

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

REBUTTAL TESTIMONY OF

MARK T. THIES

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

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

4 A. My name is Mark T. Thies. My business address is 1411 East Mission Avenue,
5 Spokane, Washington. I am employed by Avista Corporation as Executive Vice President,
6 Chief Financial Officer and Treasurer. I was appointed to my present position effective
7 October 1, 2019.

8 **Q. Would you please describe your education and business experience?**

9 A. I received a Bachelor of Arts degree in 1986 with majors in Accounting and
10 Business Administration from Saint Ambrose College in Davenport, Iowa, and became a
11 Certified Public Accountant in 1987. I have extensive experience in finance, risk
12 management, accounting and administration within the utility sector.

13 I joined Avista in September of 2008 as Senior Vice President and Chief Financial
14 Officer (CFO). Prior to joining Avista, I was Executive Vice President and CFO for Black
15 Hills Corporation, a diversified energy company, providing regulated electric and natural gas
16 service to areas of South Dakota, Wyoming and Montana. I joined Black Hills Corporation
17 in 1997 upon leaving InterCoast Energy Company in Des Moines, Iowa, where I was the
18 manager of accounting. Previous to that I was a senior auditor for Arthur Andersen & Co. in
19 Chicago, Illinois.

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

1 A. Yes, I sponsored Exh. MTT-1T through MTT-5.¹

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

3 A. The purpose of my testimony is, along with other Company witnesses, to
4 provide Avista's rebuttal to the testimony of Commission Staff ("Staff"), the Public Counsel
5 Section of the Attorney General's Office ("Public Counsel") and the Alliance of Western
6 Energy Consumers ("AWEC"), together referred to as "Parties". For purposes of my
7 testimony, I will refer to this portion of Avista's 2015 general rate case as the "Remand
8 Proceeding". A table of contents for my testimony is as follows:

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15 **Q. Are you sponsoring any exhibits with your direct testimony?**

16 A. No, I am not.

17

18 **II. AVISTA'S REBUTTAL ARGUMENTS**

19 **Q. In the Company's originally-filed direct testimony in the Remand**
20 **Proceeding, what was the Company's position at that time?**

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. Mr. Thies' rebuttal Remand testimony is therefore labeled MTT-6T R.

1 A. Company witness Ms. Andrews explained in her testimony that, based on the
2 scope of issues in this remand proceeding, effectively isolating the revenue requirement on
3 the electric and natural gas rate base associated with the “attrition adjustment,” reflecting
4 amounts already refunded to customers through the “earnings sharing” mechanism for 2016,
5 and acknowledging the level of plant in service in the rate effective period, the Commission
6 should find that no further adjustment to electric or natural gas rates is warranted.

7 **Q. Having reviewed the testimony of the parties, what are among the issues**
8 **that are before the Commission now in the Remand Proceeding?**

9 A. Mr. McGuire for Commission Staff summarized his view of the issues in his
10 testimony (Exh. CRM-7T):

- 11 1. Does the Court Remand Decision require that the Commission recalculate the Attrition
12 Allowances, or can the calculation of “attrition” rate base be isolated?
- 13 2. Did the rates authorized per Order 05, and effective January 11, 2016, remain in effect
14 for 11 months or 2.3 years?
- 15 3. Is it appropriate to offset refunds owed to customers with amounts that were provided
16 to customers through earnings sharing?
- 17 4. Is it appropriate to use data that is available to us now, but did not exist when Order
18 05 was entered, to calculate used-and-useful rate base for 2016?

19 **Q. Will the Company respond directly to each of the items set forth above?**

20 A. Yes, Ms. Andrews will provide specific rebuttal testimony addressing all four
21 of the items. The purpose of my testimony is to provide a higher level review of the Parties’
22 positions, their effects on the Company’s earned returns, and explain why those positions do
23 not produce a reasonable “end result”.

