7 “attrition” study (e.g. pro forma adjustments).

8 Secondly, unlike Public Counsel, Staff and AWEC, consider the pro forma level rate
9 base approved by the Commission (line 5) by incorporating the pro forma rate base amounts
10 within their respective re-calculated attrition studies. However, they also introduce other
11 errors or inaccuracies in the attrition study modeling mechanics. As shown in Table No. 12,
12 although it is appropriate to apply the Revenue Growth Factor³⁷ to the overall “attrition
13 study” rate base (line 3) to produce the grossed down attrition study rate base (line 4), it is
14 not appropriate to apply that same revenue growth factor to the pro forma level rate base
15 (line 5) approved by the Commission in Order 05. By doing so, both Staff and AWEC
16 understate the actual pro forma rate base (line 6) that should be compared to the grossed-
17 down attrition study rate base (line 4). This has the effect of reducing the pro forma rate
18 base approved by the Commission in Order 05 (and which is not at issue), thereby
19 overstating the attrition rate base to remove and overstating their proposed refunds – for 2.3
20 years.

³⁷ In an attrition study, because retail revenue uses the Company’s forecast of loads and customers for the rate period, although the rate increase in the related proceeding will be applied to the twelve-months-ending test period billing determinants, one must divide the rate year attrition-adjusted revenue requirement by the revenue growth factor to reflect the amount needed to be recovered from test period level retail loads and customers.

1 **Q. Is this same issue inherent in the Parties natural gas calculations?**

2 A. Yes. These same issues appear in the Parties' natural gas calculations as
3 shown in Table No. 13 below:

4 **Table No 13 – Calculation of Natural Gas Attrition Rate base (\$ in 000s)**

5	Approved Escalated Attrition Rate Base Amount (per	\$	(38,087)	
6	1 Exh., EMA-15, pg 5, Column [G])			
7	2 Applied Revenue Growth Factor (1.011566)	\$ (37,651)	Public Counsel	
8		Avista	Staff	AWEC
9	3 Approved Overall Attrition Study Rate Base	300,448	300,448 ¹	300,448
10	4 Applied <u>Attrition</u> Revenue Growth Factor (1.011566)	297,012	297,012	297,012
11	5 Pro Forma Study Rate Base per Order 05	263,655	263,655	263,655
12	6 Applied <u>Attrition</u> Revenue Growth Factor (1.011566)	N/A	260,639	260,639 ²
13	7 Net Rate Base Removed	\$ (33,357)	\$ (36,372)	\$ (36,372)
14	¹ Value based on Staff's attrition model CRM-9 updated with approved escalation rate of 16.86% approved in Order 05. (See Exh. EMA-30, page 4 for Revised CRM-9). See also AWEC BGM-10.			
15	² Staff and AWEC incorrectly apply the Revenue Growth Factor of 1.011566 to pro forma rate base, understating rate base, and overstating the revenue requirement amount of refunds. See Staff at CRM-8 and BGM-12.			

13 These issues of mixing attrition study mechanics with pro forma study mechanics (as
14 both Staff and AWEC have done) cause an apples-to-oranges analysis of attrition study
15 balances and pro forma balances – when determining an overall revenue requirement. This
16 is, in part, why the isolated rate base only calculation, and more direct approach taken by the
17 Company, is the right approach.

18 **Q. If you corrected for those two deficiencies, how would the results
19 compare with your own analysis?**

20 A. As shown in Table Nos. 14 and 15 below, correcting for these errors will
21 serve to bring their “attrition rate base” calculations into alignment with mine.
22

Table No 14 – Electric Corrected Party Attrition Rate Base to Remove (\$ in 000s)

1	Approved Escalated Attrition Rate Base Amount (per Exh., EMA-15, pg 2, Column [G])	\$ (52,527)	Public Counsel	
2	Applied Revenue Growth Factor (1.013115)	\$ (51,847)	\$ 23,871	\$ (27,976)
			(Pro Forma Net Rate Base Rate Base) to Remove	
		Avista	Staff	AWEC
				1,357,851
3	Approved Overall Attrition Study Rate Base	1,361,492	1,361,492	1,361,492
4	Applied <u>Attrition</u> Revenue Growth Factor (1.013115)	1,343,867	1,343,867	1,343,867
5	Pro Forma Study Rate Base per Order 05	1,315,891	1,315,891	1,315,891
6	Applied <u>Attrition</u> Revenue Growth Factor (1.013115)	N/A	—1,298,856	1,298,856
7	Net Rate Base Removed	\$ (27,976)	\$ (27,976)	\$ (27,976)

Table No 15 – Natural Gas Corrected Party Attrition Rate Base to Remove (\$ in 000s)

1	Approved Escalated Attrition Rate Base Amount (per Exh., EMA-15, pg 5, Column [G])	\$ (38,087)	Public Counsel	
2	Applied Revenue Growth Factor (1.011566)	\$ (37,651)	\$ 4,294	\$ (33,357)
			(Pro Forma Net Rate Base Rate Base) to Remove	
		Avista	Staff	AWEC
3	Approved Overall Attrition Study Rate Base	300,448	300,448	300,448
4	Applied <u>Attrition</u> Revenue Growth Factor (1.011566)	297,012	297,012	297,012
5	Pro Forma Study Rate Base per Order 05	263,655	263,655	263,655
6	Applied <u>Attrition</u> Revenue Growth Factor (1.011566)	N/A	—260,639	260,639
7	Net Rate Base Removed	\$ (33,357)	\$ (33,357)	\$ (33,357)

18 **Q. Mr. McGuire states that he does not know what Attrition Study Avista is**
19 **using when it cites to an “Attrition Study Rate Base” and that “it’s impossible to know**
20 **which portions of the Attrition Allowance were attributable to the escalation of rate**
21 **base items versus non-rate base items...”³⁸ Do you agree?**

³⁸ CRM-7T, p. 21, ll. 10-12.

1 A. I flatly disagree. Mr. McGuire produced re-calculated attrition study models
2 (see Exhs. CRM-8 and CRM-9) that he claims include all changes by the Commission in
3 Order 05, but for including a 0% annual growth rate for net plant, even though there is no
4 Commission model to confirm the accuracy of his understanding. Although I disagree with
5 the use of his attrition studies and the results of his studies, I did use them to make a point
6 here with regards to his determination of “attrition rate base” plant.

7 Included as Exh. EMA-22R, pages 1 - 2 (electric) and 3 - 4 (natural gas), I have
8 excerpted Mr. McGuire’s attrition model pages from his electronic electric (see Exh. CRM-8
9 pages 3 and 4) and natural gas (see Exh. CRM-9 pages 3 - 6) attrition models. The only
10 change that I have made to each tab, are to update column [F] row 32 in each attrition study
11 model (electronic and natural gas), with the approved annual growth rate percentage for net
12 plant of 8.41% for electric and 16.86% for natural gas. What this shows is that even using
13 Mr. McGuire’s models, updated for the approved percentages from Order 05, the total
14 “escalation amount” (or attrition-escalated rate base amount) in column [G] for electric and
15 natural gas, totaled \$52.525 million and \$38.087 million, respectively. These balances match
16 Avista’s own calculations as shown in line 1 in Table Nos. 12 and 13 above. I have
17 provided Exh. EMA-21R which shows a direct means of extracting “attrition rate base.”

18 Also, shown on pages 1 - 2 (electric) and 3 - 4 (natural gas)) of Exh. EMA-22R, in
19 column [M], row 49 for electric and 47 for natural gas, is the “Total Attrition Rate Base” per
20 the electric and natural gas studies, of \$1.361 billion and \$300.4 million, respectively. These
21 balances match line 3 in Table Nos. 12 and 13 above. The point of this, is to prove that the
22 amounts as isolated by the Company have been calculated correctly in a very straight

1 forward manner. The entire attrition models as proposed by Staff and AWEC, which contain
2 additional errors that must be corrected by this Commission, unduly complicate and confuse
3 what should be a straight forward exercise, and in the process mix “apples and oranges”.

