

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, D/B/A
AVISTA UTILITIES,

Respondent.

DOCKETS UE-160228 and
UG-160229 (*Consolidated*)

REPLY COMMENTS OF AVISTA
CORPORATION TO THE ANSWERS OF
STAFF, PUBLIC COUNSEL/ENERGY
PROJECT, ICNU AND NWIGU

INTRODUCTION

1 On January 13, 2017, Commission Staff, the Northwest Industrial Gas Users (NWIGU),
Public Counsel/The Energy Project, and the Industrial Customers of Northwest Utilities (ICNU)
filed Answers to Avista’s Petition for Reconsideration or, in the Alternative, for Rehearing.

2 On January 20, 2017, Avista filed a “Motion for Avista Corporation for Leave to File Reply
Comments” to the Answers of Staff, Public Counsel/Energy Project, ICNU and NWIGU.
Below are the Reply Comments of Avista.

REPLY COMMENTS OF AVISTA

3 Certain comments provided by the non-Avista parties in answer to Avista’s Petition for
Reconsideration, or in the Alternative, for Rehearing, are either inconsistent with the record in this
case and/or misrepresent the information in the record. The Commission should not be influenced
by these comments.

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The Commission Staff's Answer in particular is inconsistent with the record in this case. The Commission Staff spent approximately nine months developing and supporting an electric revenue increase recommendation to the Commission of \$25.6 million, and a natural gas revenue increase of \$2.1 million.¹ After establishing a record that, in its view, supports electric and natural gas revenue increases for Avista, Staff now abandons its case and its recommendations, and takes the position that the Company "failed to meet its burden of proof with respect to its proposed rate increase."² Commission Staff's Answer, indicating that it now supports no revenue increase for the Company, is inconsistent with the case it presented to the Commission, and is inconsistent with the record in this case before the Commission. The arguments contained within Commission Staff's Answer, which are inconsistent with its own recommendation in the record to the Commission, should be rejected by the Commission.

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Turning now to NWIGU's Answer, it states, in part, that, ". . . the Company explained that its practice is to spend up to its authorized revenue by ramping up expenditures late in the year if funds are available."³ (emphasis added) ICNU's Answer states, in part, that, ". . . the Company establishes a "self-fulfilling prophecy" by continually driving up expenditures to match projections with prior attrition studies."⁴ (emphasis added) Both NWIGU and ICNU continue to misrepresent Avista's testimony. Nowhere in Avista's testimony, exhibits, nor anywhere else in the record, does it show that Avista made such statements, i.e., that it spends to match "authorized revenue," or "projections with prior attrition studies."

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What Company witness Mr. Thies, Avista's Chief Financial Officer, explained in his direct pre-filed testimony is that Avista continues to operate under a constrained capital expenditure

¹ Order 06, ¶64, Table One.

² Staff's Answer, ¶37

³ NWIGU's Answer, ¶40.

⁴ ICNU's Answer, ¶25.

program where it is choosing to spend less than the capital expenditure amounts requested by the operating departments of the Company each year.⁵ Because Avista is spending less than what it needs to spend each year, if some projects are delayed, other projects are started in their place in an attempt to prevent the backlog of delayed projects from growing larger. Avista's expenditures are within the constrained capital expenditure level for the year, and not to some "authorized revenue" or "projections with prior attrition studies," as represented by ICNU and NWIGU.

7 Mr. Thies explains how the Company identifies and prioritizes capital expenditure projects beginning on page 5 of his direct testimony (Exhibit No. MTT-1T), in response to the following question:

Q. In the Commission's Order 05 in Docket Nos. UE-150204 and UG-150205 the Commission required the Company in the future to provide more analysis showing how it plans and prioritizes capital investments.⁶ Although the Commission's directive was focused primarily on distribution plant investment, would you please explain how Avista plans and prioritizes all of its incremental capital investment?

For the next 11 pages of his testimony, Mr. Thies explains how the Company identifies and priorities spending within a constrained capital budget, and introduces four other Company witnesses that explain in detail the immediate need for capital expenditures for generation, transmission, distribution, general plant, and information technology.

8 With regard to any appearance that Avista ramps up expenditures at the end of the year, ICNU and NWIGU continue to draw, and represent, incorrect conclusions from the information in the record. The information provided by the Company in this case shows that a major portion of transfers to plant in service related to capital projects occurs in the fourth quarter of the year. The fourth quarter is the end of the construction season in eastern Washington, where many projects

⁵ Exhibit No. MTT-1T, pp 5-15.

⁶ Order 05, page 52.

are completed just prior to the ground freezing and the snowfall. The fourth quarter is the period where projects are ramped down, not up. With the completion of projects at the end of the construction season, the dollars already spent during the construction season are transferred to plant in service. Therefore, the data in the record actually shows a ramp down of projects, and an increase in transfers of the dollars already spent to plant in service at the end of the construction season.⁷ The Commission should not be misled by ICNU and NWIGU using this data to suggest there is a “ramp up” in expenditures at the end of the year. These dollars are largely transfers at the end of the construction season; all within the confines of a constrained annual capital expenditure budget.

