

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-190334

DOCKET UG-190335

DOCKET UE-190222 (Consolidated)

JOINT TESTIMONY OF

PATRICK D. EHRBAR (AVISTA)  
ELIZABETH M. ANDREWS (AVISTA)  
CHRIS R. MCGUIRE (STAFF)  
COREY J. DAHL (PUBLIC COUNSEL)  
DR. LANCE D. KAUFMAN (AWEC)  
WENDY M. GERLITZ (NW ENERGY COALITION)  
SHAWN M. COLLINS (THE ENERGY PROJECT)  
DOUG HOWELL (SIERRA CLUB)

IN SUPPORT OF  
THE PARTIAL MULTIPARTY SETTLEMENT STIPULATION

**I. INTRODUCTION**

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**Q. Please state your names, titles, and the party you represent in this matter.**

A. Our names, titles, and representation are as follows:

- Patrick D. Ehrbar, Director of Regulatory Affairs, Avista
- Elizabeth M. Andrews, Senior Manager of Revenue Requirements, Avista
- Chris R. McGuire, Assistant Director of Energy Regulation, Commission Staff
- Corey J. Dahl, Regulatory Analyst, Public Counsel Unit of the Washington State Office of the Attorney General (Public Counsel)
- Dr. Lance D. Kaufman, Independent Consultant, representing Alliance of Western Energy Consumers (AWEC)
- Wendy M. Gerlitz, Policy Director, NW Energy Coalition (NVEC)
- Shawn M. Collins, Director, The Energy Project
- Doug Howell, Senior Campaign Representative, Sierra Club

Together we are representatives of the “Parties” in this Joint Testimony.

**Q. Are you sponsoring Joint Testimony in support of the Partial Multiparty Settlement Stipulation filed with this Commission on November 21, 2019?**

A. Yes. This Joint Testimony of the Parties recommends approval of the Partial Multiparty Settlement Stipulation by the Commission. If approved, this Partial Multiparty Settlement Stipulation resolves all issues in this proceeding, with the exception of (1) the Company’s decoupling proposal, which is not subject to any agreement among any of the parties; (2) the natural gas revenue requirement of \$8.0 million, which Public Counsel does not agree to or support; and (3) the remaining Energy Recovery Mechanism (“ERM”) issues in UE-190222 (that are not otherwise addressed in the investigation being conducted in UE-190882). The Partial Multiparty Settlement Stipulation represents a compromise among differing points of view. Concessions were made by the Parties to

1 reach a reasonable balancing of interests. As will be explained in the following testimony,  
2 the Partial Multiparty Settlement Stipulation received significant scrutiny and is supported  
3 by sound analysis and sufficient evidence. Its approval is in the public interest. The Partial  
4 Multiparty Settlement Stipulation has been marked as Exh. JT-2.

5 **Q. What is the scope of your testimony?**

6 A. This Joint Testimony addresses Avista's general rate case filings in these  
7 dockets and the scope of the Partial Multiparty Settlement Stipulation and its principal  
8 aspects. It also includes a statement of the Parties' views about why the Partial Multiparty  
9 Settlement Stipulation satisfies their interests and is in the public interest.

10 **Q. Would you briefly summarize the Partial Multiparty Settlement**  
11 **Stipulation?**

12 A. Yes. As part of the Partial Multiparty Settlement Stipulation, the Parties  
13 agree that, effective with service on and after April 1, 2020, Avista's annual electric  
14 revenues would increase by \$28.5 million from 2018 levels, representing a \$17.3 million  
15 reduction from the Company's original request of \$45.8 million.

16 In addition, all Parties, with the exception of Public Counsel, agree to an annual  
17 overall natural gas revenue increase of \$8.0 million above 2018 levels; this is a \$4.9  
18 million reduction from Avista's original request of \$12.9 million.

19 The overall increase in base electric rates would be 5.7 percent<sup>1</sup> under the Partial  
20 Multiparty Settlement, prior to Energy Recovery Mechanism (ERM) refund described  
21 below – i.e., down from Avista's original request to increase base electric rates by 9.1

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<sup>1</sup> The net overall increase in electric billed rates, prior to the effect of the ERM refund, is 5.4 percent.

1 percent. The Parties agree that the final ERM customer deferred balance approved by the  
2 Commission in Docket UE-190222 will be returned to customers over a two-year period  
3 beginning April 1, 2020, through March 31, 2022, with the exception of \$0.5 million,  
4 which will be applied to the accelerated Colstrip production plant depreciation expense for  
5 the rate year beginning April 1, 2020, as described below. Natural gas rates would increase  
6 overall by 8.5 percent<sup>2</sup> with the Partial Multiparty Settlement, down from Avista's original  
7 request to increase base natural gas rates by 13.8 percent. This Settlement constitutes a  
8 single year rate increase. The Parties do not agree to a second year electric or natural gas  
9 rate increase, as proposed by Avista in their original request.

10 Further, with the exception of certain items specifically called out below (e.g., cost  
11 of capital), the overall electric and natural gas revenue requirements are part of a "black  
12 box" settlement, reflecting the give-and-take on multiple issues.

13 The Parties have specifically agreed to a capital structure consisting of 51.5 percent  
14 debt and 48.5 percent common equity. The authorized return on common equity will be set  
15 at 9.4 percent, with a cost of debt of 5.15 percent. The resulting authorized rate of return  
16 would be 7.21%.<sup>3</sup>

17 The Partial Multiparty Settlement Stipulation also addresses other items agreed to  
18 by the Parties, including electric and natural gas rate spread and rate design, as well as  
19 certain miscellaneous agreed-to items including, but not limited to, increases to low-  
20 income weatherization and Low Income Rate Assistance Program (LIRAP) funding,

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<sup>2</sup> The net overall increase in natural gas billed rates is 5.2 percent.

<sup>3</sup> The 7.21 percent also represents the agreed-upon "Allowance For Funds Used During Construction" (AFUDC).

1 review and development of special contracts, as well as agreement regarding the  
2 amortization of certain deferrals, as further described below.

3 Lastly, as part of the Partial Multiparty Settlement Stipulation, the Parties agree to  
4 the acceleration of Colstrip Units 3 and 4 production plant to 2025, the placement of  
5 decommissioning and remediation (D&R) costs into a regulatory asset (“Colstrip D&R  
6 Regulatory Asset”), as well as the recovery of these costs, as described further below. In  
7 addition, the Parties agree, among other things, to a Colstrip Community Transition Fund  
8 of \$3.0 million, that will be funded 50% (or \$1.5 million) from customers<sup>4</sup>, and 50% (or  
9 \$1.5 million) from Avista’s shareholders.<sup>5</sup>

10 Later in our testimony, we discuss in more detail the elements of the Partial  
11 Multiparty Settlement Stipulation, specifically the revenue requirement, electric and natural  
12 gas rate spread/rate design, Colstrip Units 3 and 4 accounting, and the miscellaneous other  
13 issues as outlined in the Partial Multiparty Settlement Stipulation.

14 **Q. Who are the signatories to the Partial Multiparty Settlement**  
15 **Stipulation?**

16 **A.** The Partial Multiparty Settlement Stipulation, filed November 21, 2019,  
17 was signed by Avista, Commission Staff, the Public Counsel Unit of the Washington State  
18 Office of Attorney General, the Alliance of Western Energy Consumers, the NW Energy  
19 Coalition, the Energy Project, and the Sierra Club. These represent all parties to these  
20 proceedings.

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<sup>4</sup> The customer portion of \$1.5 million would be funded on April 1, 2020 and deferred for future rate recovery without a carrying charge.

<sup>5</sup> The shareholder portion would be funded on April 1, 2020 after the Settlement Stipulation is approved by the Commission.

1           **Q.     What is the proposed effective date of the Partial Multiparty**  
2 **Settlement?**

3           A.     The Partial Multiparty Settlement Stipulation calls for an effective date of  
4 April 1, 2020.

5                           **II. QUALIFICATIONS OF WITNESSES**

6           **Q.     Mr. Patrick Ehrbar, please state your name, address and provide**  
7 **information pertaining to your educational background and professional experience.**

8           A.     My name is Patrick D. Ehrbar and my business address is 1411 East  
9 Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs  
10 Department as the Director of Regulatory Affairs. I filed direct testimony in this  
11 proceeding on behalf of Avista on April 30, 2019, and my educational background and  
12 professional experience are described in that testimony, in Exh. PDE-1T.

13           **Q.     Ms. Elizabeth M. Andrews, please state your name, address and**  
14 **provide information pertaining to your educational background and professional**  
15 **experience.**

16           A.     My name is Elizabeth M. Andrews and my business address is 1411 East  
17 Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs  
18 Department as Senior Manager of Revenue Requirements in the Regulation Affairs  
19 Department. I filed direct testimony in this proceeding on behalf of Avista on April 30,  
20 2019, and my educational background and professional experience are described in that  
21 testimony, in Exh. EMA-1T.

1           **Q. Mr. Chris McGuire, please state your name, address and provide**  
2 **information pertaining to your educational background and professional experience.**

3           A. My name is Chris R. McGuire, I am employed by the Washington Utilities  
4 and Transportation Commission (“Commission”) as the Assistant Director of Energy  
5 Regulation, Regulatory Services Division. I filed response testimony in this proceeding on  
6 behalf of Commission Staff on October 3, 2019, and my educational background and  
7 professional experience are described in that testimony, in Exh. CRM-1T.

8           **Q. Mr. Corey Dahl, please state your name, address and provide**  
9 **information pertaining to your educational background and professional experience.**

10          A. My name is Corey J. Dahl and my business address is 800 Fifth Avenue,  
11 Suite 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the  
12 Public Counsel Unit of the Washington State Office of the Attorney General. I filed  
13 response testimony in this proceeding on behalf of Public Counsel on October 3, 2019, and  
14 my educational background and professional experience are described in that testimony, in  
15 Exh. CJD-1T.