4 **Additional AWEC Adjustments**

5 **Q. AWEC included additional changes, thereby increasing their proposed**
6 **refunds. Will you please explain what those are?**

7 A. Yes. Beyond problems with the attrition / pro forma modeling mechanics
8 discussed above, that introduced modeling errors,³⁹ AWEC made two incremental
9 adjustments that added to AWEC’s overall proposed refunds.⁴⁰ These two adjustments
10 included refunds associated with the “attrition” escalated depreciation expense, and adding
11 interest on all refund balances from January 11, 2016 – April 30, 2018. The removal of
12 “attrition” escalated depreciation expense added \$7.2 million for electric and \$5.1 million
13 for natural gas to their proposed overall refunds. The proposed interest added an additional
14 \$13.0 million for electric and \$4.3 million for natural gas to their proposed overall refunds.
15 (Both sets of adjustments add a total of approximately \$30 million of additional refunds over
16 and above that proposed by Staff and Public Counsel.)

17 **Q. Do you agree with AWEC’s proposal to refund escalated depreciation**
18 **expense?**

19 A. Absolutely not. The Commission’s Pre-Hearing Conference Order limiting
20 the scope of the remand proceeding was quite clear:

³⁹ This is in addition to the refund time period of 2.3 years, and the exclusion of any “earnings sharing” as offsets, discussed further below.

⁴⁰ See Table 1 at Exh. BGM-7T.

1 Testimony filed in this proceeding must address the portions of rates that
2 incorporate or rely on rate base, rather than, for example, operations and
3 maintenance expenses. Portions of rates that incorporate rate base may or
4 may not include, for example, components of power costs. (emphasis
5 added)
6

7 AWEC is stretching the Court of Appeals’ intent by trying to attach attrition-related
8 depreciation expense (not rate base) to the remand of attrition rate base. The Court
9 specifically referenced “attrition rate base,” which in this context refers to the escalated “Net
10 Plant after ADFIT” balances that are separate and distinct in the approved attrition studies –
11 i.e. escalated by a consolidated escalation factor related to the historical change of net plant
12 after ADFIT. This factor did not include expense-related amounts of any kind, nor was it
13 somehow tied directly to escalated depreciation expense. In fact, within the attrition studies,
14 the Commission approved escalation factors for the following separate components: 1) Net
15 Plant after ADFIT; 2) O&M and A&G expense; 3) Depreciation expense; 4) Taxes Other
16 Than Income; and 5) revenues. All separate and distinct components (excluding revenues)
17 were based on historical time periods to reflect expectations in the rate period.

18 Depreciation expense was separately calculated based on the specific depreciation
19 escalation factor associated with historical depreciation expense, just as taxes, and all other
20 expenses were included – none of these costs were directly tied to the net plant after ADFIT
21 balances. AWEC’s proposal to include depreciation expense as additional amounts to be
22 refunded to customers in the amount of \$12.3 million for electric and natural gas is reaching
23 beyond the scope of what was remanded to the Commission and should be denied. It is to be
24 remembered that the Court did not remand the “attrition allowance” related to expense, such
25 as depreciation.

1 In addition to the improper removal of “attrition” escalated depreciation expense
2 proposed by AWEC to be refunded to customers, Mr. Mullins’ calculation of the amounts to
3 be removed are also at error.⁴¹ As I describe above regarding the improper use of the
4 Revenue Growth Factor to discount the pro forma rate base in his revised attrition models,
5 Mr. Mullins also makes this same mistake with regards to his use of pro forma depreciation
6 expense. By adding pro forma depreciation to his attrition models and applying the revenue
7 growth factor, not only does he mix attrition and pro forma model mechanics in error, as
8 described above, he also understates the pro forma depreciation expense level approved by
9 the Commission in Order 05, and overstates his total electric and natural gas amounts to
10 refund to customers by \$2.5 million, for this error alone.⁴²

11 **Q. Moving onto the second adjustment, do you agree with AWEC’s**
12 **proposal to add an incremental balance for interest to the amounts owed customers for**
13 **the period January 11, 2016 until April 30, 2018⁴³?**

14 A. No, I do not. AWEC’s proposal would add approximately \$17.3 million of
15 incremental interest to electric and natural gas refunds they propose to return to customers
16 for the period of 2.3 years – based on Avista’s full rate of return grossed up for taxes in each
17 of the periods 2016-2018. Typically, interest is added on balances only after an amount is
18 determined to be owed to or due from customers, (e.g., decoupling surcharges and rebates;
19 “earnings sharing” amounts to be refunded under the decoupling mechanism; purchased gas
20 adjustment surcharges or rebates), at which time, the Company begins accruing interest, over

⁴¹ See BGM-7T, pp. 26:20 - 27:11.

⁴² This error represents \$2.5 million of the total depreciation expense amount removed of \$12.3 million over the 2.3 year period.

⁴³ See BGM-7T starting at p. 34, l. 11.

1 time, at the current FERC rate.⁴⁴ This interest is applied day one, once known, and
 2 continues to be applied, until refunds are paid to, or surcharges are collected from,
 3 customers. At this time, and certainly not at January 11, 2016, no actual refunds are owed
 4 to or have been ordered by this Commission. To retroactively go back almost four years
 5 after the fact – after rates were established and collected from customers based on
 6 Commission-ordered rates, would be punitive and inappropriate.

7 Any interest owed customers for refunds established under this Remand proceeding
 8 should begin accruing interest at the date of the Commission’s Order in this Remand
 9 proceeding, at the current FERC interest rate (updated quarterly with any changes in the
 10 FERC rate), and until all refunds have been returned to customers, similar to other refunds or
 11 rebates paid customers.

12

13

IV. TIME PERIOD OF REFUNDS

14 **Q. What time period should any refunds under this proceeding be based**
 15 **on?**

16 A. As discussed in my direct testimony in this Remand proceeding, the time
 17 period affected by the appealed Order 05 was confined to the 2015 general rate case (GRC)
 18 rate year of January 11, 2016 through December 15, 2016. Thereafter, rates were re-
 19 examined in Docket Nos. UE-160228 and UG-160229, based on a fresh record, with an
 20 order received in that case on December 15, 2016. Only after reviewing that fresh record,
 21 did the Commission determine that existing rate levels were appropriate (rejecting ICNU’s

⁴⁴ The FERC rate is updated quarterly.

1 [now AWEC] proposals for a \$4.9 million and \$0.6 million rate reduction to electric and
 2 natural gas, respectively).⁴⁵ The Commission could only make a fresh determination based
 3 on the record before it – not the prior record that formed the basis for appeal.

4 After the 2016 cases, the Company’s next GRC was filed in May of 2017, Docket
 5 Nos. UE-170485 and UG-170486, which concluded with new rates in effect on May 1, 2018.

6 The following schematic shows the rate period of each of these cases, the effective
 7 date and the “Refund Effective Period” of this Remand proceeding of January 11, 2016
 8 through December 15, 2016:

Chart No. 1 – GRC Activity 2016-2018

Calendar Filings And Rate Relief			
Calendar Year:	2016	2017	2018
Refund Effective Period			
Case Nos. UE-150204/UG-150205 Filed February 9, 2015 [Appealed] Effective January 11, 2016	 -\$8.1 million Electric \$10.8 million Natural Gas (Challenged Rates)		
Case Nos. UE-160228/UG-160229 Filed February 19, 2016 [Not Appealed] Effective December 15, 2016		 \$0 million Electric \$0 million Natural Gas (Not Challenged)	
Case Nos. UE-170485/UG-170486 Filed May 26, 2017 [Not Appealed] Effective May 1, 2018			 \$10.8 million Electric -\$2.1 million Natural Gas (Not Challenged)

17 **Q. What do the Parties argue is the refund-effective period?**

18 A. Each of the Parties argue the effective period of the refund is from January
 19 11, 2016 through April 30, 2018, or approximately 2.3 years.

20 **Q. Given the subsequent 2016 GRC filed in February of 2016, is the Parties’**
 21 **position reasonable?**

⁴⁵ See 2016 GRC Order 06, Table One at p. 37.