⁹ The Commission should also not be swayed by ICNU’s suggested logical extension of the \$8.1 million electric revenue reduction in the last case (Docket Nos. UE-150204 and UG-150205), to support the reasonableness of no revenue increase in this case.⁸ We all know that Avista’s need for an electric revenue increase in that prior case was eliminated following its original filing, due to the substantial reduction in power supply costs during the pendency of the case. Avista was transparent in updating all parties of this change throughout the case. At the end of that case, Avista adjusted its request to reflect a revenue reduction of \$5.7 million⁹, as compared with the revenue reduction ordered by the Commission of \$8.1 million.¹⁰ In contrast, in this case Avista’s updated revenue increase request at the end of the case is \$38.6 million¹¹, as compared to the Commission’s Order 06 decision of zero. The rate reduction in the last case is unrelated to the revenue adjustment needed in this case.

⁷ Commission Staff witness Mr. Hancock recognized this “end of the construction season” effect beginning on page 9 of his testimony (Exhibit No. CSH-1T).

⁸ ICNU’s Answer ¶27, and Footnote 61 in particular.

⁹ Docket Nos. UE-150204 and UG-150205, Avista Response to Motion to Reopen, ¶12.

¹⁰ Docket Nos. UE-150204 and UG-150205, Order 05, ¶283.

¹¹ Order 06, ¶7.

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Next, in Paragraph 15 of Commission Staff's Answer it takes issue with the Company's calculation of Avista's return on equity (ROE) opportunity for 2017 of 6.8%, with no revenue increase for the year. Staff's comments seem to suggest that Avista's earnings opportunity for 2017 would be better than that represented by the Company if different rate base numbers were used in the calculation. Avista used the rate base levels from its attrition studies, as indicated by Staff. Staff does not present to the Commission what the earnings opportunity for Avista would be if other rate base amounts were to be used. If Commission Staff's recommended rate base numbers were used, it would result in an ROE earnings opportunity for Avista in 2017 of 7.0%, instead of the 6.8% presented by the Company.¹² As compared to the current ROE of 9.5%, either one of these numbers represent a substantial earnings shortfall for Avista during 2017 in the range of \$34.8 million to \$37.5 million.¹³

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Finally, Commission Staff presents misleading information regarding the impact of Order 06 on Avista's stock price. First, Staff states that Avista's stock price increased 1.24% on December 15, 2016, the day the order was issued.¹⁴ Staff overlooks the fact that the Order was issued after the close of the stock market, and thus the increase in the stock price for that day was completely unrelated to Order 06. Staff also concludes that, "Avista's share price, however, remains well within lines of where the stock has traded over the past year."¹⁵ Staff ignores the fact that investors compare the return opportunity from Avista with other similar utilities, as well as companies in other sectors of the economy with comparable risks. Therefore, the relevant comparison is not how Avista's stock price has moved over the last 52 weeks, as compared to

¹² The Company's 6.8% ROE per "Avista Corporation Petition for Reconsideration or, in the Alternative, for Rehearing", Attachment B; Commission Staff's 7.0% ROE calculated using Staff proposed rate base per Exhibit No. JH-2, pg 2, row 50 and JH-3 Revised, pg 2, row 47.

¹³ From Exhibit Nos. JSS-3 and JSS-4, pgs 3 and 4; Exhibit No. JH-2 and JH-3 Revised, pg 2.

¹⁴ Commission Staff's Answer, ¶34.

¹⁵ Id.

itself, but how Avista's stock price changed in comparison to its peer utilities. During the 52 weeks prior to Order 06 Avista's stock price generally moved up in line with its peer utilities. Following Order 06, however, Avista's stock price went down while the stock price for peer utilities and the S&P 400 Utilities Index generally went up. The chart provided as Attachment A to these Reply Comments shows Avista's stock price, following Order 06, separating from its peer utilities, and declining by 8.82% as compared to the S&P 400 Utilities Index (the 8.82% represents a decline in the market value of the Company of approximately \$240 million). The impact on Avista's stock price, therefore, is much greater than that represented by Staff.

¹² This discussion also does not reflect a further decline in Avista's stock price, which may occur following a Commission order resolving the Petition for Reconsideration/Rehearing. If the Commission were to ultimately order no revenue increase, it would preclude a revenue increase for Avista's Washington operations for well over a year from now.¹⁶ The information presented by Commission Staff incorrectly suggests that the stock price impact and financial impact on Avista from Order 06 is minimal.

¹³ In closing, as Avista discussed in its Petition for Reconsideration/Rehearing, it believes that, while the record is fresh, further exploration of the possibilities for a multi-year rate plan should be addressed through the use of the Alternative Dispute Resolution procedures of WAC 480-07-700, including the possible appointment of a Settlement Judge. If successful, any all-party or multi-party settlement in these dockets may forestall the need for Avista to immediately file for additional rate relief.¹⁷

¹⁶ Including the time it takes to prepare a rate case, together with the 11-month period the Commission generally takes to process a case.

¹⁷ While there may not be sufficient consensus among all parties to support the filing of a Joint Motion to this effect at this time, the Commission may, in its own discretion, otherwise provide such an opportunity through directing the assigned ALJ to convene such a settlement conference, if it believes that the parties should be given this additional opportunity to explore a multi-year rate plan.

RESPECTFULLY SUBMITTED this 20th day of January 2017.

AVISTA CORPORATION

By: 

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Avista's Stock Performance vs. Peers- Post-Order Only

Percent change compared to Northwest Peers and S&P 400 Utilities Index after receiving order Dec. 16, 2016 – Jan. 17, 2017.