16          **Q. Dr. Kaufman, please state your name, address and provide information**  
17 **pertaining to your educational background and professional experience.**

18          A. My name is Dr. Lance D. Kaufman, and my business address is 4801 W.  
19 Yale Ave., Denver, CO 80219. I am an independent consultant testifying on behalf of the  
20 Alliance of Western Energy Consumers (“AWEC”). I filed confidential response  
21 testimony in this proceeding on behalf of AWEC on October 3, 2019, and my educational  
22 background and professional experience are described in that testimony, in Exh. LDK-2.

1           **Q.     Ms. Wendy Gerlitz, please state your name, address and provide**  
2 **information pertaining to your educational background and professional experience.**

3           A.     My name is Wendy M. Gerlitz. I am the Policy Director of the NW Energy  
4 Coalition (“NWEC”). I filed response testimony in this proceeding on behalf of NWEC on  
5 October 3, 2019, and my educational background and professional experience are  
6 described in that testimony, in Exh. WMG-1T.

7           **Q.     Mr. Shawn Collins, please state your name, address and provide**  
8 **information pertaining to your educational background and professional experience.**

9           A.     My name is Shawn M. Collins. I am the Director of The Energy Project. I  
10 filed response testimony in this proceeding on behalf of The Energy Project on October 3,  
11 2019, and my educational background and professional experience are described in that  
12 testimony, in Exh. SMC-2.

13          **Q.     Mr. Doug Howell, please state your name, address and provide**  
14 **information pertaining to your educational background and professional experience.**

15          A.     My name is Doug Howell. My business address is 180 Nickerson St, Suite  
16 202, Seattle, WA 98109. I am a Senior Campaign Representative for the Sierra Club’s  
17 Beyond Coal Campaign appearing on behalf of the Sierra Club. I am responsible for  
18 coordinating advocacy and strategy for the Beyond Coal Campaign in the Pacific  
19 Northwest. My work includes engaging with utilities to advocate for the responsible  
20 transition away from fossil fuel resources towards clean energy and energy efficiency. I  
21 have managed Sierra Club’s advocacy work related to Colstrip for more than eight years.

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### III. SETTLEMENT PROCESS

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**Q. Please describe the process that led to the filing of the Partial Multiparty Settlement Stipulation.**

A. Representatives of all parties appeared telephonically, and in person, at an initial settlement conference held on September 19, 2019. A second Settlement Conference was held on October 29, 2019, with additional telephonic and email discussions through November 6, 2019, which led to this Partial Multiparty Settlement Stipulation.

Extensive discussions occurred on all components of the Company's filing, such as the cost of capital, rate base, and various expense items. Ultimately, with the exception of certain items specifically called out below (e.g., cost of capital), the overall electric and natural gas revenue requirements<sup>6</sup> were agreed to as part of a "black box" settlement, reflecting the "give-and-take" on multiple issues by the Parties that characterizes settlement discussions and arrival at a reasonable balance of differing interests.<sup>7</sup> Each of the Parties ultimately agreed to concessions on matters which would not have been agreed to if each of the Parties were to proceed to evidentiary hearings.

Significant discovery occurred over the months preceding finalization of the Partial Multiparty Settlement Stipulation. The Company responded to over 840 data requests (including sub-parts) and provided the responses to all parties. As a result, the Parties believe that the issues were thoroughly vetted among themselves.

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<sup>6</sup> Public Counsel does not support the overall change in natural gas revenue requirement described in the Settlement Stipulation.

<sup>7</sup> On or before December 3, 2019 the Company, on behalf of all parties, will file a "Joint Issues Matrix," as is required in litigated rate cases. This will identify the components of Avista' requested rate relief.

1 **Q. What issues were not resolved by this Partial Multiparty Settlement?**

2 A. If approved, this Partial Multiparty Settlement would resolve all issues in  
 3 this proceeding, with the exception of (1) the Company's decoupling proposal, which is not  
 4 subject to any agreement among any of the parties; (2) the natural gas revenue requirement  
 5 of \$8.0 million, which Public Counsel does not agree to or support; and (3) the remaining  
 6 ERM issues in Docket UE-190222 (that are not otherwise addressed in the investigation  
 7 being conducted in Docket UE-190882).

8 **IV. REVENUE INCREASES**

9 **Q. Please explain the Electric and Natural Gas Revenue increases outlined**  
 10 **in the Settlement Stipulation.**

11 A. After extensive discussions, the Parties agreed that Avista should receive a  
 12 \$28.5 million electric revenue increase effective April 1, 2020. While Avista's filing  
 13 requested an electric revenue increase of \$45.8 million for year one and \$18.9 million for  
 14 year two, the agreed upon revenue increase reduces this amount by approximately \$17.3  
 15 million for year one, and eliminates the proposed increase in year two.

16 Similarly, the Company requested a natural gas revenue increase of \$12.9 million  
 17 for year one and \$6.5 million for year two. The agreed-upon revenue increase by all Parties,  
 18 with the exception of Public Counsel, reduces the year one amount by approximately \$4.9  
 19 million, resulting in a recommended natural gas revenue increase of \$8.0 million, effective  
 20 April 1, 2020 for year one, and removes the proposed increase in year two.

21 **Q. Please explain the Parties' agreement in regards to the weighted cost of**  
 22 **capital.**

1 A. The Parties agree to a weighted cost of capital (or rate of return) as follows:

Component	Capital Structure	Cost	Weighted Cost
Total Debt	51.5%	5.15%	2.65%
Common Equity	48.5%	9.40%	4.56%
Total	<u>100.00%</u>		<u>7.21%</u>

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6 The 7.21 percent rate of return also represents the “Allowance For Funds Used During  
7 Construction” (AFUDC) rate used by the Company for various purposes.

8 **Q. Please explain the components of the Stipulation related to the use of**  
9 **Energy Recovery Mechanism refund amounts.**

10 A. The Parties agree that the final ERM customer deferred balance approved by  
11 the Commission in Docket UE-190222<sup>8</sup> will be returned to customers over a two-year  
12 period beginning April 1, 2020, through March 31, 2022, through Tariff Schedule 93,  
13 except for \$0.5 million, which will be applied to the accelerated Colstrip production plant  
14 depreciation expense of \$2.6 million for the rate year beginning April 1, 2020, discussed  
15 further below.

16 Currently, the ERM refund balance stands at \$24.7 million, based on previously  
17 reviewed ERM entries through 2017. Additional ERM entries for 2018 are currently under  
18 review in Docket UE-190222 and UE-190882, but if approved, would increase the total  
19 deferral balance to \$34.4 million. The allocation of the refund amounts (over the two-year

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<sup>8</sup> The final balance approved by the Commission will also incorporate the determinations made in Docket UE-190882.

1 period) across rate schedules will be consistent with the Company's proposal contained in  
 2 Exh. PDE-1T at 6:6-9 in Docket UE-190222.<sup>9</sup>

### 3 V. RATE SPREAD/RATE DESIGN

4 **Q. Please explain the provisions in the Settlement Stipulation related to the**  
 5 **electric and natural gas rate spread and rate design?**

6 A. Regarding rate spread, the Parties agree to the following for electric:

7 <u>Electric Rate Spread (000s)</u>	Increase in	Increase in	Increase in
8 <u>Rate Schedule</u>	<u>Base Rates</u>	<u>Base Rates</u>	<u>Billing Rates</u>
9 Residential Schedules 1/2	\$ 14,579	6.7%	6.5%
10 General Service Schedules 11/12	\$ 2,131	2.8%	2.6%
11 Large General Service Schedules 21/22	\$ 7,135	5.7%	5.2%
12 Extra Large General Service Schedule 25	\$ 3,789	5.7%	5.5%
Pumping Service Schedules 31/32	\$ 684	5.7%	5.2%
Street & Area Lights Schedules 41-48	\$ 182	<u>2.8%</u>	<u>2.7%</u>
<b>Overall</b>	<b><u>\$ 28,500</u></b>	<b><u>5.7%</u></b>	<b><u>5.4%</u></b>

13 The Parties agree to the following rate spread for natural gas:

14 <u>Natural Gas Rate Spread (000s)<sup>10</sup></u>	Increase in	Increase in	Increase in
15 <u>Rate Schedule</u>	<u>Base Rates</u>	<u>Margin Rates</u>	<u>Billing Rates</u>
16 General Service Schedules 101/102	\$ 6,187	8.7%	5.5%
17 Large General Service Schedules 111/112/116	\$ 1,515	8.7%	4.3%
18 Interrupt. Sales Service Schedules 131/132	\$ 17	8.7%	3.9%
Transportation Service Schedule 146	\$ 281	8.7%	8.6%
Special Contracts Schedule 148	\$ -	<u>0.0%</u>	<u>0.0%</u>
<b>Overall</b>	<b><u>\$ 8,000</u></b>	<b><u>8.5%</u></b>	<b><u>5.2%</u></b>

<sup>9</sup> The \$34.4 million rebate balance (plus interest, less \$0.5 million applied to accelerated Colstrip production plant depreciation expense) would be spread by the Generation Level Consumption (E02 Allocator), which is consistent with the allocation approved by the Commission for the Renewable Energy Credits (REC) rebate approved in Docket UE-140188, Order 05. Assuming an approximate \$34.4 million amount (adjusted for interest and the \$0.5 million) were returned to customers over the proposed two-year period, would result in an average rate reduction of approximately 3.8%.

<sup>10</sup> Reflects elimination of Schedules 121/122/126 as discussed by Mr. Miller in Exh. JDM-1T.

1           Regarding rate design, the Parties agree to the rate design as proposed by Avista in  
2 its direct case (Exh. JDM-1T at 9:15 (electric) and 21:28 (natural gas)), with the exception  
3 of Schedule 25, which reflects AWEC’s proposal as described within their testimony (Exh.  
4 LDK-1T at 30:14-33:2) and calls for the revenue increase for Schedule 25 to be applied to  
5 fixed and variable demand charges, as well as an increase in the 60 kV – 115 kV and the  
6 115 kV or higher primary voltage discounts (“transmission credit”). Attachment A to Exh.  
7 JT-2 provides a summary of the current and revised rates and charges for electric and  
8 natural gas services.<sup>11</sup>

9           Section III, paragraph 11, of the Partial Multiparty Stipulation provides a detailed  
10 description of the spread of the proposed electric and natural gas revenue increases. As it  
11 relates to electric, Page 1 of Attachment A shows the Company’s electric agreed-upon Rate  
12 Spread. Page 2 of Attachment A of the Stipulation shows the proposed rates within the  
13 Company’s electric service schedules.