1 A. No, it is not. The 2015 GRC rate period ended on December 15, 2016.
2 Thereafter, rates were re-examined in Docket Nos. UE-160228 and UG-160229, based on
3 fresh evidence and a new test period, with an order received in that case on December 15,
4 2016. The fact that base rates did not change as a result of the 2016 GRC is irrelevant. The
5 Commission could only reaffirm existing rates based on the new evidence filed in that case –
6 and not on the attrition evidence in the earlier case (the one appealed from). In the
7 Commission’s Order in UE-160228/UG-160229, then-existing rates were deemed just,
8 reasonable and sufficient (even though some parties had argued for a rate reduction). The
9 Commission itself could not rely on evidence in the 2015 case that was not before it to reach
10 its decision; instead it relied on fresh data based on new information within the 2016 case.

11 **Q. Did any party challenge the 2016 GRC Commission Order?**

12 A. No party to that subsequent case, based on a different test period, challenged
13 the Commission’s Order in those dockets. They, of course, could have (and should have), if
14 they believed that the previous Order 05 on appeal somehow “carried over” into the new
15 case and impacted the results.

16 One should carefully delineate each of the rate periods in question (2016/2017/2018)
17 and understand precisely which periods were affected by the Court’s remand. Simply put, the
18 level of attrition-determined rate base in the 2016 rate period (the subject of the appeal) did
19 not somehow “bleed through” to subsequent rate periods, as each of the Parties would have
20 the Commission believe. As depicted in Chart No. 1 above, each case was separately
21 litigated, based on a separate record of evidence, and separately decided. This was made

1 clear in the Commission’s 2016 GRC 70 page Order, including a full record on which the
2 Commission reaffirmed rates previously established.

3 As a part of the Commission’s decision in the 2016 GRC, it found that the existing
4 rates were “just reasonable and sufficient.” (2016 GRC Order 06 at p. 57) In reaching this
5 fresh determination, based on a new test period, and a different record; it rejected a further
6 increase proposed by Avista⁴⁶ and rate decreases proposed by Staff and other parties. It
7 could not have done so without a fresh examination of new evidence based on a more recent
8 test period.⁴⁷ In its Order 06, at p. 37, the Commission summarized the positions of the
9 parties as follows:

10 **TABLE ONE**
11 **Dockets UE-160228 and UG-160229**
12 **Pro Forma and Attrition Study Revenue Increases**
13 **(\$ Millions)**

Party	Electric			Gas		
	Pro Forma	Attrition	Revenue Requirement	Pro Forma	Attrition	Revenue Requirement
Avista	\$11.8	\$48.9 (\$38.5 in 2017 plus \$10.3 in 2018)	\$48.9 (\$38.5 in 2017 plus \$10.3 in 2018)	(\$1.2)	\$5.3 (\$4.4 in 2017 plus \$0.9 in 2018)	\$5.3 (\$4.4 in 2017 plus \$0.9 in 2018)
Staff	(\$0.4)	\$26.0 (18 months)	\$25.6 (18 months)	(\$3.3)	\$2.1 (18 months)	(\$1.2) (18 months)
ICNU	(\$8.1)	(\$3.2)	(\$4.9)	(\$4.1)	(\$4.7)	(\$0.6)

14 **Q. Did any party appeal this subsequent 2016 Order?**

15 A. No party appealed this Order and claimed that the rates re-affirmed by the
16 Commission were somehow based on an inappropriate “attrition adjustment.” Indeed, as
17

⁴⁶ *Id.*

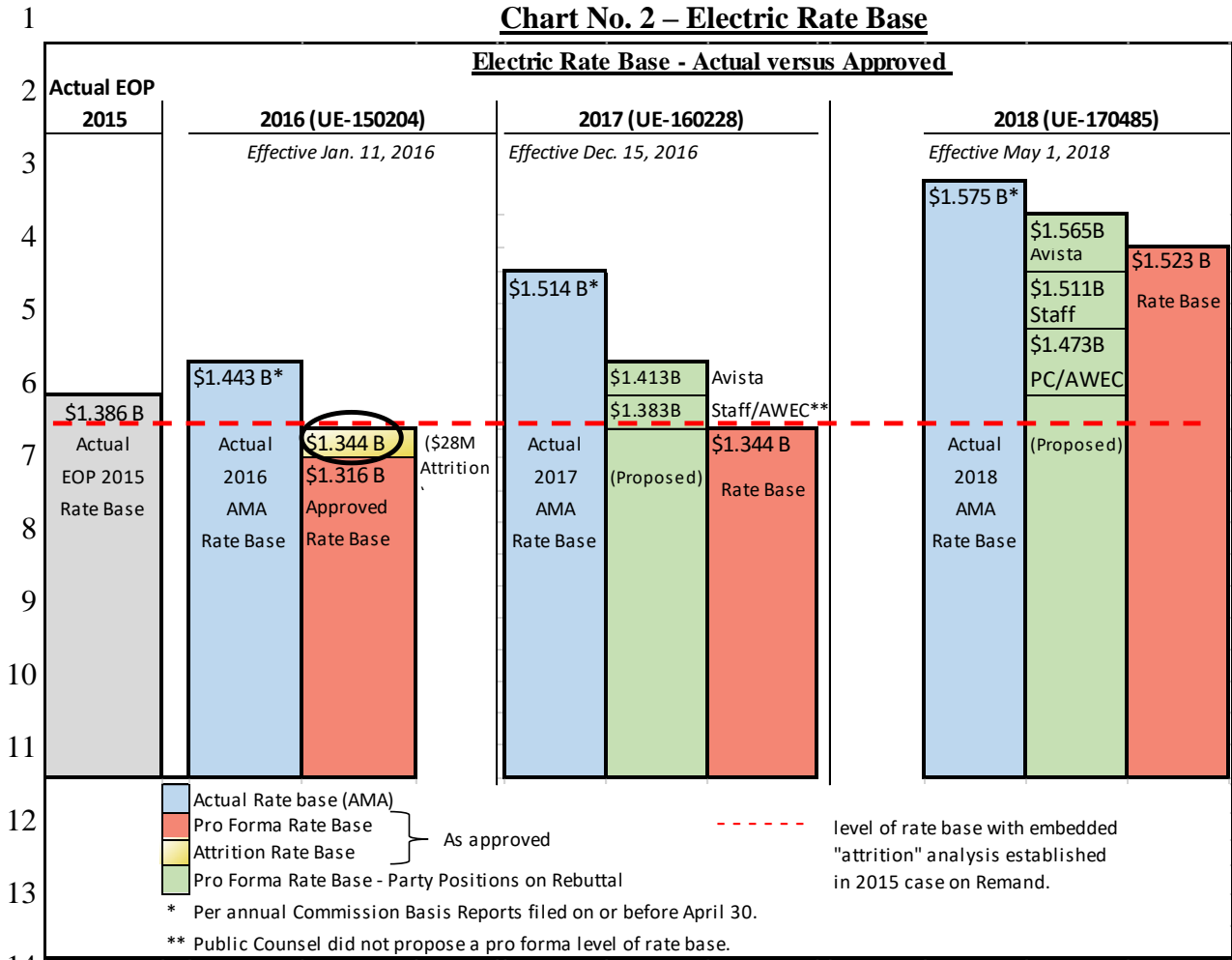
⁴⁷ In fact, Commissioner Jones who provided 11 pages of his “Dissenting Opinion” in which he stated “In contrast to the Majority opinion, I believe Avista has adequately carried its burden in justifying need for additional revenue based on a thorough and comprehensive attrition analysis.” See 2016 GRC, Order 06, par 1.

1 discussed below, with the exception of Public Counsel⁴⁸, all parties in that docket presented
2 testimony that began with a pro formed level of electric rate base for 2016 that exceeded
3 even the attrition level of rate base at issue in the previous case on appeal (i.e., this case).
4 For the 2016 case (Docket No. UE-160228/UG-160229) both Staff and ICNU began with a
5 pro formed 2015 historical test period electric rate base of \$1.383 billion, before any attrition
6 adjustments were made. (See 2016 GRC Staff Exh. CSH-2 provided as Exhibit No. EMA-18
7 at p. 2, and ICNU Exh. BGM-13 provided as Exhibit No. EMA-19 at p. 2). This was well
8 above (nearly \$40 million) the so-called “attrition-adjusted rate base” in the previous case on
9 appeal of \$1.344 billion.