1 **Q. What were the various positions of the Parties as set forth in their direct**
2 **testimony?**

3 A. Table No. 1 below provides Avista’s position, along with the positions of the
4 Parties on four key issues raised by them in this Remand Proceeding:

5 **Table No. 1 – Positions of the Parties²**

	<u>Avista - June 2019</u> <u>Testimony</u>	<u>Commission</u> <u>Staff</u>	<u>Public Counsel</u>	<u>AWEC</u>
Electric Refund	\$0	\$36.0 Million	\$36.2M or \$12.0M	\$57.8 Million
Natural Gas Refund	\$0	\$7.1 Million	\$4.9M or \$8.7M	\$19.2 Million
Time Period	11 Months	2.3 Years	2.3 Years	2.3 Years
Earnings Test Offset?	Yes	No	Yes if Error Corrected	No
Rate Period Rate Base	Yes	No	No	No

6
7
8
9
10
11 **Q. Knowing the issues raised by Avista and the Parties, what is Avista’s**
12 **present position on Rebuttal?**

13 A. The Company continues to support our original position as set forth by Ms.
14 Andrews in her opening testimony in this Remand Proceeding (and as shown in Table No. 1
15 above). However, we have reviewed the testimony of the parties, and based on that review,
16 we have prepared an alternative or compromise position. Table No. 2 below provides the
17 Company’s compromise position:

² Reflects what Avista understands to be the “primary” position of the Parties. The positions of Public Counsel are dependent upon whether or not the Commission addresses the power supply “computational error”. If the Commission addresses the “computational error”, then Public Counsel is supportive of reflecting prior “earnings sharing”, reflecting a result of \$36.2 million for electric and \$4.9 million for natural gas. If the power supply “computational error” is excluded, Public Counsel argues any “earnings sharing” should also be excluded, resulting in refunds of \$12.0 million for electric and \$8.7 million for natural gas. See Exh. DMR-27 T, p. 3, ll. 8-24.

Table No. 2 – Compromise Position of Avista on Rebuttal

	<u>Avista - OCTOBER 2019 Testimony</u>
Electric Refund	\$1.326 Million
Natural Gas Refund	\$1.582 Million
Time Period	11 Months
Earnings Test Offset?	Yes
Rate Period Rate Base	No*
*For Compromise Purposes Only	

In Avista’s direct testimony in this Remand proceeding, the Company defined the scope and time period to be limited to the electric and natural gas rate base associated with the “attrition adjustment” for the 11 month period January 11, 2016 – December 15, 2016. The revenue requirement of this result, offset by a subset of actual “earnings sharing” amounts already returned to customers for 2016, result in additional refunds owed of \$1.326 million for electric customers and \$1.582 million for natural gas customers. While we continue to support the fact that actual rate base in 2016 exceeded the assumed level of electric rate base based on attrition,³ Avista’s compromise position would remove consideration of 2016 average-monthly-average (AMA) rate base amounts.⁴

Q. What other arguments will be made by the Company on rebuttal and on brief?

A. The arguments include whether the Parties’ positions exceeded the scope of the remand order, whether the tenets of “end result” ratemaking and the need to produce “just,

³ As discussed by Ms. Andrews, this is also true on a 2015 end-of-period (EOP) rate base basis for electric, which totaled \$1.386 billion.

⁴ Ms. Andrews, in Exhibit No. EMA-9T R, p. 18, states that “In place of the \$28 million of attrition-related electric rate base based on attrition projections for 2016, we know that the actual level of AMA rate base that was used and useful during 2016 was \$1.443 billion (WA Electric), as shown on page 2 of Exhibit No. EMA-16 R. This exceeds by nearly \$100 million the level of assumed electric rate base (based on attrition) in the 2015 case for this same period in 2016 (\$1.443 billion actual versus \$1.344 billion projected through attrition).”

1 reasonable, and sufficient” rates under RCW 80.28.010 were satisfied. Ms. Andrews will
2 provide more granular details on the Company’s positions, and Company witness Mr. Miller
3 will address the rate spread issues addressed by the Parties.

4 **Q. Have certain Parties presented alternative calculations for consideration**
5 **by the Commission?**

6 A. Yes. Staff, for instance, discussed a scenario whereby it would update its
7 attrition model and include 2015 year-end rate base levels, which would be substituted for the
8 “attrition rate base”. As discussed by Ms. Andrews, after correcting for certain modeling
9 errors, and limiting the refund to 11 months, as well as offsetting any refund for prior earnings
10 test rebates, the electric refund would be \$3.565 million, and there would be no natural gas
11 refund. Avista would also find this approach acceptable, for reasons explained by Ms.
12 Andrews.