14           As it relates to natural gas, Attachment A, page 4, shows the proposed increase to  
15 the Company’s natural gas service schedules and page 5 shows the proposed rates within  
16 each of those schedules.

17           **Q.     Please describe the rate design that was agreed to in the Stipulation for**  
18 **electric service, as shown on page 3 of Attachment A.**

19           A.     The components of rate design are as follows:

20           1) The Residential Basic Charge (Schedule 1) will remain at \$9.00 per month.

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<sup>11</sup> Included with the Company’s compliance filing in this proceeding, the Company will file a new level of baseline values for the electric and natural gas decoupling adjustment mechanism, reflecting this Partial Multiparty Settlement Stipulation and the Commission’s resolution of outstanding decoupling issues.

- 1           2) For the rate design of Schedule 1, the revenue applicable to the volumetric rates is  
2           spread on a uniform percentage basis to the energy blocks.
- 3           3) For the rate design of Schedule 25, the demand charge for the first 3,000 kVa or  
4           less increases from \$24,000 to \$30,650 per month. In addition, the variable  
5           demand charge increases from \$6.50 to \$8.30 per kVa over 3,000 per month. The  
6           primary voltage discount for customers taking service at 60 kV voltage levels or  
7           higher increases from \$1.10 per kVa to \$1.52 per kVa per month. The primary  
8           voltage discount for customers taking service at voltage levels above 115 kV  
9           increases from \$1.40 per kVa to \$1.93 per kVa per month. There is no change to  
10          the three energy block rates.
- 11          4) The Rate Design for all other Schedules will be as follows:
- 12           a) Schedules 11/12 will have no increase in the Basic Charge, and the variable  
13           demand charge will increase from \$6.50 to \$7.00 per kilowatt in excess of 20  
14           kW per month. The remaining increase will be applied on a uniform percentage  
15           to the energy blocks.
- 16           b) Schedules 21/22 will have an increase in the Basic Charge from \$500 to \$550  
17           per month, and the variable demand charge will increase from \$6.50 to \$7.00  
18           per kilowatt in excess of 50 kW per month. The remaining increase will be  
19           applied on a uniform percentage increase to all energy blocks.
- 20           c) Schedules 31/32 will have no increase in the Basic Charge and the revenue  
21           increase will be applied on a uniform percentage increase to all blocks  
22           applicable to the schedules.

1 d) Street and Area Lighting (Schedules 41-48) will see a uniform percentage  
2 increase.

3 **Q. Based on the proposed rates set forth in the Stipulation, inclusive of the**  
4 **changes in LIRAP funding, what would be the monthly bill increase for a residential**  
5 **electric customer with average consumption?**

6 A. The proposed increase for a residential customer using an average of  
7 918kWhs per month is \$5.41 per month, or approximately a 6.6 percent increase in their  
8 electric bill.

9 **Q. What rate design elements were agreed to in the Stipulation for natural**  
10 **gas service, as shown on page 5 of Attachment A to the Stipulation?**

11 A. The components of the natural gas rate design are as follows:

12 1) The Basic Charge for Schedule 101 will remain at the current level of \$9.50 per  
13 month.

14 2) For Schedule 146, the monthly basic charge will increase from \$550 to \$625 per  
15 month, and the remaining revenue increase will be spread on a uniform percentage  
16 basis to all blocks.

17 3) The Rate Design for other Schedules will be as follows:

18 a) Schedule 111 will have an increase in the monthly Minimum Charge based on  
19 Schedule 101 rates (breakeven at 200 therms), and a uniform percentage  
20 increase to all blocks. Schedule 111 will have the addition of two new energy  
21 blocks that will capture therm usage between 10,000 to 25,000 therms per

1 month and therm usage above 25,000 therms per month to provide consistency  
2 for those customers moving from Schedule 121.

3 b) Schedule 121 will be discontinued and those customers will be moved to  
4 Schedule 111.

5 c) Schedule 131 will have a uniform percentage increase to the first three energy  
6 blocks.

7 **Q. Based on the proposed rates set forth in the Stipulation, inclusive of the**  
8 **changes in LIRAP funding, what would be the monthly bill increase for a residential**  
9 **natural gas customer with average consumption?**

10 A. The proposed increase for a residential customer using an average of 66  
11 therms per month is \$2.91 per month, or approximately a 5.3 percent increase in their  
12 natural gas bill.

13 **VI. COLSTRIP DEPRECIATION AND THE REGULATORY ASSET**

14 **Q. Please provide a summary of the provision agreed to by the Parties in**  
15 **the Partial Multiparty Settlement Stipulation with regards to depreciation of the**  
16 **Company's Colstrip Units 3 and 4 generation and transmission assets and the**  
17 **recovery of depreciation and remediation costs.**

18 A. In summary, the Parties agreed to accelerate the depreciation of Colstrip<sup>12</sup>  
19 Units 3 and 4, from 2034 and 2036, to 2025; to depreciate Colstrip related transmission  
20 assets consistent with existing approved transmission assets; and to place production plant

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<sup>12</sup> Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 and 4, which have a combined capacity of about 1,480 MW. These two facilities were placed in service in 1984 and 1986.



1 decommissioning and remediation (D&R) costs<sup>13</sup> into a regulatory asset (“Colstrip D&R  
2 Regulatory Asset”) for amortization over 33.75 years. A more detailed discussion of the  
3 terms agreed to by the Parties follows.

4 **Q. Please explain the acceleration of Colstrip production plant**  
5 **depreciation to 2025 agreed to by the Parties.**

6 A. As agreed to by the Parties, the balance of undepreciated production plant as  
7 of March 31, 2020, is approximately \$50.0 million.<sup>14</sup> This balance does not include  
8 amounts for any Colstrip plant additions after December 31, 2017, including SmartBurn.<sup>15</sup>  
9 The costs associated with the installation of SmartBurn for Colstrip Units 3 and 4 are not  
10 included in rate base at this time.

11 The Parties agree to accelerate the depreciation schedule for Colstrip Units 3 and 4  
12 production plant from 2034 and 2036, respectively, to 2025.<sup>16</sup> However, as discussed  
13 below, the depreciation schedules for neither Colstrip transmission assets nor  
14 decommissioning and remediation (D&R) costs<sup>17</sup> for either transmission assets or  
15 production plant are accelerated to 2025 at this time, consistent with RCW 19.405.030(1)–  
16 (2).

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<sup>13</sup> For this settlement, “decommissioning and remediation” (“D&R”) costs include cost of removal (“COR”) and asset retirement obligations (AROs).

<sup>14</sup> See Exh. JT-2, Attachment B, column (A), line 1.

<sup>15</sup> SmartBurn is a technology that focuses on the reduction of nitrogen oxides (“NOx”) by optimizing the combustion process in coal-fired generation plants (see <http://www.smartburn.com/background.php>). NOx is a haze-inducing pollutant produced during the combustion of coal that is regulated under the Regional Haze Rule. SmartBurn is designed to use air staging technology to reduce the amount of NOx that is formed by reducing flame temperatures and improving the efficiency of the combustion of coal.

<sup>16</sup> See the proposed Colstrip generation depreciation rates at Exh. JT-2, Attachment B, page 2.

<sup>17</sup> For this settlement, “decommissioning and remediation” (“D&R”) costs include cost of removal (COR) and asset retirement obligations (AROs).

1           **Q.     Please explain what was agreed to by the Parties with regards to the**  
2 **depreciation of Avista’s Colstrip transmission assets.**

3           A.     As of March 31, 2020, the balances of undepreciated transmission plant is  
4 approximately \$11.5 million, and projected transmission D&R costs are approximately  
5 \$4.8 million.<sup>18</sup> The Parties agree that the Colstrip transmission assets, including  
6 transmission D&R, will be depreciated consistent with the depreciation rates for non-  
7 Colstrip transmission assets approved in Docket UE-180167.<sup>19</sup>

8           **Q.     As agreed to by the Parties, how will Colstrip Units 3 and 4 production**  
9 **plant D&R costs be amortized and reported on in future general rates cases?**

10          A.     The Parties agreed to the following with regards to Colstrip Units 3 and 4  
11 D&R costs:

- 12           1)    D&R costs for Colstrip Units 3 and 4 production plant will be placed into a  
13 regulatory asset (“Colstrip D&R Regulatory Asset”) upon Commission  
14 approval of this Settlement. As of March 31, 2020, projected production plant  
15 D&R costs are approximately \$33.0 million.<sup>20</sup>
- 16           2)    Incurred D&R expenditures will be tracked by the Company.
- 17           3)    D&R cost projections will be updated and trued up to actual expenditures net  
18 of any insurance proceeds so that the Company will recover only the actual,  
19 prudently incurred D&R costs.

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<sup>18</sup> See Exh. JT-2, Attachment B, column (A), lines 5 and 6.

<sup>19</sup> See Exh. JT-2, Attachment B, page 2 for transmission depreciation rates approved in Docket UE-180167.

<sup>20</sup> See Exh. JT-2, Attachment B, column (A), line 9.

1           4)    Until the end of the remediation process, the Company will file updated D&R  
2                   cost projections in every general rate case (GRC) and will include proposed  
3                   revisions to the amortization expense, consistent with the updated cost  
4                   projections. The GRC filings will include evidence supporting the projections  
5                   and true-ups, and will include a report of actual incurred costs. Parties to the  
6                   GRC may challenge the Company's proposals, including proposals to recover  
7                   actual incurred D&R costs.

8           5)    If there are any costs or credits in the Colstrip D&R Regulatory Asset after all  
9                   costs have been incurred, the Company will come before the Commission and  
10                  propose to either collect or return the asset/liability. Customers will pay no  
11                  more or no less than the actual prudently incurred D&R costs incurred over  
12                  time.