10 The following schematic (Chart No. 2) for electric rate base demonstrates this point
11 for the 2016 rate period, showing the approved rate base, with its attrition and pro forma
12 adjustments, as compared with what we now know to be the actual level of rate base in 2015
13 on an EOP basis and 2016 on an AMA basis. The revenue requirement in rate year 2016, if
14 based on 2015 EOP or 2016 AMA actual rate base, would have been approximately \$5
15 million, or \$10 million higher, respectively, than that approved.
16

⁴⁸ Public Counsel did not provide testimony regarding a pro forma level revenue requirement or rate base, only that an attrition adjusted revenue requirement was not supported by the Company.

Chart No. 2 – Electric Rate Base



15 A careful review of this chart demonstrates that the only level of attrition-derived rate base
 16 in the challenged 2015 case was approximately \$28 million of electric (\$1.344 billion -
 17 \$1.316 billion). This should make it plain that this segment of “attrition rate base”
 18 (represented in “tan” and circled) did not “carry over” or somewhat “bleed through” to
 19 subsequent cases.

20 The Parties, however, do not stay within the Court’s mandate on remand. Again, that
 21 mandate was quite clear: recalculate the rates after removing the level of attrition-related rate
 22 base, in the case before it (i.e., for the 2016 rate year). The Court did not direct the

1 Commission to take any action on matters not before it – namely, the subsequent GRC’s
2 establishing rates for the 2017 and 2018 rate years. Those subsequent cases were each based
3 on their own respective records, yielding their own decisions, none of which were before the
4 Court. Indeed, if Public Counsel or others thought that the “infirmities” relating to attrition
5 somehow carried over and “infected” the subsequent dockets, they should have filed an
6 appeal to the Courts in those as well. This they did not do.

7 What the Parties now essentially seek to do is to “reopen” the decision of the
8 Commission in the 2016 and 2017 cases and retroactively disturb the filed rates findings,
9 thereby upsetting the finality of the rates established in 2017 and 2018.

10 Each of the Parties recommendation is to recalculate 2017 and 2018 rates by
11 subtracting an incremental \$18 million - \$32 million for electric (2017) and \$6 million to
12 \$10 million for natural gas (2017), with approximately 33% of these amounts subtracted
13 from 2018, from the respective approved revenue requirements. Those “final” rates were not
14 appealed and were not before the Court.

15 **Q. Why is that so troubling?**

16 A. In the two years since the subsequent, unchallenged orders in 2017 and 2018
17 were issued, rates had become final, results were booked by the Company, and earnings were
18 released to the investment community. While the Company dutifully and accurately
19 disclosed that the 2015 case was being appealed, it had no reason to believe that the
20 Commission would effectively readjust rates established in subsequent cases where there
21 was no appeal. Surely the subsequent disclosures would have been different if later appeals

1 had also been taken. At some point, the Company and its investors are entitled to a period of
2 “repose.”

3 **V. “EARNINGS SHARING” REFUNDS MUST BE INCLUDED AS OFFSETS**

4 **Q. What is the position of the Parties regarding “earnings sharing” refunds**
5 **already paid to customers?**

6 A. Both Staff and AWEC exclude any offset of “earnings sharing” amounts
7 already refunded customers over the 2016 - 2018 period within their proposed refund
8 amounts.⁴⁹ Staff, however, did provide a table of various options for this Commission to
9 choose from, including amounts with and without the impact of offsets.⁵⁰ (However, Staff
10 does not accurately apply the appropriate refund amounts under their option “Offset with
11 Earnings Sharing,” as I will explain below.) Public Counsel argues “earnings sharing”
12 amounts should only be considered if this Commission includes its proposed “correction for
13 the power supply cost update.”⁵¹

14 **Q. Does the Company believe it is appropriate to exclude the “earnings**
15 **sharing” amounts already refunded to customers through the decoupling mechanism?**

16 A. No, it does not. There are several issues that can be debated in this proceeding
17 by the Parties - but the fact that the Company actually already refunded certain amounts to
18 customers in 2016 – 2018 is not one of them.

⁴⁹ See Staff witness McGuire at Exh. CRM-7T, p. 26, ll. 7-14. See AWEC witness Mullins at Exh. BGM-7T, p. 32, ll. 22-23.

⁵⁰ See McGuire Table 2 (electric) and 3 (natural gas), at p. 15.

⁵¹ See Ramas at Exh. DMR-27T, p. 3, ll. 17-20.

1 **Q. Please explain the total “earnings sharing” amounts refunded to**
 2 **customers through the Decoupling Mechanism each year of the approximate 2.3 years**
 3 **in question.**

4 A. Included in Table No. 16 are the actual “earnings sharing” amounts refunded
 5 to customers through the decoupling mechanism for the years 2016 – 2018.

6 **Table No. 16 – Actual Earnings Sharing Refunded Customers 2016-2018**

Actual "Earnings Sharing" Refunded to Customers (000s)								
Total "Earnings Sharing" Refunded	Electric				Natural Gas			
	2016	2017	2018	Total	2016	2017	2018	Total
	\$ 2,597	\$ 1,494	\$ -	\$4,091	\$2,927	\$2,600	\$88	\$5,615

9
 10 **Q. Please explain how much of the 2016 “earnings sharing” Avista has**
 11 **applied towards its proposed Remand refund amounts for the 2016 rate year.**

12 A. Using the methodology as explained in my direct Remand testimony (see
 13 Exh. EMA-9T, pages 14 – 21, Tables 1 – 8), I explain my calculations for the amounts to be
 14 refunded for the 2016 rate year (pro-rated for the approximate 11 months) of \$1.327 million
 15 for electric and \$1.581 million for natural gas (after consideration for “earnings sharing”
 16 amounts, but prior to consideration of actual 2016 rate base levels).⁵²

17 To be fair to customers, because Avista believes refunds only relate to the separately
 18 identified “attrition” rate base amounts, rather than apply total “earnings sharing” amounts
 19 paid customers against any ordered refunds, Avista first determined how the “attrition”
 20 related rate base revenues collected (if excluded from earnings) would have impacted the

⁵² See Exh. EMA-23 R.

1 Company's earnings sharing in those years, producing a subset of "earnings sharing"
2 amounts to use as an offset against ordered refunds.⁵³

3 **Q. If this Commission were to order refunds for the approximate 2.3 year**
4 **period as proposed by the Parties, how should "earnings sharing" amounts be applied?**

5 A. Table No. 17 provides the total "earnings sharing" refunds for the 2016 –
6 2018 period, as well as the total annual and prorated amounts for the 2016 rate year, and
7 over the 2016-2018 rate periods, after considering the impact of "attrition" rate base.

8 **Table No. 17 – Actual Earnings Sharing Refunded Customers**
9 **And Portion to Apply as Offset to Ordered Refunds**

Actual "Earnings Sharing" Refunded to Customers (000s)								
Column	[A]			[B]	[C]			[D]
	Electric				Natural Gas			
	2016	2017	2018	Total	2016	2017	2018	Total
Total "Earnings Sharing" Refunded To Customers (1)	\$ 2,597	\$ 1,494	\$ -	\$4,091	\$2,928	\$2,600	\$88	\$5,616
Annual Portion to Apply as Offset (excluding non-attrition rate base portion of refund paid)	\$ 1,433	\$ 1,433	\$ -		\$ 1,708	\$ 1,708	\$ 88	
- Pro Rated for 2016 Rate Year (92.6%)	\$ 1,327				\$ 1,581			
- 100% in 2017		\$ 1,433			\$ 1,708			
- 33.3% (4/12) in 2018			\$ -	\$ 2,760			\$ 29	\$ 3,319
(1) Total "Earnings Sharing" to use as offset if Commission orders power supply correction, or use of "attrition" model to recalculate refunds, reflecting proration for 2.26 years as shown in Exh. EMA-23R, is \$3.899 million for electric and \$5.340 million for natural gas.								