13 **Q. With the benefit of knowing the Company’s actual earned returns in 2016,**
14 **2017 and 2018, what effect would the various parties refunds proposals have on the**
15 **Company’s returns?**

16 A. Table No. 3 below, reproduced from Ms. Andrews’ rebuttal testimony,
17 provides the return on equity the Company will have experienced in those years under the
18 various parties’ positions:

19

Table No. 3 – Earned Returns Incorporating Parties’ Positions

<u>"End Result" of Proposed Refunds - ROE Impact Washington (System)</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			

The Parties refund scenarios in 2018 were affected by the May 1, 2018 general rate increase approved by the Commission. As shown above, even the highest return of 8.45% return on equity is a full 105 basis points below the authorized 9.5% return on equity approved in 2015.

Q. Do you believe that any of those returns showing in Table No. 3 above produce a reasonable “end result”?

A. No, I do not, nor are they consistent with what the Commission has already determined to be an “unreasonable” return in its earlier determination in this docket. In Order 05 in this proceeding, at ¶132, the Commission stated:

Were we to reject an attrition adjustment for electric revenue requirement in this case, the result under Staff’s modified historical test year pro forma analysis would be a reduction in electric revenue requirement of more than \$20 million. Public Counsel and the intervenors recommend even more severe reductions based solely on a modified test year analysis with known and measurable pro forma adjustments. We cannot reasonably conclude such an end result would be appropriate under the standards in *Hope* and *Bluefield*. The Commission’s responsibility to set rates that are fair, just, reasonable, and sufficient turns not on the particular rate making methodology it selects, *i.e.*, modified historical test year or attrition, but on its outcome, or “end results.” Indeed, the Supreme Court in *Hope* determined that the

1 Federal Power Commission (FPC) “was not bound to the use of any single formula or
2 combination of formulae in determining rates.” (footnotes omitted)

3 And then in Order 06 on Reconsideration, the Commission was even more specific:⁵

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

15 **Q. Didn’t this Commission address this issue further in Order 06, when it**
16 **rejected Petitions for Clarification and Reconsideration?**

17 A. Yes, the Commission agreed with Avista’s arguments that the Commission
18 should focus on the end result. At that time, the Company stated that the Commission’s
19 reduction of \$8.1 million to the Company’s overall revenue requirement will still allow it an
20 actual opportunity to earn the stipulated 9.5 percent return on equity (ROE), in accordance
21 with the parties’ settlement. The Commission states at ¶23 in Order 06:

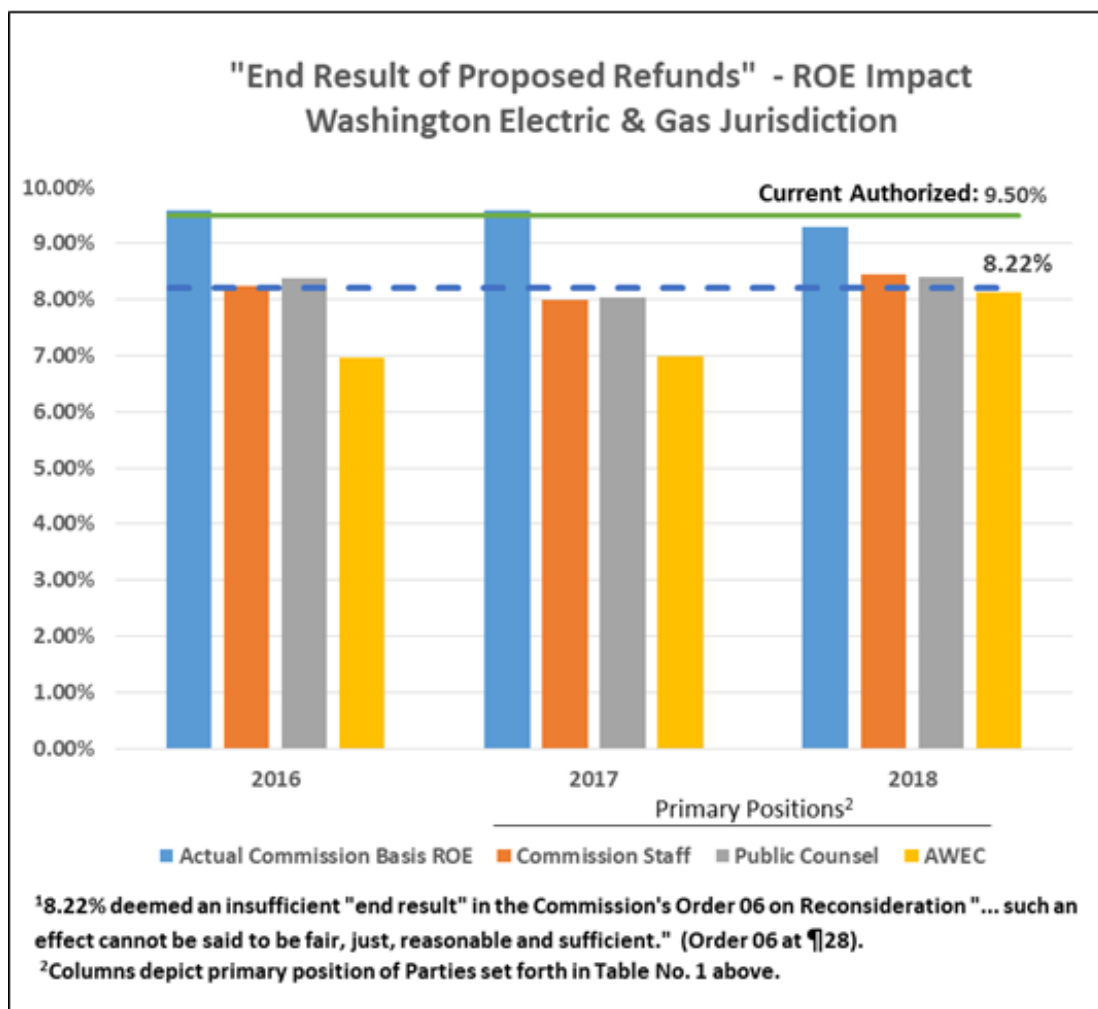
22 The Company argues that the \$19.8 million revenue requirement decrease proposed
23 by Joint Parties and the \$27.7 million decrease recommended by Staff “would not
24 come close to providing a reasonable opportunity for Avista to earn the agreed-upon
25 9.5 [percent] authorized ROE for 2016.” **Thus, Avista focuses appropriately on the**
26 **end result** reflected in Order 05 and cites specifically to the Commission’s reliance
27 on the ‘end result’ principle in the *Hope Natural Gas Co.* case that provides “it is the
28 result reached not the method employed which is controlling.” (emphasis added)
29 (footnotes omitted)
30

31 What is revealing is that none of the parties bothered to provide the returns associated
32 with their recommendations; indeed, they don’t even speak to this. It is as if the “end result”

⁵ Order 06, ¶27-28

1 of what they recommend doesn't matter. In fact, a reasonable "end result" should be the
 2 primary objective of this Commission. As previously stated, the Commission already found,
 3 in this proceeding, that an end result of 8.22% would not result in a reasonable end result. The
 4 retrospective lookback provided in Table No. 3 (and graphically shown in Illustration No. 1
 5 below) demonstrates that the Parties refunds would result in ROEs near or well below 8.22%,
 6 and nowhere near the authorized 9.5% - i.e., not a reasonable "end result".

7 **Illustration No. 1 - Earned Returns Incorporating Parties' Positions**



1 **Q. Turning now to arguments around a “computational error” associated**
2 **with the power supply adjustment, what do you understand the positions of the other**
3 **parties to be?**

4 A. Public Counsel and AWEC’s refund proposals purport to fix what they believe
5 is the “computational error” that has been associated with the power supply update. That
6 “computational error” has been previously addressed by the Commission on reconsideration
7 and was not remanded back to the Commission by the Court of Appeals. Staff, for its part,
8 simply updates their attrition model attempting to replicate the Commission’s determinations,
9 and in that manner addresses any “computational error”. Ms. Andrews will address this in
10 some detail.

11 **Q. Might the Commission have made other determinations in its Order 05,**
12 **had it known that attrition rate base was not a tool available at the time in order to reach**
13 **a reasonable end result?**

14 A. One can only speculate as to what actions the Commission might have taken,
15 but we do know, as the Commission stated, that they would have kept one eye on the “end
16 result” in the process. In order to bring the “end result” of its Order into the realm of
17 reasonableness, it may very well have reached different determinations of other issues.
18 Indeed, they could not do otherwise and still produce a reasonable end result. I am not going
19 to opine as to what those adjustments might be, but I do believe that the Commission would
20 have come to an end result well above what would be produced in this Remand Case.⁶ At a
21 minimum, had the Commission reopened the record, it would have given all of the parties the
22 appropriate due process to argue for particular adjustments that would have led to an

⁶ For example, the Commission might have included additional items of used and useful rate base that did not meet the arbitrary threshold level of 0.5 percent of rate base employed in that case.