13           **Q.    Please explain how the Parties propose that the depreciation costs**  
14           **associated with the Colstrip Units 3 and 4 production, transmission and D&R be**  
15           **recovered.**

16           A.    Depreciation expense, including amounts for production plant, transmission,  
17                  and D&R, are currently being recovered in rates at the rate of approximately \$4.5 million  
18                  annually.<sup>21</sup> Recovery going forward, as proposed by the Parties, is described below.

19           1) Colstrip production plant of \$50 million.<sup>22</sup>

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<sup>21</sup> See Exh. JT-2, Attachment B, column (D), lines 3 and 7.

<sup>22</sup> The \$50.0 million of undepreciated Colstrip production plant, represents Colstrip production plant-in-service at December 31, 2017, depreciated to March 31, 2020.

- 1 a. To reduce the rate pressure on customers associated with the increased costs  
2 associated with accelerating Colstrip production plant, the Parties have  
3 agreed to make use of “unprotected” Excess Deferred Income Tax (EDIT)  
4 created with the Tax Cuts and Jobs Act (TCJA) of 2017.<sup>23</sup> The balance of  
5 this deferred TCJA benefit of \$11.7 million<sup>24</sup> will be applied against the  
6 \$50.0 million balance of net production plant in service.
- 7 b. The resulting depreciable balance of net production plant in service, after  
8 the \$11.7 million TCJA offset, is \$38.2 million. Accelerating the  
9 depreciation of the \$38.2 million balance to 2025, or 5.75 years, results in  
10 an annual depreciation expense of approximately \$6.7 million. This is a net  
11 increase of \$2.6 million to depreciation expense, as compared to the \$4.0  
12 million currently recovered in rates for Colstrip production plant.<sup>25</sup>
- 13 c. Per Internal Revenue Code (IRC) section 167 rules, the amortization  
14 schedule of “protected EDIT”<sup>26</sup> associated with Colstrip Units 3 and 4  
15 production plant, must be consistent with the depreciation schedule for the

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<sup>23</sup> The primary provision of the TCJA was a reduction in the federal corporate tax rate from 35% to 21%, reducing the current and deferred tax expense currently included in customers’ rates. The TCJA also required accumulated DFIT balances as of December 2017 to be revalued at the lower corporate rate (21%). The difference between the original balance recorded at 35% and the new balance recorded at 21%, resulted in excess DFIT (EDIT). EDIT was categorized as “protected” and “unprotected.” “Protected” EDIT is generally defined as capital assets (plant) depreciated under Internal Revenue Code (IRC) section 167, and these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the EDIT. “Unprotected” EDIT mainly represents non-plant related deferred assets/liabilities. The non-plant EDIT balances have no IRC requirement as to when they must be reversed.

<sup>24</sup> See Exh. JT-2, Attachment B, column (A), line 2.

<sup>25</sup> See Exh. JT-2, Attachment B, line 3, columns (C) through (E).

<sup>26</sup> Amortized in accordance with the TCJA Average Rate Assumption Method (ARAM).

1           underlying Colstrip Units 3 and 4 production plant assets, or 5.75 years,  
 2           through December 31, 2025. The impact of this shortened amortization  
 3           period will credit (or reduce) pre-tax expense by approximately \$0.6  
 4           million,<sup>27</sup> offsetting, in part, the impact of the accelerated depreciation  
 5           expense.

6           d. For the rate year effective April 1, 2020 through March 31, 2021, the  
 7           remaining net expense increase to the Company, resulting from the increase  
 8           in depreciation expense (\$2.6 million in b.), less amortization of protected  
 9           EDIT (\$0.6 million in c.), of \$2.0 million for Colstrip production plant  
 10          depreciation/amortization will be offset by:<sup>28</sup>

11           i. The \$0.9 million residual balance remaining related to the  
 12           amortization of 2018 temporary tax credits<sup>29</sup>; and

13           ii. An amount of \$0.5 million from the ERM deferral credit balance, as  
 14           discussed above in Section “IV. Revenue Increases.”

15          2) Colstrip transmission plant of \$11.5 million and D&R costs of \$4.8 million.<sup>30</sup>

16          Transmission depreciation expense and transmission D&R are currently being

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<sup>27</sup> See Exh. JT-2, Attachment B, columns (E), line 11.

<sup>28</sup> Of the \$2.0 million net expense increase, \$1.4 million is offset as described in (i)–(ii), above. The remaining \$0.6 million is assumed to be included in the \$28.5 million revenue requirement.

<sup>29</sup> Electric temporary TCJA tax savings for the period from January 1, 2018 through April 30, 2018 were deferred and returned to customers through electric rebate rate Schedule 74 from June 1, 2018 through May 31, 2019. After true-up adjustments and accumulated interest, the residual balance estimated through March 31, 2020 not yet returned to customers is approximately \$900,000.

<sup>30</sup> Balances at March 31, 2020, see Exh. JT-2, Attachment B, column (A), lines 5 and 6 for balances, and column (C), line 7 for existing depreciation expense.

1 recovered in rates at approximately \$0.5 million per year. These transmission  
2 depreciation expenses will continue to be recovered in rates, in this manner, so  
3 long as the Colstrip transmission assets are used and useful consistent with  
4 RCW 19.405.030(2).

5 3) Colstrip D&R balance of \$33.0 million: The Colstrip production plant D&R  
6 balance of \$33.0 million (included in the Colstrip D&R Regulatory Asset as  
7 discussed above) will be amortized over 33.75 years, consistent with the  
8 amortization schedule of protected EDIT.<sup>31</sup> The annual amortization expense  
9 for the first year for this regulatory asset is approximately \$1.0 million.<sup>32</sup>

10 Exh. JT-2, Attachment B, sets forth the annual amounts reflecting the agreement  
11 described above, for Colstrip depreciation, amortization of the regulatory asset, and the  
12 amortization of Colstrip protected EDIT. The Company will update these annual rates and  
13 amounts, as necessary, in each GRC filing.

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<sup>31</sup> Avista has an electric plant excess ADFIT balance (Regulatory Liability) of approximately \$208.3 million. In accordance with the TCJA's Average Rate Assumption Method (ARAM), the Company is required to reverse (i.e. normalize) these balances no faster than over the depreciable lives of the capital assets that created the ADFIT. The Company estimates the ARAM for Avista results in an average amortization period of approximately 36 years from December 31, 2017, or a remaining 33.75 years from April 1, 2020. The amortization of this balance over 36 years provides a tax benefit to customers (reduction in rates) of approximately \$5.7 million annually. This long-term tax benefit was included with the base rate change ultimately approved by this Commission, effective May 1, 2018, in Avista GRC Dockets UE-170485/UG-170486 and UE-171221/UG-171222 consolidated.

<sup>32</sup> See Exh. JT-2, Attachment B, columns (E), line 9 for the current amortization of \$979,000.

1 **VII. MISCELLANEOUS ISSUES**

2 **Q. Please explain the miscellaneous issues agreed to by the Parties per the**  
3 **Partial Multiparty Settlement Stipulation.**

4 A. The Parties agreed to additional miscellaneous items as follows:

- 5 1) Low Income Weatherization Funding: The Parties agree to increase low-income  
6 weatherization funding by \$650,000, from \$2.35 million to \$3.0 million, effective  
7 August 1, 2020. The Parties also agree that, as a part of its Low Income  
8 Weatherization Program, the direct agency project coordination rate would increase  
9 to 20% and the agency indirect rate would increase to 10%, for a combined total  
10 30% agency rate. There will be periodic review of these percentages by the Energy  
11 Efficiency Advisory Group.<sup>33</sup> In addition, repair-related expenses will be an  
12 allowable use of low-income weatherization funds. The total allowance for Health,  
13 Safety & Repair will increase from 15% to 30% of a project's total expense.
- 14 2) LIRAP Funding – LIRAP funding will increase by the formula used in the current  
15 LIRAP five-year plan. For electric, this represents 7% or 2-times the residential  
16 base rate increase whichever is greater, through Avista's next GRC. For natural gas  
17 base rates, this represents 7% or 2-times the final approved base tariff rates as well  
18 as the then-current Schedule 150 (Purchase Gas Adjustment) rates. (See Attachment  
19 A, pages 3 and 6.)
- 20 3) Disconnection Reduction Plan – Avista agrees to gather disconnection data as listed

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<sup>33</sup> Current members of this group include, but are not limited to, the Staff of the Commission, Public Counsel, NWECA and The Energy Project.

1 in The Energy Project's prefiled response testimony, Exh. SMC-1T, to report the  
2 data annually to the Commission and Public Counsel, and to develop a  
3 Disconnection Reduction Plan that will limit disconnections prospectively. This  
4 plan will be developed through the Energy Assistance Advisory Group with a  
5 recommendation to the Commission no later than one year after the date of the  
6 Commission order addressing the Stipulation.

- 7 4) On-Bill Repayment/Financing Program – Avista will provide a proposal for the  
8 Energy Efficiency Advisory Group (EEAG) for on-bill repayment/financing  
9 programs for residential and small business customers (Schedules 1, 11, and 101).  
10 Avista will incorporate feedback from the EEAG in the final program designs by  
11 January 2, 2021. If Avista and the EEAG reach agreement on program terms and  
12 design, the Company will file the programs with the Commission such that the  
13 programs are implemented by September 30, 2021. Based on the outcome of  
14 discussions with the EEAG, the Company may file small business and residential  
15 programs together or individually with the Commission. The Company will file a  
16 status report with the Commission if agreement is not reached with the EEAG for  
17 programs offered to the enumerated customer classes by September 30, 2021.  
18 Development costs associated with this program will be recoverable from  
19 customers and means of recovery will be addressed in a future GRC.

- 20 5) Deferral Amortizations - The Parties agree to the electric and natural gas Fee Free  
21 deferral amortization<sup>34</sup> as filed by the Company, over a two-year period beginning

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<sup>34</sup> Deferral amortization associated with the deferred balance of all fees paid by Avista related to offering a fee-free program for payment of bills by Washington residential customers that use credit and debit cards.