17 See Exh. EMA-23R for all calculations, as well as amounts included in Table No. 17
18 above. Column [A] (electric) and [C] (natural gas), row 3, show the amounts Avista
19 proposes to use as "earnings sharing" offsets for any ordered refunds associated just with
20 "attrition" rate base of \$1.327 million (electric) and \$1.581 million (natural gas),

⁵³ The amount to apply may vary, depending on if refunds should be segregated between that associated with rate base alone, as proposed by Avista, or if refunds in total should be included, because total costs are being considered – i.e. refunds include "the correction for the power supply cost update" or recalculation of the attrition models are required, as proposed by other Parties. The amounts to apply also vary if considering the time period for the 11 months of 2016, or over the 2016 – 2018 period.

1 respectively. If this Commission, however, were to order refunds associated with “attrition”
 2 rate base for the approximate 2.3 year period, the “earnings sharing” offset amounts that
 3 would apply as shown in Columns [B] and [D] would grow to \$2.76 million for electric and
 4 \$3.319 million for natural gas.

5 A summary of the effect of these “earnings sharing” amounts, offsetting Avista’s
 6 proposed “attrition” rate base revenue requirement is shown below in Table No. 18.

7 **Table No. 18 – Summary of Refunds Owed Using 2016 Rate Year and 2.3 Years**

Avista Electric and Natural Gas				
Overall Refund Amount For Rate Year 2016 & 2.3 Years If So Ordered (000s)				
	Electric		Natural Gas	
	2016 Rate Year	Approx. 2.3 Years ²	2016 Rate Year	Approx. 2.3 Years ²
Attrition Rate Base	\$ 27,976		\$ 33,357	
Associated Revenue Requirement (Pro-Rated)	\$ 2,653	\$ 6,473	\$ 3,163	7718
"Earnings Sharing" to Apply ¹	\$ (1,327)	\$ (2,760)	\$ (1,581)	\$ (3,319)
Overall Amount Owed Customers	\$ 1,326	\$ 3,714	\$ 1,582	\$ 4,399
¹ If ordered refunds include the "power supply correction" or recalculation using an Attrition model, as proposed by the Parties, <u>total</u> "earnings sharing" should be applied (rather than the above "subset") for electric of \$2.405 million (2016 rate year) and \$3.899 million (2.26 years). For natural gas, the amounts to apply are \$2.711 million (2016 rate year) and \$5.340 million (2.26 years).				
² Amounts shown for 2.3 years provided for informational purposes only.				
See calculations at Exh. EMA-23R.				

15 See Exh. EMA-23R for calculations. As shown in Table No. 18, the refunds owed
 16 customers (prior to considering actual 2016 rate base) total \$1.326 million for electric and
 17 \$1.582 million for natural gas for 2016. If this Commission, however, were to order
 18 Remand refunds over a longer 2.3 year period, refunds owed customers would grow to
 19 \$3.714 million for electric and \$4.399 million for natural gas.

20 It is important to note, if this Commission orders refunds that include the "power
 21 supply correction" or recalculation using an Attrition model, as proposed by the parties, total
 22 "earnings sharing", should be applied for electric of \$2.405 million (2016 rate year) and

1 \$3.899 million (2.26 years) (rather than the above "subset" associated with rate base only).
 2 For natural gas, the amounts to apply would be \$2.711 million (2016 rate year) and \$5.340
 3 million (2.26 years). See Exh. EMA-23R.

4 **Q. What “earnings sharing” refunds have the Parties applied to their**
 5 **proposed refunds, if any?**

6 A. The Following Table No. 19 summarizes the “earnings sharing” amounts
 7 included by each of the Parties, based on Avista’s understanding of their primary refund
 8 proposals.

9 **Table No. 19 – Earnings Sharing Refunds Proposed by the Parties**

"Earnings Sharing" to Offset Ordered Refunds as Proposed by Each Party (000s)								
	Electric				Natural Gas			
	2016	2017	2018	Total	2016	2017	2018	Total
Staff	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Counsel	\$ (2,526)	\$ (1,493)		\$ (4,019)	\$ (1,875)	\$ (1,928)	\$ -	\$ (3,803)
AWEC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Avista (based on Party Proposals)	\$ (2,405)	\$ (1,494)	\$ -	\$ (3,899)	\$ (2,711)	\$ (2,600)	\$ (29)	\$ (5,340)

Note: Staff includes only \$1.55 million for electric and \$2.836 million for natural gas, as an alternative approach for the Commission to consider. And Public Counsel only supports their level of "earnings sharing" if this Commission includes the "power supply correction".

14 Also included in Table No. 19 is Avista’s proposed “earnings sharing” to apply if
 15 this Commission were to approve, either inclusion of the “correction for power supply” or
 16 recalculation of the Remand refund using an “attrition” model, as proposed by the Parties.
 17 As noted in Table No. 19, Staff and AWEC’s primary position is to ignore “earnings
 18 sharing” altogether, significantly overstating the amounts to refund to customers through this
 19 Remand.⁵⁴

20

⁵⁴ Staff includes \$1.55 million for electric and \$2.836 million for natural gas over the 2.3 year period, only as an alternative approach for the Commission to consider, understating the actual “earnings sharing” amounts as shown in Table No. 19 of \$3.9 million electric and \$5.3 million for natural gas.

1 **Q. Why is including the correct level of “earnings sharing” as an offset to**
2 **any ordered refunds so important?**

3 A. Because these amounts are not in debate: the Company has refunded actual
4 amounts to customers over the period 2016 – 2018. To ignore these amounts would provide
5 a duplication of refunds to customers – in other words, it would “double-dip” into earnings
6 of the Company and overstate payments to customers.

7 **Q. Mr. Mullins argues at page 32 of his testimony (BGM-7T) that the**
8 **Commission should not apply any adjustment to the Remand refund to account for the**
9 **Decoupling Mechanism “earnings sharing” because Avista’s analysis is overly**
10 **simplified and not an accurate reflection of how the decoupling mechanism operates.**
11 **Do you agree with this?**

12 A. No, I do not. First, the calculation itself is simple and straightforward and
13 should not be in dispute.

14 Secondly, he argues that if the impact of decoupling is to be considered in the context
15 of the refund, all aspects of the decoupling mechanism must be considered, including
16 recalculating the allowable revenues-per-customer, and the associated decoupling surcharges
17 over the term of the rate adjustment period.⁵⁵ What Mr. Mullins fails to realize is that
18 recalculating the decoupling deferrals is entirely irrelevant to the fact that earning sharing
19 amounts were returned to customers through their schedule 75 and 175 rates in effect the
20 following November through October. The revenue-per-customer (RPC) in the decoupling
21 mechanism is a function of customers’ approved rates. Conceptually, under a hypothetical

⁵⁵See Mullins at Exh. BGM-7T, p. 33, ll. 2-5.

1 calculation of a specific year assuming different approved rates, or refunds as proposed by
2 Mr. Mullins, (but with no change to the test year billing determinants) both the allowable
3 RPC and the received RPC would have changed commensurately with any changes,
4 resulting in essentially the same revenue deferrals and subsequent surcharges or rebates.
5 Furthermore, in the decoupling mechanism, the “earning sharing” is a reduction to the
6 deferred amount to be recovered or returned to customers over the next amortization period.
7 The “earning sharing” portion of the schedule 75 or 175 revenues received by each customer
8 group may be easily determined based on the kWh or therm sales during the rate adjustment
9 period combined with the sharing reductions to the decoupling deferral balances identified in
10 the schedule 75 and 175 decoupling rate adjustment filings.⁵⁶

11 Lastly, Mr. Mullins states if the Commission is to make an “earnings sharing”
12 adjustment associated with the decoupling mechanism, he recommend that adjustment only
13 apply to those customers subject to decoupling.⁵⁷ This the Company does agree with. Any
14 “earnings sharing” amounts that offset Commission-ordered refunds should be applied to
15 only those customers who received those refunds, which does not includes Electric rate
16 schedules 25, and 41-48 or natural gas rate schedules 112, 122, 132, and 146. To do
17 otherwise would understate any ordered refunds owed those customers. Mr. Miller, at Exh,

⁵⁶ Staff witness Mr. Ball, at Exh. JLB-7T, p. 7, ll. 4-13 similarly argues that incorporating “earnings sharing” undermines the “policy objective of the mechanism ...if its dispersion is changed due to a recalculation of rates almost four years later.” He also argues, it is not possible to know how “earnings sharing” would have been impacted by the changes to Company revenue based on ordered refunds. Mr. Ball is taking the Company’s discussion of applying rate base related “earnings sharing” amounts within its calculation to create a “subset” of “earnings sharing” to apply to any refunds, out of context. The Company is not proposing to recalculate the “earnings sharing,” only to segregate it into “attrition rate base” related and “non-attrition rate base” related, to be fair to customers. As noted above, recalculating the decoupling deferrals based on any refunds is entirely irrelevant to the fact that earning sharing amounts were returned to customers.