1 appropriate end result. That, of course, was not the path chosen by the Commission, so now,
2 at this date almost 4 years later, to make a single adjustment, in isolation, related to the
3 “computational error” would not be fair, nor just, nor reasonable.

4 As an aside, to address this single item, without taking into account other “levers” that
5 the Commission may have pulled in order to end up at an appropriate end result smacks of
6 single-issue ratemaking. It is my understanding that single-issue ratemaking is generally
7 something that the Commission has not generally supported. To only look at one item
8 seemingly violates tenets of good ratemaking, in the context of a general rate case, whereby a
9 final approved revenue requirement is in essence a tapestry where a myriad of threads (issues)
10 are interwoven to get to a fair end result.

11 **Q. Did the end result approved by the Commission in Order 05 provide the**
12 **Company with the opportunity to earn its authorized rate of return at the time?**

13 A. Yes, as shown in Table No. 3 earlier, the final approved revenue requirement
14 in Order 05, and reexamined in Avista’s 2016 general rate case, did provide Avista with the
15 opportunity to earn our authorized return. In fact in two of those years the Company actually
16 slightly over-earned, and returned one-half of those funds back to customers through the
17 decoupling mechanism. We are proud that we were able to work hard by making tough
18 operating decisions, as well as benefit from unusual or unexpected items that benefitted the
19 Company. Examples of some of the unusual or unexpected items, some of which were outside
20 of the Company’s control, included reductions in pension and medical expenses, credit and
21 collection expenses, and other decreases in certain software costs. To that end, the Company’s
22 50/50 sharing mechanism worked as intended, and half of any overearnings were returned to
23 customers through the decoupling mechanisms. The end result from the 2015 case proved to

1 serve its purpose. But, now almost 4 years after Order 05, there is no way that we can go back
2 in time and manage around the level of refunds proposed for 2016, 2017, and 2018, and still
3 earn a fair return. The silence around this issue in the testimony of the Parties is notable.

4 **III. RATING AGENCIES & THE INVESTMENT COMMUNITY**

6 **Q. In light of the proposed refunds recommended by the Parties, what is your
7 view on how the Commission’s ultimate decision will be viewed by the Rating Agencies?**

8 A. I believe the Rating Agencies are watching this case, along with the
9 Company’s 2019 general rate case, extremely closely. One of the conditions that led to
10 Moody’s Investors Service December 2018 downgrade was that the “Baa2 rating also looks
11 at Avista’s less predictable regulatory outcomes in Washington, where the Company generates
12 about 60% of its revenue.”⁷ They later state that a “rating upgrade could be considered with
13 a demonstrated improvement in regulatory relationships.”⁸ This remand proceeding will
14 provide guidance to Moody’s.

15 Both Moody’s and S&P cite the regulatory environment in which a regulated utility
16 operates as the dominant qualitative factor to determine a company’s creditworthiness.
17 Moody’s rating methodology is based on four primary factors. Two of those factors – a
18 utility’s “regulatory framework” and its “ability to recover costs and earn returns” – make up
19 50 percent of Moody’s rating methodology⁹.

20 S&P states the following¹⁰:

⁷ Moody’s Investors Service, “Moody’s Downgrades Avista Corp. to Baa2, Outlook Stable”, December 20, 2018, p. 1

⁸ Moody’s Investors Service, “Moody’s Downgrades Avista Corp. to Baa2, Outlook Stable”, Dec. 20, 2018, p. 2.

⁹ Moody’s Investors Service, Rating Methodology: Regulated Electric and Gas Utilities, June 23, 2017.

¹⁰ Standard and Poor’s, Key Credit Factors: Business and Financial Risks in the Investor-owned Utility Industry, March 2010.

1 Regulation is the most critical aspect that underlies regulated integrated
2 utilities' creditworthiness. Regulatory decisions can profoundly affect
3 financial performance. Our assessment of the regulatory environments in
4 which a utility operates is guided by certain principles, most prominently
5 consistency and predictability, as well as efficiency and timeliness. For a
6 regulatory process to be considered supportive of credit quality, it must limit
7 uncertainty in the recovery of a utility's investment. They must also eliminate,
8 or at least greatly reduce, the issue of rate-case lag, especially when a utility
9 engages in a sizable capital expenditure program.