1 April 1, 2020 through March 31, 2022, resulting in an annual amortization expense  
2 of \$775,000 for electric and \$497,000 for natural gas.<sup>35</sup> The Parties also agree to  
3 the natural gas LEAP deferral amortization<sup>36</sup> as filed by the Company, over a five-  
4 year period beginning April 1, 2020 through March 31, 2025, resulting in an annual  
5 amortization expense of \$1.745 million.<sup>37</sup>

6 6) Renewables to Benefit Low-Income Customers - Avista commits to discuss  
7 potential renewable programs for low-income customers within the confines of the  
8 Energy Assistance Advisory Group.

9 7) Transportation - Avista is currently developing its Electric Vehicle Supply  
10 Equipment (EVSE) plan, consistent with new legislation. Avista will work with the  
11 EVSE working group<sup>38</sup> to finalize such a filing. Avista is supportive of a 30% goal  
12 of program funds to be dedicated to low-income transportation electrification on an  
13 aspirational basis, and will consider transportation electrification impacts in  
14 demand response pilots and integrated resource planning.

15 8) Natural Gas Special Contracts - Avista will review all Natural Gas Special  
16 Contracts to ensure the economic feasibility of each, or renegotiate any contract not  
17 in compliance, by May 1, 2021. The scope of this review will not include a  
18 reexamination of the bypass feasibility of existing Natural Gas Special Contracts  
19 customers.

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<sup>35</sup> Exh. EMA-1T at 58:3-14.

<sup>36</sup> Deferral amortization associated with the deferred balance of excess line extension allowance program (LEAP) amounts paid to Washington residential customers upon conversion to natural gas.

<sup>37</sup> Exh. EMA-1T at 45:9-14.

<sup>38</sup> Current members of this group include, but are not limited to, the Staff of the Commission, Public Counsel, NWECA and The Energy Project.

- 1        9) Inland Empire Paper (IEP) Special Contract - Avista and IEP, with Commission  
2            Staff participation, will negotiate in good faith and using best efforts, to reach  
3            agreement on a special contract. If the parties affected by this term are unable to  
4            reach agreement on a special contract, they will seek resolution through binding  
5            arbitration, under Commission auspices. In that case, the final determination of the  
6            arbitration shall be filed with the Commission. In addition, IEP shall have the  
7            option, at its sole discretion, to forego a Special Contract in favor of remaining on  
8            Schedule 25. The effective date of an approved Special Contract will coincide with  
9            the rate-effective date of Avista's next electric general rate case, to avoid potential  
10           lost margin. By joining this agreement, each Party agrees not to contest the Special  
11           Contract on the basis that IEP is not eligible to negotiate a Special Contract, but no  
12           Party is agreeing to the existence of future lost margins, or to the allocation of those  
13           lost margins to any customer class, and Parties reserve the right to address those  
14           issues, or any other issues, in a future rate case, or other appropriate proceeding.
- 15        10) Colstrip Capital Investment Limitations - Avista agrees that it will not support  
16            capital expenditures at Colstrip that go beyond routine capital maintenance costs  
17            that extend the plant's operational life beyond December 31, 2025. Capital costs  
18            associated with protecting human health and safety are generally acceptable to the  
19            Parties. Avista recognizes and confirms that all Colstrip capital expenditures after  
20            December 31, 2017, will be subject to a prudence determination in future rate  
21            proceedings and Avista will provide detailed information, including a complete  
22            record of the decision making, and a full accounting of the costs related to those

1 project expenditures on an annual basis. This means that Colstrip capital additions  
2 after December 31, 2017, and the costs associated with the installation of  
3 SmartBurn on Units 3 and 4, are not included in Avista's rate base at this time.<sup>39</sup>

4 11) Colstrip Transmission Planning - Avista will continue to work with the other Path 8  
5 (MT-to-NW) owners (Northwestern Energy and BPA) to resolve questions  
6 surrounding the ability of new generation to use the Colstrip line once Colstrip  
7 Units 1 and 2 retire, and also when Units 3 and/or 4 retire. At least one year prior  
8 to any closure of Colstrip Units 3 and/or 4, Avista will develop a transition plan for  
9 its Colstrip transmission assets. Avista will hold at least one workshop with  
10 Commission Staff and stakeholders to determine the transition plan's impacts on  
11 Washington ratepayers. Avista will file the transition plan with the Commission.

12 12) Colstrip Community Transition Fund - A Colstrip Community Transition Fund of  
13 \$3.0 million will be funded 50% (or \$1.5 million) from customers and 50% (or \$1.5  
14 million) from Avista's shareholders. The shareholder portion would be funded on  
15 April 1, 2020 after the Settlement Stipulation is approved by the Commission. The  
16 customer portion of \$1.5 million would be funded on April 1, 2020 and deferred for  
17 future rate recovery without a carrying charge. The customer contribution does not  
18 increase the agreed-to electric revenue requirement of \$28.5 million. Avista shall  
19 administer the funds and shall consult with any Party that expresses interest,

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<sup>39</sup> For Colstrip generation assets beyond 12.31.2017, including the installation costs of SmartBurn in Units 3 and 4, that have been excluded here for prudence review in the next GRC, the Company would defer (with a carrying charge of the FERC rate) the incremental accelerated depreciation on these assets to 2025 (beginning April 1, 2020) until these assets are either included in rates or deemed imprudent in the next GRC, and if found imprudent would be written off at that time along with any deferred depreciation expense and carrying charges. Therefore, recovery of the deferred balance would be determined in the next GRC.

1 including but not limited to NWECC and Sierra Club, but the ultimate decisions  
2 about how the funds are administered shall be made by Avista. Avista shall  
3 administer funds consistent with the terms of this settlement provision. It is the  
4 intent of the Parties to ensure that local residents of Rosebud County, governments  
5 (City of Colstrip, Rosebud County, and/or Northern Cheyenne Tribal Government),  
6 labor organizations, and tribal members such as the Northern Cheyenne and Crow  
7 will receive benefits from these funds. Entities will be able to apply for grants to  
8 fund education, worker re-training, low income energy efficiency or renewable  
9 energy programs, or other such projects that have a local benefit related to helping  
10 the community transition away from economic activity related to coal-fired  
11 generation. No projects that fund fossil fuels are eligible. This commitment is not  
12 intended as a “cap” or limitation on the amount that Avista may ultimately  
13 contribute to help the Colstrip community transition from coal-fired generation.

#### 14 **VIII. PUBLIC INTEREST**

15 **Q. Before providing each Party’s separate statement of support, what**  
16 **have the Parties agreed to regarding the effect of the Partial Multiparty Settlement**  
17 **Stipulation on any future rate proceedings?**

18 A. The Partial Multiparty Settlement Stipulation represents a negotiated  
19 compromise among the Parties. Thus, the Parties have agreed that no particular party  
20 shall be deemed to have approved the facts, principles, methods, or theories employed by  
21 any other in arriving at these stipulated provisions, and that the terms incorporated should  
22 not be viewed as precedent setting in subsequent proceedings except as expressly

1 provided. In addition, the Parties have the right to withdraw from the Partial Multiparty  
2 Settlement Stipulation if the Commission adds any additional material conditions or  
3 rejects any material part of the Partial Multiparty Settlement Stipulation.

4 **Q. Does each Party's Statement of Support represent each party's view of**  
5 **why the Partial Multiparty Settlement Stipulation is in the public interest?**

6 A. Yes. The following statements are provided from the perspective of each  
7 of the Parties, and as such, represent their views only. As such, no other party shall be  
8 deemed to have agreed to the statements of a particular party.

9 **Statement of Avista**

10 **Q. Please explain why Avista believes the Partial Multiparty Settlement**  
11 **Stipulation is in the public interest.**

12 A. The Partial Multiparty Settlement Stipulation was a compromise among  
13 differing interests and represents give-and-take by the Parties, resulting in an agreed to  
14 revenue increase for both its electric and natural gas customers, of \$28.5 million and \$8.0  
15 million respectively, effective April 1, 2020.

16 The Partial Multiparty Settlement strikes a reasonable balance between the interests  
17 of Avista and its customers on revenue requirement, weighted cost of capital, rate spread  
18 and rate design, as well as a variety of miscellaneous issues included in the Partial  
19 Multiparty Settlement that are important to the Parties. Overall, this Settlement  
20 Stipulation, if approved, provides for recovery of additional costs and results in retail rates  
21 that are fair, just, reasonable and sufficient, per the requirement of RCW 80.28.010, and

1 was entered into, only after extensive discovery, audit and review of the Company's filing  
2 and books and records.

3 In addition, partially offsetting the electric increase for customers, as a part of this  
4 Partial Multiparty Settlement, the Parties agree that the final ERM customer deferred  
5 balance approved by the Commission in Docket UE-190222<sup>40</sup> will be returned to  
6 customers over a two-year period beginning April 1, 2020 through March 31, 2022,  
7 through Tariff Schedule 93.<sup>41</sup> Currently, the ERM refund balance stands at \$24.7 million,  
8 based on previously reviewed ERM entries through 2017. Additional ERM entries for  
9 2018 are currently under review in Docket UE-190222 and UE-190882, but if approved,  
10 would increase the total deferral balance to \$34.4 million to refund over two years – or  
11 \$17.2 million (plus interest) for the period April 1, 2020 to March 31, 2021, offsetting in  
12 part, the impact of the approved increase in this proceeding.

13 With regards to the Company's investment in its 15% ownership of Colstrip Units 3  
14 and 4, the Partial Multiparty Settlement resolves the accounting and recovery of  
15 accelerating the depreciation of its Colstrip production plant as of December 31, 2017, to  
16 2025, in accordance with new Washington "Clean" initiative, signed into law in May 2019,  
17 requiring the removal of coal in Washington State by 2025. The Partial Multiparty  
18 Settlement also resolves the final disposition of remaining electric TCJA tax benefits set

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<sup>40</sup> The final balance approved by the Commission will incorporate the determinations made in Docket UE-190882.