⁵⁷ See Mullins at Exh. BGM-7T, p. 33, ll. 11-13.

1 JDM-4T R, starting at page 2, discusses how any ordered refunds should apply by rate
2 schedule, including the impact of decoupling “earnings sharing.” His exhibits, Exhs. JDM-
3 5R (electric) and JDM-6R (natural gas), provide the detailed calculations.⁵⁸

4

5 **VI. IMPACT OF PARTY POSITIONS ON EARNED RETURNS**

6 **Q. Previously you discussed the various Parties’ positions with regard to the**
7 **overall Remand refunds they propose. If this Commission were to approve any one of**
8 **the electric and natural gas positions of the Parties, would that have a significant**
9 **impact on the Company’s earnings?**

10 A. Yes, it would. We now know with certainty what the Company’s actual
11 earnings were for each calendar period 2016 through 2018, as filed with the Commission
12 annually through its Commission Basis Reports (CBRs). In looking at the actual CBRs, the
13 return on equity (ROE) for Washington for each of those years can be determined. One can
14 review the impact of any stated refunds to the Company by simply incorporating the
15 proposed refunds of each of the Parties.

16 Below in Table No. 20, I first provide the actual Washington Commission Basis
17 ROEs on a combined electric and natural gas basis, as it is important to see how the
18 Company’s overall Washington jurisdiction actually fared during each of the years 2016 –
19 2018. Then I include the returns the Company would have experienced in those years if this
20 Commission were to approve any one of the refunds as proposed by the Parties. As

⁵⁸ Similarly, Mr. Ball’s argues to exclude the “earnings sharing,” due to the fact not all customers are subject to decoupling, and that a complicated additional analysis would be required to determine the correct amounts owed customers. (See JLB–7T, p. 7, ll. 14-22). Mr. Miller addresses these concerns within his testimony and exhibits, starting at page 2, of Exh. JDM-4T R.

1 discussed further by Mr. Thies, our investors and rating agencies focus their attention on the
2 overall Washington jurisdiction results.

3 **Table No. 20 – Earned Returns Incorporating Parties’ Positions – WA Jurisdiction⁵⁹**

<u>"End Result" of Proposed Refunds - ROE Impact Washington Electric & Natural Gas</u>			
	2016	2017	2018 ²
Authorized ROE	9.50%	9.50%	9.50%
Actual Commission Basis ROE ¹	<u>9.60%</u>	<u>9.60%</u>	<u>9.29%</u>
<u>ROE After Application of Proposed Refund:</u>			
Commission Staff	<u>8.24%</u>	<u>7.98%</u>	<u>8.45%</u>
Public Counsel	<u>8.37%</u>	<u>8.04%</u>	<u>8.41%</u>
AWEC	<u>6.98%</u>	<u>6.99%</u>	<u>8.13%</u>
¹ Includes impact of actual 50/50 Earnings Sharing			
² 2018 new rates effective May 1, 2018			

12 As can be seen above, with the exception of Avista’s actual Commission Basis return on
13 equity, the “best” ROE under the Parties refund scenarios would have been provided by
14 Commission Staff in 2018, which of course is greatly affected by the May 1, 2018 general
15 rate increase approved by the Commission – and that is only an 8.45% ROE, a full 105 basis
16 points below the authorized 9.5% ROE approved in 2015.

17 The remaining ROE’s of note, as proposed by the Parties, particularly in 2016 and
18 2017, range from a low of 6.98%, as proposed by AWEC, to a high of 8.37%, as proposed
19 by Public Counsel – a staggering 113 to 252 basis points below the authorized 9.5%.

20 **Q. What were the results for Washington electric and natural gas,**
21 **individually, and how would the Parties’ positions affect those results?**

⁵⁹ See Ms. Andrews' electronic rebuttal workpapers for ROE calculations provided in Table Nos. 20-22.

A. Table Nos. 21 and 22 below, provide, separately, the Washington electric and natural gas actual Commission Basis Report ROE results, as well as the effect on the individual ROEs if this Commission were to now approve the level of refunds proposed by each of the Parties.

Table No. 21 – Earned Returns Incorporating Parties’ Positions – WA Electric

"End Result" of Proposed Refunds - ROE Impact Washington Electric			
	2016	2017	2018²
Authorized ROE	9.50%	9.50%	9.50%
Actual Commission Basis ROE¹	<u>9.40%</u>	<u>9.40%</u>	<u>9.21%</u>
<u>ROE After Application of Proposed Refund:</u>			
Commission Staff	<u>8.02%</u>	<u>7.80%</u>	<u>8.37%</u>
Public Counsel	<u>8.08%</u>	<u>7.76%</u>	<u>8.33%</u>
AWEC	<u>7.03%</u>	<u>7.04%</u>	<u>8.13%</u>
¹ Includes impact of actual 50/50 Earnings Sharing			
² 2018 new rates effective May 1, 2018			

For electric, after the “earnings sharing” through decoupling was applied, and refunded to customers in the 2016 and 2017 rate years, the Company slightly under-earned its allowed ROE of 9.5%.⁶⁰ Applying the refunds, however, as proposed by the Parties would have had a significant impact in each of those years, and especially in 2016 and 2017, causing as much as nearly 247 basis points of under earnings in both years (AWEC’s proposal). The highest result under Public Counsel’s proposal, still results in 142 basis points under-earnings.

⁶⁰ The 50/50 “earnings sharing” through the decoupling mechanism is based on the approved rate of return (ROR), and authorized capital structure and cost of debt. That said, the actual common equity/debt ratios and cost of debt included in the annual Commission Basis Reports, versus authorized included in the decoupling “earnings sharing” calculation can vary, causing the Company’s CBR ROR and ROE to vary at times, such as in this instance, causing the Company to under-earn slightly on a CBR basis.

1 Switching to Washington natural gas, although better, still would result in significant
 2 under-earnings under most of the Parties proposals for the Washington operations, with the
 3 exception of one year (2016) for one party (Public Counsel).

4 **Table No. 22 – Earned Returns Incorporating Parties’ Positions – WA Natural Gas**

<u>"End Result" of Proposed Refunds - ROE Impact Washington Natural Gas</u>			
	2016	2017	2018 ²
Authorized ROE	9.50%	9.50%	9.50%
Actual Commission Basis ROE ¹	<u>10.70%</u>	<u>10.40%</u>	<u>9.62%</u>
<u>ROE After Application of Proposed Refund:</u>			
Commission Staff	<u>9.33%</u>	<u>8.88%</u>	<u>8.81%</u>
Public Counsel	<u>9.85%</u>	<u>9.37%</u>	<u>8.78%</u>
AWEC	<u>6.72%</u>	<u>6.76%</u>	<u>8.12%</u>
¹ Includes impact of actual 50/50 Earnings Sharing			
² 2018 new rates effective May 1, 2018			

12 Of note, once one reviews the Washington natural gas ROE results provided in Table No.
 13 22, both on an actual Commission Basis and based on the proposals of the Parties, it is
 14 evident that the Washington natural gas operations helped in each of the years to prop the
 15 Washington electric operations up on a Washington total jurisdiction basis.