10
11 Because of the major capital expenditures planned by Avista and future maturities of
12 long-term debt, a supportive regulatory environment is essential in maintaining our current
13 credit rating. Language from Moody's Credit Opinion on Avista Corporation issued on
14 December 21, 2018, emphasizes the need for timely recovery of costs in Washington:¹¹

15 ...the company has had a contentious regulatory relationship with the
16 commission in recent history. Avista's February 2016 rate filing was rejected
17 by the WUTC in December 2016, and the company's request for
18 reconsideration of the decision was rejected by the commission in February
19 2017. This was a surprising outcome considering our view that a core
20 competency of utility management is managing regulatory relationships,
21 making an outright denial by the regulator unusual and unexpected. Since the
22 WUTC is Avista's most important regulator, overseeing roughly 60% of the
23 company's rate base and revenue generation, a strong regulatory relationship
24 with the WUTC is important for adequate regulatory relief and for Avista's
25 credit.
26

27 **Q. In attracting capital under reasonable terms, is it necessary to attract**
28 **capital from both debt and equity investors?**

29 A. Yes, it is absolutely essential. Rating agencies and potential debt investors
30 place significant emphasis on maintaining credit metrics and credit ratings that support our
31 access to debt capital markets under reasonable terms. This emphasis on financial metrics and
32 credit ratings is shared by equity investors who also focus on cash flows, capital structure and

¹¹ Moody's Investors Service, Credit Opinion, "Avista Corp.: Update following downgrade to Baa2, outlook stable", December 21, 2018.

1 liquidity, much like debt investors. Being able to choose among a variety of financing methods
2 at any given time also allows the Company to take advantage of better choices that may prevail
3 as the relative advantages of debt or equity markets can ebb and flow at different times.

4 Moreover, a fair and reasonable ROE is integral in meeting sound regulatory
5 economics and the standards set forth by the U.S. Supreme Court in the Bluefield and Hope
6 cases. A utility's allowed ROE should be sufficient to: 1) fairly compensate the utility's
7 investors, 2) enable the utility to offer a return adequate to attract new capital on reasonable
8 terms, and 3) maintain the utility's financial integrity. These standards should allow the utility
9 to fulfill its obligation to provide reliable service while meeting the needs of customers
10 through necessary system replacement and expansion, but they can only be met if the utility
11 has a reasonable opportunity to actually earn its allowed ROE.

12 **Q. Have rating agencies or the investment community commented**
13 **specifically on the rebate positions of the Parties?**

14 A. Yes. On Tuesday, September 17, 2019, Bank of America Merrill Lynch issued
15 an investment note that stated that:

16 Washington state Attorney General (AG), in a filing to the Washington Transportation
17 and Utility Commission (WUTC) is stating that AVA refund customers \$41mn for
18 overcharging them from 2016-2018. Further, WUTC staff noted that AVA should
19 refund customers \$43mn and the Alliance for Western Energy Consumers pegged the
20 refund at \$55mn. The request was principally related to an attrition adjustment ruling
21 from the 2016 rate case related to the company's normal capital investment program.
22 We perceive this to be a heightened risk for shares not only given the potential for a
23 one-time refund but also given the implicit risks to the company's pending rate case
24 before the WUTC. (emphasis added)
25

26 On Monday, September 16, 2019, The Williams Capital Group, in their "Equity Research",
27 also provided a report titled "Reducing Rating to Sell on Valuation, Unfavorable WA Staff
28 Testimony for Refunds". In the end, investment analysts watching our stock, and rating

1 agencies, are keeping a very close eye on this issue and other Washington regulatory matters.
2 Ultimately unfavorable regulatory treatment can lead to higher borrowing costs for our
3 customers, and ultimately higher rates.

4 **Q. Should the Commission decide a level of refund in the ranges proposed by**
5 **the Parties, what do you believe would be the impact in the debt and equity markets?**

6 A. That's a difficult question to answer definitively, but I believe that it may cause
7 the rating agencies to potentially look at a possible downgrade, or at least put the Company
8 on negative watch. As I have stated, the rating agencies are looking at regulation in the State
9 of Washington and, appropriately so, given that it is the Company's primary jurisdiction. An
10 adverse finding in this case, coupled with other recent orders perceived as negative (the 2016
11 general rate case, rejection of the 2017 Power Cost Rate Adjustment, and the Hydro One
12 Proposed Merger), may perpetuate perceptions around the regulatory climate in Washington.