<sup>41</sup> Except for \$0.5 million of the ERM deferred balance, which will be applied to the accelerated Colstrip production plant depreciation expense of \$2.6 million for the rate year beginning April 1, 2020, as discussed above.

1     aside as a possible offset against the accelerated depreciation of the Colstrip production  
2     assets, and the amortization of Avista's share of current estimated levels of Colstrip  
3     decommissioning and remediation costs.

4             Still to be resolved with regards to Colstrip Units 3 and 4, are Colstrip capital  
5     additions after December 31, 2017, and the costs associated with the installation of  
6     SmartBurn investments. These capital expenditures will be subject to a prudence  
7     determination and recovery in future rate proceedings. In addition, as a part of Avista's  
8     agreement in this Partial Multiparty Settlement towards the recovery of future Colstrip  
9     capital investments, Avista agrees that it will not support capital expenditures at Colstrip  
10    that go beyond routine capital maintenance costs that are meant to extend the plant's  
11    operational life beyond December 31, 2025. The Company notes, however, that if Avista  
12    does not support such capital projects, under the terms of the Ownership and Operation  
13    Agreement, Avista would be contractually obligated to pay our share of such costs,  
14    assuming a majority percentage of the other ownership interest votes in favor of such  
15    projects. Lastly, the Company also notes the Parties did not come to agreement as to the  
16    closure date of Colstrip Units 3 and 4, but a December 31, 2025 date for purposes of  
17    depreciating those assets in the State of Washington.

18            With the levels of capital spending required over the next several years, it is  
19    important that the Company attract capital investment and financing under reasonable  
20    terms. The Company's initiatives to manage its operating costs and capital expenditures,  
21    along with the increases in revenues agreed to by the Parties in this Partial Multiparty

1 Settlement Stipulation, are an important part of maintaining the financial strength required  
2 of the Company to provide safe and reliable service to its customers.

3 **Q. Does this conclude your testimony?**

4 A. Yes

5 **Statement of Commission Staff**

6 **Q. Please explain why Commission Staff (Staff) supports the Partial**  
7 **Multiparty Settlement Stipulation.**

8 A. The Partial Multiparty Settlement Stipulation (Settlement) arrives at a  
9 reasonable outcome on revenue requirements, addresses the ballooning ERM deferral  
10 balance, and helps to insulate vulnerable populations through increases in low-income  
11 support. Significantly, the Settlement also establishes a plan, supported by all parties, to  
12 accelerate the depreciation schedules for production plant balances at Colstrip Units 3 and  
13 4 and to recover the costs associated with estimated decommissioning and remediation  
14 costs. These arrangements are consistent with new requirements under CETA.

15 **Q. Please explain how the agreed-upon revenue requirements are**  
16 **reasonable.**

17 A. Parties to this Settlement agreed to revenue increases of \$28.5 million for  
18 electric operations and \$8.0 million for natural gas operations. Relative to the Company's  
19 as-filed case, each of these amounts represents reductions of about 40 percent.

20 With respect to the electric revenue increase of \$28.5 million, the Commission can  
21 be confident that this amount is reasonable because, if for no other reason, the revenues  
22 were high enough for Avista to accept and low enough for ratepayer advocates to accept.



1 From Staff's perspective, \$28.5 million was within the range of expected outcomes had the  
2 case been fully adjudicated, and is particularly reasonable given that recovery of Colstrip  
3 costs was accelerated beyond even what the Company had requested.

4 With respect to the natural gas revenue increase of \$8.0 million, although Public  
5 Counsel ultimately did not support this increase, the other ratepayer advocates did.  
6 Furthermore, the agreed-upon revenue increase is approximately the amount Staff  
7 presented as its litigation position; whereas the settling parties agreed to a gas revenue  
8 increase of \$8.0 million, Staff's litigation position was \$7.3 million (adjusting to a 9.4  
9 percent return on equity (ROE)). Staff's as-filed case supports this increase in gas  
10 revenues.

11 **Q. Was there agreement on cost of capital?**

12 A. Yes. Parties agreed to a rate of return of 7.21 percent, including an ROE of  
13 9.4 percent and a hypothetical capital structure with an equity layer of 48.5 percent. The  
14 48.5 percent equity layer is the level currently authorized for Avista whereas the ROE of  
15 9.4 percent is a reduction relative to the Company's currently authorized ROE of 9.5  
16 percent. It was important to Staff for the Settlement to reflect a declining cost of equity.

17 **Q. Please describe how this Settlement supports low-income customers.**

18 A. The Settlement would increase low income rate assistance program (LIRAP)  
19 funding by 7 percent, or two times the residential base rate increase (whichever is greater),  
20 through Avista's next GRC. The Settlement also would increase low-income  
21 weatherization funding by \$650,000, from \$2.35 million to \$3.0 million. These programs

1 support some of Avista's most vulnerable customers, and these modest funding increases  
2 are fair to all ratepayers.

3 **Q. Does this Settlement preserve parties' abilities to challenge the prudence**  
4 **of any investments for which Avista sought recovery in this case?**

5 A. Yes. Although there is agreement that the overall settlement package produces  
6 a fair and reasonable outcome, the parties do not have agreement on which adjustments are  
7 included or excluded in the final revenue requirement calculations. In that sense the  
8 revenue requirement calculation is a black box. And as with all black box revenue  
9 requirements, there is no agreement as to which plant additions are included in or excluded  
10 from the calculation of revenue requirement. Therefore, by the nature of the black box  
11 settlement, the Commission would not be making implicit determinations of prudence, and  
12 parties retain the right in future cases to contest recovery of the investments for which  
13 Avista sought recovery for the first time in these dockets.

14 Additionally, because the Settlement includes provisions with respect to  
15 unrecovered Colstrip production plant, the Settlement specifically identifies that the  
16 Company's investment in SmartBurn is excluded from the net plant balance recovered  
17 through depreciation expense in this case. This means that, although SmartBurn would not  
18 be included in rate base, the Company would retain the right to request recovery of those  
19 investments in a future rate case. This provision complements Avista's commitment under  
20 the Settlement regarding future capital investment at Colstrip. Specifically, Avista will not  
21 support capital expenditures at Colstrip, other than routine capital maintenance costs, that  
22 would extend the operational life of Units 3 & 4 beyond 2025.

1           **Q. Please describe the plan for the recovery of costs associated with Colstrip**  
2 **Units 3 and 4.**

3           A. The Settlement establishes a plan that structures and sets timelines for  
4 recovery of Colstrip (a) transmission assets, (b) production plant assets, and (c)  
5 decommissioning and remediation (D&R) costs. The separate consideration of these three  
6 categories of costs represents a deliberate effort to align the plan for the recovery of  
7 Colstrip costs with the requirements of CETA.

8           Most notably, the Settlement:

9           (1) Accelerates the recovery of the full balance of net production plant in service to  
10 2025, avoiding elongating the recovery period for production plant-related costs beyond  
11 2025; and

12           (2) Creates a regulatory mechanism to ensure that only prudently incurred D&R  
13 costs are recovered from ratepayers over the life of the remediation work.

14           **Q. Does Staff address Colstrip cost recovery issues in its response**  
15 **testimony?**

16           A. Yes. These issues are discussed in greater detail, especially as they relate to  
17 CETA, in McGuire, Exh. CRM-1T at 25-32.

18           **Q. Please describe the agreement with respect to transmission assets.**

19           A. This agreement reflects the fact that under RCW 19.405.030(2) the  
20 depreciation schedules for transmission assets need not be accelerated to 2025. In fact,  
21 absent a Commission determination that those assets will no longer be used and useful  
22 after 2025, Colstrip transmission assets cannot be accelerated to 2025. This agreement

1 merely aligns the depreciation rates for Colstrip transmission assets with the depreciation  
2 rates for non-Colstrip transmission assets.

3 **Q. Please describe the value in accelerating the recovery of the full balance**  
4 **of net production plant in service to 2025.**

5 A. Consistent with the terms of the proposed settlement in Avista's depreciation  
6 study dockets (Dockets UE-180167 and UG-180168), Avista initially suggested leaving the  
7 Colstrip production plant depreciation expense recovered through rates unchanged, even  
8 though the book lives of the assets were being reduced significantly (i.e., from 2034/2036  
9 to 2025). By not increasing the depreciation expense to recover the remaining net plant in  
10 service, Avista's initial proposal would have ensured that a sizable balance of unrecovered  
11 production plant balance would have remained on the Company's books, and through  
12 amortization of a regulatory asset recovery of that production plant investment would have  
13 continued for another three decades. CETA made this a problematic proposition given that,  
14 consistent with RCW 19.405.030(1)(a), coal production plant is required to be removed  
15 from rates by the end of 2025. Furthermore, it seemed to Staff it would have been a missed  
16 opportunity had we not found a solution for the remaining production plant balance for  
17 Colstrip.

18 **Q. Please describe the agreed-upon regulatory mechanism for recovering**  
19 **prudently incurred Colstrip D&R costs.**

20 A. Colstrip D&R costs associated with production plant will be transferred to a  
21 regulatory asset and amortized over the next 33.75 years, and estimated D&R costs will be  
22 trued-up to actuals once those costs are incurred. After all D&R costs have been incurred, a

1 true-up will ensure customers pay only the actual, prudently incurred costs for  
2 decommissioning and remediation.

3 **Q. Why 33.75 years?**

4 A. This is the approximate timeframe over which protected EDIT will be  
5 amortized and passed back to ratepayers. Aligning the Colstrip D&R costs with the  
6 protected EDIT benefits was an attempt at mitigating intergenerational inequity. Given that  
7 past generations of ratepayers paid too little toward Colstrip and too much toward taxes,  
8 there's some logic to the idea that the benefits future generations of ratepayers receive from  
9 protected EDIT can be used to balance the costs future generations of ratepayers must bear  
10 for Colstrip.