16 **Q. Do you believe that any of the returns, especially those showing in Table**
 17 **Nos. 20 (WA jurisdiction) and 21 (WA electric) above, produce a reasonable “end**
 18 **result”?**

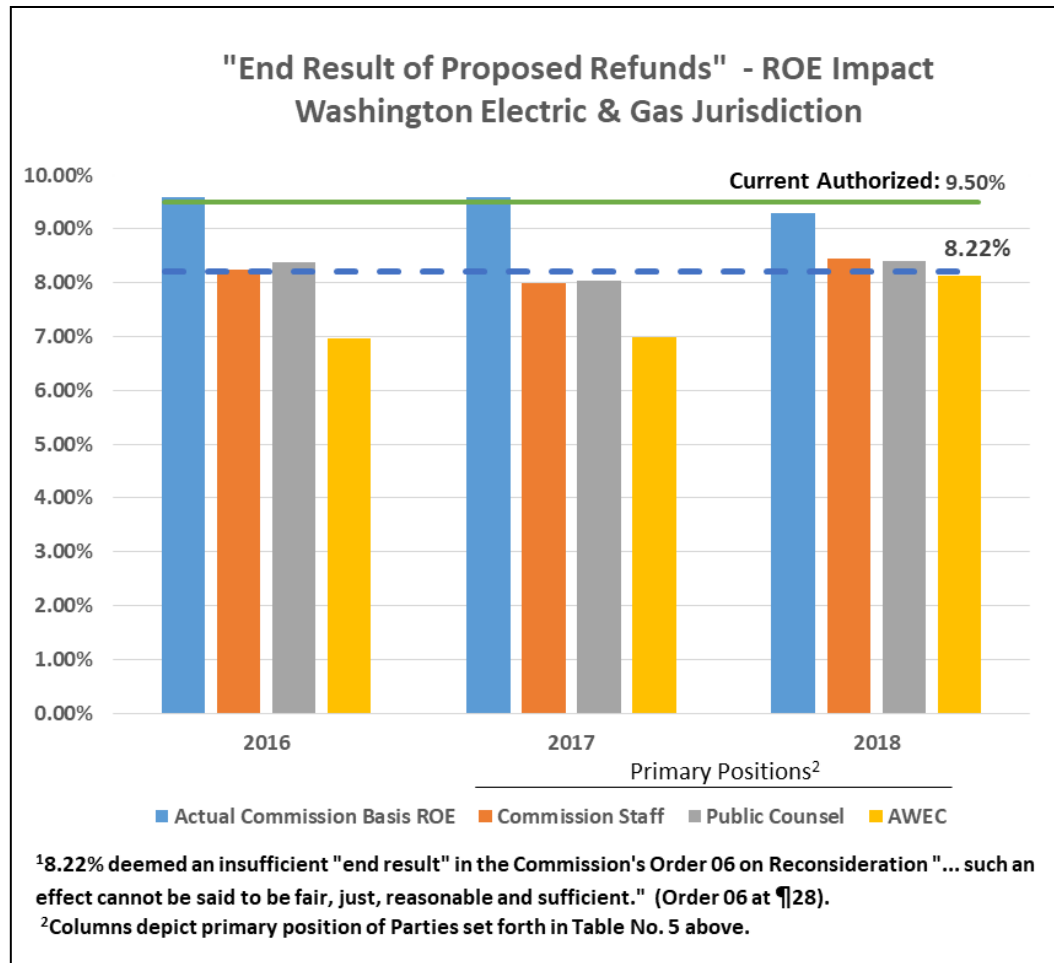
19 A. No, I do not. And I do not believe this Commission would either, based on
 20 the Commissions own statements in it 2015 GRC Order 06, as discussed previously in my
 21 testimony (see Section III.) Specifically, as noted by the Commission when the Parties
 22 requested it “reconsider” or “re-open the record” to consider lower revenue requirements,

1 akin to the nature proposed by the Parties here, the Commission noted (at Order 06, ¶¶ 27-
2 28):

3 Even with Staff's third revised electric revenue requirement of \$19.6 million,
4 calculated using Staff's "corrected" attrition model, Avista argues it would have
5 an opportunity to earn an ROE of no more than 8.22 percent, which is nearly
6 130 basis points lower than the 9.5 percent agreed to in the parties' settlement
7 and approved by the Commission...To the extent the adjustments proposed by
8 Staff and Joint Parties result in rates that make it highly unlikely that Avista
9 could earn the rate of return the Commission approved in Order 05, Avista is
10 correct that such adjustments do not produce acceptable end results in
11 accordance with the *Hope* and *Bluefield* standards. Rates that have such an
12 effect cannot be said to be fair, just, reasonable, and sufficient. (emphasis added,
13 footnotes omitted))
14

15 The retrospective lookback provided in Table Nos. 20-22 above (and graphically
16 shown in Illustration No. 1 below) demonstrates that the Parties refunds would result in
17 ROEs near or well below 8.22%, and nowhere near the authorized 9.5% - i.e., not a
18 reasonable "end result."
19

Illustration No. 1 – Earned Returns Incorporating Parties’ Positions



As is evident, taken as a whole (electric and natural gas) or Washington electric alone, all of the proposals are either at or far below the 8.22% deemed insufficient by the Commission.

Mr. Thies discusses further the implications of such an “end result” on the Company if ordered by this Commission, as well as how such results might be viewed by both Rating Agencies and the investment community.

1 **VII. STAFF ALTERNATIVE RECOMMENDATIONS**

2 **Q. Commission Staff witness Mr. McGuire provided different alternatives**
3 **for this Commission to consider. Does the Company support any of those different**
4 **alternatives?**

5 A. Mr. McGuire provided an initial set of several alternatives for the
6 Commission to consider, including: 1) Refunds calculated by way of an attrition model or
7 “outside of the attrition model”; 2) including “earnings sharing” offsets or not; and 3) for a
8 period of 11 months or 2.3 years.⁶¹ The refunds under these alternatives range for electric
9 from \$1.326 million (consistent with Avista’s “compromise” position – determined “outside
10 of attrition,” including “earnings sharing,” and for 11 months, prior to consideration of
11 actual 2016 rate base) – to \$35.98 million (Staff’s primary recommendation – recalculating
12 refunds per his attrition model, with power supply adjustment, no “earnings sharing” and for
13 2.3 years). For natural gas, these same scenarios range from \$1.582 (consistent with Avista
14 “compromise” position) to \$7.107 million (Staff’s primary recommendation).

15 He also provided another set of alternatives with this same range of options, but
16 using EOP 2015 Rate Base or 2016 AMA rate base.⁶² These alternatives produced refund
17 results for electric ranging from no refunds (Avista’s primary position on direct – using 2016
18 rate base, for 11 month, offset by earnings sharing), to \$17.3 million (recalculating refunds
19 per his attrition model, comparing to EOP 2015 rate base, no refunds and for 2.3 years).
20 Natural gas, under these same scenarios, produced results that ranged from no refunds (all

⁶¹ See McGuire at Exh, CRM-7T, Table Nos. 2 and 3, p. 15.

⁶² See McGuire at Exh, CRM-7T, Table Nos. 4 and 5, p. 16.

1 scenarios that considered offsets) – to a high of \$975,200 (using 2016 AMA rate base, no
2 offsets for 2.3 years).

3 That is a wide swing in alternatives for the Commission to consider. I believe Avista
4 has made it quite clear that the appropriate methodology this Commission should approve,
5 based on the scope of the Remand from the Court of Appeals, and this Commission’s own
6 guidance in its Pre Hearing Conference Order, should be based solely on the segment of
7 “attrition” rate base amounts for only the 11 month period January 11, 2016 to December 15,
8 2016 (and with no other power supply adjustments). Furthermore, those Remand refunds
9 should apply “earnings sharing” offsets actually refunded to customers, so as not to “double-
10 dip” from the earnings of the Company by refunding additional amounts, and recognize
11 actual 2016 rate base.⁶³ Avista’s “primary position,” therefore, is that no further refunds are
12 due customers.

13 However, Avista’s “compromise position,” excluding the consideration of actual
14 2016 rate base (2015 EOP or 2016 AMA rate base) results in refunds of \$1.326 million for
15 electric and \$1.582 million for natural gas, as summarized below in Table No. 23:

16

⁶³ Consideration of 2015 EOP or 2016 AMA rate base, produces the same results – no further refunds are owed customers.