13

14

IV. OTHER ISSUES

15 **Q. Mr. McGuire, on p. 22, states that Avista in its 2018 10-K "identifies**
16 **contingent liabilities associated with the Remand as high as \$28.3 million for Electric**
17 **and \$6.9 million for Natural Gas." Is Mr. McGuire correct in his portrayal?**

18 A. No, he is not at all accurate. First, in the 2018 10-K, at p. 34, we state:

19 The total attrition allowance approved by the WUTC was \$35.2 million, with \$28.3
20 million related to electric and \$6.9 million related to natural gas. The Company cannot
21 predict the outcome of this matter at this time and **cannot estimate how much, if any,**
22 of the attrition allowance may be removed from the general rate cases. (emphasis
23 added)

24

25 Clearly the excerpts above provides the total attrition rate base allowance approved in this
26 case. The above was included in the 10-K as informational purposes only to provide

1 background on the issues and risks related to the 2015 rate case. If the Company believed it
2 had a liability related to the above amount, it would have been required to record such much
3 amounts in the financial statements.

4 **Q. Are there general rules or guidelines that Avista MUST follow as it relates**
5 **to its financial statements?**

6 A. Yes. Accounting Standards Codification (ASC) 450, “Contingencies”, outlines
7 the accounting and disclosure requirements for loss contingencies. An estimated loss from a
8 loss contingency is recognized only if the available information indicates that (1) it is probable
9 that a liability has been incurred at the reporting date and (2) the amount of the loss can be
10 reasonably estimated. Loss contingencies that do not meet both criteria for recognition still
11 may need to be disclosed in the financial statements. No liability was recorded at December
12 31, 2018 as the Company determined that it was not probable that a liability had been incurred.

13 **Q. Prior to September 2018, had the Company accrued a contingent liability**
14 **related to this Remand?**

15 A. No, the Company did not accrue for this potential liability because it was not
16 possible to reasonably estimate the amount of any refunds, nor had the Court of Appeals issued
17 their Order on the appeal remanding back the portion of attrition associated with the escalation
18 of rate base. At that time, the Company based its decision on the Commission’s Order 06
19 denying the petition for reconsideration of this issue.

20 **Q. Prior to September 2019, had the Company accrued a contingent liability**
21 **related to this Remand?**

22 A. No, for the reasons discussed above. However, it should be noted that the
23 Company did, in September 2019, accrue a contingent liability of \$2.9 million. That was

1 informed by further process in this case, including testimony of the parties and our
2 compromise position on rebuttal.

3

4 **V. INTRODUCTION OF WITNESSES**

5 **Q. Would you please provide a brief summary of the testimony of the other**
6 **witnesses representing Avista in this proceeding?**

7 A. Yes. The following additional witnesses are presenting rebuttal testimony on
8 behalf of Avista:

9 Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, addresses the
10 Company's position on rebuttal, and each of the primary issues of contention in this Remand
11 Proceeding, namely, should ordered refunds include: 1) "attrition" rate base only, or reflect
12 the correction of what the Parties argue is a "calculation error" related to the October 29, 2015
13 power supply update and/or require the recalculation of the attrition adjustment; 2) the 11
14 month period from January 11, 2016 to December 15, 2016, or expanded to approximately
15 2.3 years through April 30, 2018; 3) an offset for actual "earnings sharing" amounts previously
16 refunded to customers; and 4) use of data available now, but which did not exist when Order
17 05 was entered, to calculate "used and useful" rate base for the 2016. All of these issues, as
18 explained by Ms. Andrews, should be addressed within the context of this Commission's prior
19 Order 05 and 06 (on Reconsideration), and most importantly, should result in a final decision
20 that provides a reasonable "end result."

21 Mr. Joseph Miller, Manager of Pricing and Tariffs, addresses the rate spread, rate
22 design, and implementation of any possible refund should the Commission determine that a
23 refund is necessary as a result of this Remand Proceeding.

1 **Q. Does this conclude your rebuttal testimony?**

2 A. Yes.