11 **Q. Please explain why Staff supports this regulatory mechanism.**

12 A. CETA sets new requirements for the collection of D&R costs related to coal-  
13 fired resources. Unlike other depreciation costs, D&R costs do not need to be eliminated  
14 from rates by the end of 2025. Further, RCW 19.405.030(1)(b) states that "[t]he  
15 commission shall allow in electric rates all decommissioning and remediation costs  
16 prudently incurred by an investor-owned utility for a coal-fired resource." Read together,  
17 RCW 19.405.030(1)(a) and (b) allow for collection of prudently incurred D&R costs in  
18 rates after 2025.

19 However, in order for costs to be considered prudently incurred, there must be a  
20 review of the actual amounts spent on decommissioning and remediation. A separate D&R  
21 account subject to tracking and true-up is the best way to address this issue.

1           **Q. Why is a tracking and true-up mechanism the best way to deal with**  
2 **Colstrip D&R costs under the new requirements of CETA?**

3           A. The decommissioning and remediation of Colstrip Units 3 and 4 will not be  
4 complete until long after 2025, but waiting until after these costs are prudently incurred to  
5 assess and collect from ratepayers would strain intergenerational equity by shifting all  
6 projected D&R costs onto future ratepayers.

7           A tracking and true-up mechanism addresses these issues by basing rates on the  
8 most recent estimation of D&R costs, updating estimates of the remaining D&R costs on a  
9 regular basis, and assessing prudence of D&R costs once they are incurred. This approach  
10 also helps to spread costs across ratepayer generations, thereby lessening the  
11 intergenerational inequity associated with forcing all remediation expenses onto ratepayers  
12 over the next five years.

13           **Q. Why not accelerate the collection of D&R costs to 2025 along with the**  
14 **undepreciated balance of production plant?**

15           A. First, a settlement agreement in which the parties were to accept the current  
16 estimate of D&R costs as final could run afoul of RCW 19.405.030(1)(b), which states that  
17 the Commission shall allow prudently incurred D&R costs into rates. Estimates or  
18 projections of costs are not adequate substitutes for prudently incurred costs. And whether  
19 the projected D&R costs are a reasonably close estimation of actual D&R costs will not be  
20 known for years. A tracking and true-up mechanism allows for the rational recovery of  
21 costs as they unfold beyond 2025.

1           Second, allowing the collection of D&R costs past 2025 eases some of the pain  
2 ratepayers could experience through the CETA-required acceleration of depreciation.  
3 Accelerating the collection of D&R costs to 2025 in addition to accelerating the production  
4 plant costs to 2025 would place nearly the entire burden on 2020-2025 ratepayers, even  
5 though they, like the generations beyond Colstrip’s retirement, are not responsible for the  
6 under-contribution of past generations of ratepayers to the costs of Colstrip.

7           Third, accelerating the collection of estimated D&R costs to 2025 would prevent  
8 matching the D&R cost recovery to the period over which protected EDIT is returned to  
9 ratepayers. As explained above, as well as in previous testimony, matching the  
10 amortization schedule of the Colstrip D&R Regulatory Asset with the amortization of  
11 protected EDIT helps to mitigate intergenerational inequity.

12           **Q. Did the settlement provide funds for Colstrip community transition?**

13           A. Yes. Avista agreed to establish a Colstrip Community Transition Fund of \$3.0  
14 million that will be funded 50 percent from Avista’s shareholders. The shareholder portion  
15 would be funded on April 1, 2020. The purpose of the Fund is to help the community of  
16 Colstrip transition away from economic activity related to coal-fired generation. Local  
17 residents of Rosebud County, governments, labor organizations, and tribal members would  
18 be able to apply for grants to fund projects such as education, worker re-training, low  
19 income energy efficiency or renewable energy programs.

20           **Q. Please explain why refunding the ERM balance to customers is**  
21 **appropriate at this time, given that the balance has not yet hit the \$30 million**  
22 **“trigger.”**

1           A.    Avista’s ERM docket, Docket UE-190222, was consolidated with the general  
2 rate case, and will be resolved through this proceeding. It was important for parties to reach  
3 agreement with respect to the ERM refund so that when the Commission makes its  
4 determination on the amount to be refunded to ratepayers, the questions of how and over  
5 what time frame already will have been answered.

6           Additionally, even though the balance officially has not yet hit the \$30 million trigger (as  
7 the official deferral for 2018 must be approved by the Commission), unofficially it has  
8 reached the trigger. If costs associated with the Colstrip outage are challenged and  
9 disallowed by the Commission, the cumulative deferral balance would only grow further  
10 above the \$30 million trigger. It is virtually certain the trigger will be hit. Under these  
11 circumstances, it was appropriate to agree to the return of the ERM balance to customers  
12 now instead of waiting for the next appropriate proceeding.

13           **Q.    Does this conclude your testimony?**

14           A.    Yes

15           **Statement of Public Counsel**

16           **Q.    What is the purpose of your testimony?**

17           A.    I am testifying in support of the all-party Settlement Agreement  
18 (“Settlement”), as described in the Settlement Stipulation (“Stipulation”). Public Counsel  
19 reached agreement with all other interveners to resolve nearly every issue this case, but did  
20 not join the Multi-Party Settlement on the natural gas revenue requirement. Additionally,  
21 the settlement does not address decoupling or the remaining issues in UE-190222, which  
22 will be litigated separately.



1           **Q.     Please provide a brief outline of your testimony.**

2           A.     In general, my testimony describes why the terms of Settlement supported  
3 by Public Counsel are in the public interest. My testimony will specifically address the  
4 following:

- 5           • Definition of the public interest standard for settlements;
- 6           • Electric revenue requirement;
- 7           • Single-year rate increase;
- 8           • Cost of capital;
- 9           • Rate spread and rate design;
- 10          • Electric Recovery Mechanism (ERM) refund;
- 11          • Colstrip depreciation;
- 12          • Low-income issues;
- 13          • And miscellaneous issues.

14          **Q.     What is the standard by which the Commission approves settlements?**

15          A.     In accordance with WAC 480-07-740, “The Commission will review all  
16 settlement agreements to determine whether they comply with applicable legal  
17 requirements and whether approval of the agreements is consistent with the public  
18 interest.”<sup>42</sup> The Parties in this proceeding are bound to this requirement in negotiating a  
19 settlement, and that is the standard that guided development of the terms in the Stipulation.  
20 My testimony will explain why the terms of the partial Settlement are in the public interest

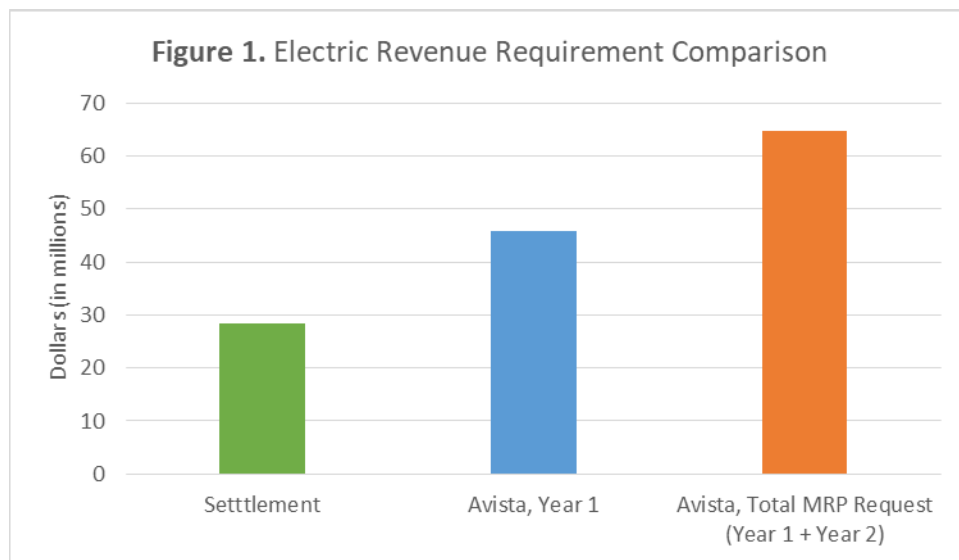
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<sup>42</sup> WAC 480-07-740.

1 from Public Counsel’s perspective in greater detail. Individual Parties may have differing  
 2 reasoning or rationale for agreeing to the terms of the settlement agreement.

3 **Q. Why does Public Counsel support the revenue requirement terms for**  
 4 **electric service?**

5 A. Parties agreed that a one-time electric rate increase of \$28.5 million is a fair  
 6 resolution of revenue requirement issues for Avista’s electric service. The revenue  
 7 requirement increase is “blackboxed,” so it does not address specific aspects of Avista’s  
 8 requests with a few notable exceptions (explained below). The Settlement reaches a  
 9 revenue requirement number that is \$17.3 million lower than the Company’s \$45.8 million  
 10 request in the first year of their proposed multi-year rate plan (“MRP”).<sup>43</sup> Figure 1  
 11 illustrates this difference.




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<sup>43</sup> Stipulation ¶ 2.

1           When considering the additional revenue requirement requested in Year 2 of  
2 Avista’s MRP, the Settlement is particularly fair to Washington customers and is in the  
3 public interest.

4           **Q.    Are there any specific electric revenue requirement adjustments**  
5 **considered in the Settlement Stipulation?**

6           A.    Yes. Though the revenue requirement adjustment is largely considered a  
7 “blackbox” figure, Parties agreed to terms impacting investments related to the Colstrip  
8 coal-generation plant. The Company agrees that it “will not support capital expenditures  
9 that go beyond routine capital maintenance costs that extend the plant’s operational life  
10 beyond December 31, 2025.”<sup>44</sup> Any Colstrip-related investments made after December 31,  
11 2017, will be subject to prudence review in a forthcoming rate case,<sup>45</sup> such that  
12 determination will be made if an investment is something other than routine maintenance  
13 or something that extends the useful life of the generation plant. This term is in the public  
14 interest because it is consistent with the Clean Energy Transformation Act (CETA), which  
15 requires all coal generation plants serving Washington customers to be excluded from rates  
16 by 2025 and, thus, fully depreciated.<sup>46</sup> Given CETA’s requirements, Avista’s Washington  
17 customers should not pay for investments to prolong the life of coal generation plants that  
18 are not contributing to electric service for their homes or businesses.