Table No. 23 – Avista “Compromise Position”

Avista Electric and Natural Gas Compromise Position - Refund Amount For Rate Year 2016 (000s)		
	Electric	Natural Gas
	2016 Rate Year	2016 Rate Year
Attrition Rate Base	\$ 27,976	\$ 33,357
Associated Revenue Requirement (11 Month Pro-Rated)	\$ 2,653	\$ 3,163
"Earnings Sharing" to Apply	\$ (1,327)	\$ (1,581)
Overall Amount Owed Customers¹	\$ 1,326	\$ 1,582
¹ Prior to consideration of actual 2015 EOP or 2016 AMA rate base. See calculations at Exh. EMA-23R.		

8 **Q.** Are there any of Mr. McGuire’s alternative recommendations Avista
9 **might find acceptable beyond those identified to match the Company’s “primary” or**
10 **“compromise” positions?**

11 A. Although we do not agree as our primary position, if this Commission finds
12 itself persuaded by Staff or AWEC’s arguments that a recalculation of the “attrition
13 allowance adjustment” or “attrition model revenue requirement” is necessary, **and/or** that of
14 Public Counsel and AWEC that the “power supply computational error” must be considered,
15 the only other methodology acceptable to the Company is that as set forth by Mr. McGuire in
16 his Exh. CRM-11 (electric) and CRM-12 (natural gas). In this manner, Mr. McGuire has
17 produced, what he calls basic “trimmed-down” attrition” models⁶⁴ that take into effect, for
18 the most part (and from what can be determined), the approved adjustments within the
19 Commission’s 2015 GRC Order 05, but for one important adjustment (use of 2015 EOP rate

⁶⁴ Staff Exhibits CRM-11 and CRM-12 provide a simple calculation approach based off his detailed model analysis included in Exhs. CRM-8 (electric) and CRM-9 (natural gas). My recommended changes could be made within his detailed models, but his basic model captures the changes easily with a few minor corrections.

1 base), as well as a few small corrections to his models to account for modeling errors I
2 discussed above.

3 Specifically, the changes I recommend, as this approach considers more than the
4 Company believes was remanded to the Commission by the Court of Appeals – mainly the
5 single issue of the power supply update or a recalculation of the “attrition allowances,” the
6 Company believes the Commission, at a minimum, must take into consideration actual 2015
7 EOP rate base – i.e., \$1.386 billion for electric and \$287.2 million for natural gas, which was
8 in service serving customers prior to rates going into effect, and must then also apply the
9 total “earnings sharing” offset for 2016 (not the subset used as noted above or ignored all
10 together as proposed by other parties) of \$2.405 million electric and \$2.711 million natural
11 gas.⁶⁵

12 **Q. Please explain what specific changes the Company would make to Mr.**
13 **McGuire’s basic “trimmed-down” attrition models that would make this approach**
14 **acceptable to the Company?**

15 A. Again, this is only if the Commission finds the Parties positions persuasive,
16 and after including the following changes discussed below.

17 First, and most important, in column (a), row 1, labeled Attrition Balances – the use
18 of actual EOP 2015 rate base of \$1.386 million for electric and \$287.2 million for natural
19 gas should be applied. Mr. McGuire has created this simple model to allow the user to
20 update the rate base balance (identified with a “Change Me” label) to reflect the appropriate

⁶⁵ These amounts have been prorated for the 11 months of 2016. The total “earnings sharing” for the approximate 2.3 year period is \$3.899 million (electric) and \$5.34 million (natural gas).

1 rate base balance – in this case actual 2015 EOP rate base. The “Description” label for line
2 1 should also be changed to read “2015 EOP Rate Base.” (In fact, this change is one of Mr.
3 McGuire’s options provided the Commission, as shown in his Table No. 4 (electric) and
4 Table No. 5 (natural gas) at CRM-7T, page 16, but for the minor changes I note below.)

5 Second, and the start of a few minor changes, is to increase line 4 “2016 Net
6 Operating Income (at 2015 rates)” to reflect the benefit of debt interest on the change in EOP
7 rate base added in line 1. This change has the effect of increasing electric net operating
8 income by \$658,000 from \$110.85 million to \$111.51 million, and natural gas operating
9 income by \$221,000 from \$14.37 million to \$14.59 million.

10 The last minor change, to complete the models, is to revise the “Revenue Growth
11 Factor for row 1 (“2015 Rate Base”) from 1.013115 (electric) and 1.01157 (natural gas) to
12 1.00000. The reason for this is by changing rate base to the 2015 rate base, we are no longer
13 attempting to escalate balances to the 2016 rate period and then grossing them back down.
14 Adjusting to the 2015 rate base balance is akin to adding pro forma additions in a pro forma
15 study - we do not then gross those balances down by a “revenue growth factor.”⁶⁶

16 The result of using this approach, corrected as I have above, produces Remand
17 refund amounts of \$5.97 million for electric and \$296,000 for natural gas, prior to
18 consideration of any “earnings sharing” offsets, for the 11 month period in 2016. The
19 Company has reproduced these results in Exh. EMA-24R.

20 Table No. 24 below summarizes the results of these revised studies, including

⁶⁶ If anything, escalated revenues in the attrition model may be too high as they represent 2016 customer revenues, but adjusted 2015 rate base has no investment for the 2016 new customers, therefore overstating revenues and understating the revenue requirement.

1 “earnings sharing” offsets, for 11 months.

2 **Table No. 24 – Results of Revised Staff Attrition Models**

Avista Electric and Natural Gas - Using Staff Models CRM-11 and CRM -12		
Alternative Refund Amount For Rate Year 2016 (000s)		
	Electric	Natural Gas
	2016	2016
	Rate Year	Rate Year
Remand Refund Revenue Requirement	\$ 6,446	\$ 320
- Remand Refund Revenue Requirement (Pro-Rated)	\$ 5,970	\$ 296
"Earnings Sharing" to Apply (See EMA-23R)	\$ (2,405)	\$ (2,711)
Overall Amount Owed Customers	\$ 3,565	N/A
See calculations at Exh. EMA-24R.		

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8 As can be seen in Table No. 24, this alternative approach results in no further refunds
9 owing natural gas customers, and \$3.57 million for electric for the 11 months of 2016.^{67 / 68}

10 **Q. The Company has been against rerunning the “attrition” model to**
11 **determine any refunds. What would be the result of doing so?**

12 A. First, using this alternative approach, as revised above: 1) does update the
13 “attrition model” for actual changes in rate base, and 2) does not just correct for “power
14 supply computational errors” assumed to be in the Commission’s Order 05, as argued by the
15 Parties in their prior request for “Reconsideration” or to “Reopen the Record,” which the
16 Commission has denied in Order 06.

17 It was clear in the Commission’s Order 06 that consideration was given to the “end

⁶⁷ If this Commission orders a remand time period of 2.26 years, the Commission must consider the total “earnings sharing” amounts already refunded to customers over the 2016 – 2018 time period of \$3.9 million electric and \$5.34 million natural gas (pro-rated). For informational purposes, the resulting refunds owed customers under this approach would result in a refund of \$10.7 million for electric and no further refunds owed natural gas customers, related to the January 11, 2016 – April 30, 2018 time period.

⁶⁸ In comparison, Avista’s primary position is no further refunds are owed electric or natural gas customers. Avista’s “compromise position,” as shown in Table No. 23 above, includes refunds of \$1.326 million for electric and \$1.58 million for natural gas, for a total of \$2.91 million Washington jurisdiction, for 11 months. For informational purposes, if required refunds are ordered to apply to the 2.26 years, the results would be \$3.71 million for electric and \$4.4 million for natural gas, for a total of \$8.11 million Washington electric and natural gas.

1 result,” and it recognized that to order refunds of the magnitude proposed by the Parties at
2 that time would not provide “fair, just and reasonable rates.” But now we find ourselves,
3 nearly 4-years later arguing similar issues. The difference is, we now have the benefit of
4 knowledge – both what actual rate base was prior to rates going into effect January 1, 2016,
5 thereby being able to resolve the Court of Appeals “used and useful” concern, and what
6 actual “earnings sharing” have already returned to customers, and therefore, what, if any,
7 actual refunds to customers are owed. By including actual EOP 2015 rate base and actual
8 “earnings sharing” amounts already refunded to customers for 2016, the results do not
9 unduly prejudice the Company, by producing an “end result” that reasonably approximates
10 its allowed ROE.

11 **Q. Does this conclude your pre-filed response testimony?**

12 A. Yes.