19           More specifically, any of the investments made in SmartBurn technology for  
20 Colstrip Units 3 and 4 are not included in rate base at this time.<sup>47</sup> Given the timing of these

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<sup>44</sup> Stipulation ¶ 14, subpart (j).

<sup>45</sup> *Id.*

<sup>46</sup> RCW 19.405.030 (1)-(2).

<sup>47</sup> Stipulation ¶ 14, subpart (j).

1 investments, the Commission will review the prudence of SmartBurn assets in a future rate  
2 case proceeding to determine if those costs were prudently incurred.

3 **Q. What is the rate impact of the Settlement on Washington residential**  
4 **electric customers?**

5 A. Assuming that the Commission accepts the rate spread proposed in this  
6 Settlement, the average Washington electric customer would see their monthly bill increase  
7 by \$5.34 to \$86.55. This represents a 6.6 percent monthly bill increase. The Company's  
8 proposed rate increase, on the other hand, would have increased average electric customer  
9 bills by nearly 10 percent, a \$7.93 monthly increase to \$89.14. The bill impact of this  
10 agreement is much more modest in comparison and is in the public interest. It is worth  
11 noting that this bill impact does not consider the ERM refund, which will be discussed  
12 below.

13 **Q. Does Public Counsel support a single-year rate increase versus a multi-**  
14 **year rate plan?**

15 A. Yes. Public Counsel was firmly opposed to a multi-year rate plan in  
16 response testimony in this proceeding. Ms. Andrea Crane testified in that the Company had  
17 not properly supported their case for a two-year MRP and that the proposed MRP did not  
18 accomplish the goals the Company stated it would.<sup>48</sup> Furthermore, I previously testified in  
19 this proceeding that the timing of an MRP is inappropriate, given the ongoing Regulatory  
20 Framework Investigation in Docket U-180907 and rulemakings related to the CETA.<sup>49</sup>  
21 Although the Settlement Stipulation does not weigh in on these arguments against an MRP,

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<sup>48</sup> Response Testimony of Andrea C. Crane, Exh. ACC-1T at 43:6-9.

<sup>49</sup> Response Testimony of Corey J. Dahl, Exh. CJD-1T.

1 limiting Avista's rate increase to one year was critical to Public Counsel's support of the  
2 Settlement Stipulation.

3 **Q. Does Public Counsel support the Settlement term regarding natural gas**  
4 **revenue requirement?**

5 A. No, Public Counsel does not agree to or support the \$8.0 million natural gas  
6 revenue requirement increase.

7 **Q. Please describe the cost of capital terms in the Settlement Stipulation.**

8 A. Parties agreed to a variety of terms related to cost of capital, including  
9 return on equity (ROE) and capital structure. In terms of ROE, Parties agreed that 9.4  
10 percent would be a fair return for the Company. This represents a 0.1 percent reduction to  
11 the current authorized ROE, which follows trends in recent cases involving other  
12 Washington utilities and Avista in other jurisdictions. Avista requested a significant  
13 increased from 9.5 percent to 9.9 percent, so the Settlement Stipulation represents a win for  
14 ratepayers. ROE is included in revenue requirement, so any reduction to ROE would result  
15 in a commensurate reduction in customer rates.

16 In addition to ROE, Parties agreed to maintain Avista's capital structure with a 48.5  
17 percent equity layer and 51.5 percent debt layer. This is consistent with the Company's  
18 previously authorized capital structure. The Company requested a hypothetical 50-50  
19 capital structure, which would have inflated the revenue requirement, despite not  
20 accurately reflecting the way the Company procures financing. The ROE reduction,  
21 coupled with no change to the capital structure, is fair and is in the public interest.

1           **Q.     Please describe the electric rate spread proposed in the Settlement**  
2 **Stipulation.**

3           A.     Parties agreed to terms that spread rates equitably across classes. The  
4 Settlement terms allocate a smaller share of the rate increase to the residential customer  
5 class than proposed by other Parties in response testimony, including Staff and AWEC.  
6 Public Counsel believes the electric rate spread is fair and is in the public interest.

7           **Q.     Why does the Settlement allocate a larger share of the electric rate**  
8 **increase to residential customers than other customer classes?**

9           A.     On a high level, rate spread schemes should be designed such that revenue  
10 received from each class is sufficient to cover the costs to serve a particular class. While  
11 there are methodological and policy debates about how to spread costs that cannot be  
12 directly assigned to each customer class, it is the case Avista's residential class currently  
13 covers a smaller share of their cost of service than other customer classes. Legitimate  
14 policy discussion can be had regarding steps to shield customers from rate shock and a  
15 range of acceptability around rate spread allocations, but this settlement is directionally  
16 accurate in bringing customer classes closer to parity. Public Counsel finds the impacts of  
17 the changes in rate spread acceptable for residential customers because the terms of the  
18 electric Settlement, taken as a whole, move rate classes closer to parity, while shielding  
19 residential customers from a major rate increase.

20           **Q.     Please describe the natural gas rate spread Settlement terms.**

21           A.     Parties agree to spread the natural gas rate increase equally across all  
22 customer classes. Taken as a whole, each customer class will see an equal percentage

1 increase in marginal rates. As a result, no single class or set of classes is accepting a larger  
2 share of the change in rates.

3 **Q. Why is Public Counsel agreeing to the natural gas rate spread**  
4 **Settlement terms?**

5 A. Rate spread, as a general concept, is independent of revenue requirement.  
6 When a rate spread is set, it simply determines how a change in rates (increase or decrease)  
7 is distributed across customer classes, regardless of the rate change's magnitude. Mr. Glenn  
8 Watkins testified in support of this proposal in Exh. GAW-1T on behalf of Public Counsel.  
9 As such, an equal percentage increase on margin for all classes is fair and in the public  
10 interest.

11 **Q. Please describe the rate design issues included in the Settlement and**  
12 **why they are in the public interest.**

13 A. Public Counsel's primary interest in rate design issues relates to the monthly  
14 basic charge, which is a fixed fee charged to every residential customer. Parties agreed to  
15 maintain Residential Basic Charges for both electric and natural gas services at \$9.00<sup>50</sup> and  
16 \$9.50,<sup>51</sup> respectively. Preventing increases to basic charges is a critical customer  
17 protection. As fixed charges grow, customers have increasingly limited ability to control  
18 their monthly bills through conservation or other behavior changes. This is particularly  
19 important for income-constrained customers or customers living on a fixed income. The  
20 rate design terms for electric and natural gas service are in the public interest.

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<sup>50</sup> Testimony of Joseph D. Miller, Exh. JDM-1T at 10:15-16.

<sup>51</sup> *Id.*, at 24:12-13.

1           **Q.     Are there any remaining issues that will impact customer billed electric**  
2 **rates included in the Settlement?**

3           A.     Yes. Parties also agree to refund the final ERM balance at the conclusion of  
4 the parallel Docket UE-190222.<sup>52</sup> The balance will be refunded to customers over a two-  
5 year period beginning April 1, 2020, which is the rate effective date proposed in this  
6 Settlement. In other words, the ERM refund will coincide with the electric rate increase  
7 described above.

8           The ERM refund will be occurring as the result of an accumulation of ratepayer  
9 dollars over time due to actual electric power costs being lower than forecasted. These  
10 over-collections are deferred annually. Although the amount is not finalized, the total  
11 estimated amount refunded over two years will be \$34.4 million once the 2018 entries are  
12 approved in Docket UE-190222. The Commission is reviewing an outage at the Colstrip  
13 generation plant (Docket UE-190882), which could also impact the 2018 ERM balance.  
14 Any impact on the ERM balance due to the outage inquiry will be included in the 2018  
15 balance that will be refunded to ratepayers. Parties accept that the refund methodology for  
16 the ERM balance will be consistent with Avista Witness Pat Ehrbar's testimony in UE-  
17 190222.<sup>53</sup>

18           **Q.     What is the anticipated impact of the ERM refund on residential**  
19 **customers' electric bills?**

20           A.     Overall, the ERM refund will reduce rates for all customers, including  
21 residential customers. If the total amount refunded is \$34.4 million, the average residential

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<sup>52</sup> Stipulation ¶ 12.

<sup>53</sup>, Direct Testimony of Pat D. Ehrbar, Exh. PDE-1T (Docket UE-190222).



1 electric customer can expect a monthly bill of \$83.47. Compared to residential rates  
2 effective as of the time of Avista's GRC filing, the net bill impact will be an estimated  
3 \$2.26, or 2.8 percent, more for the average customer on a monthly basis. The Colstrip  
4 outage investigation could also increase the amount refunded to customers. The ERM  
5 refund offsets the impacts of increased electric rates overall and changes to the electric rate  
6 spread. This reduced impact on residential customer bills is a benefit to ratepayers and is in  
7 the public interest.

8 **Q. Does the Settlement address Avista's partial ownership of Colstrip**  
9 **Units 3 and 4?**

10 A. Yes. As previously indicated, the CETA requires utilities to fully depreciate  
11 coal-fired generation assets from Washington rates by December 31, 2025. Colstrip Units 3  
12 and 4 currently have an end of useful life set at 2034 and 2036, respectively.<sup>54</sup> As such,  
13 Parties agree to accelerate the depreciation of Units 3 and 4 to 2025, consistent with the  
14 law. Colstrip-related transmission assets are not similarly accelerated, however.<sup>55</sup>

15 **Q. Did the Parties agree how to recover the costs of the accelerated**  
16 **depreciation of Colstrip Units 3 and 4?**

17 A. Yes. Accelerating the depreciation of Colstrip assets increases the amount  
18 of depreciation expenses that must be collected on an annual basis. Typically, the annual  
19 share of asset depreciation is included in customer rates. As a result of the accelerated  
20 depreciation date, there is an additional \$1.9 million worth of depreciation expenses

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<sup>54</sup> Stipulation ¶ 13, subpart (a).

<sup>55</sup> Stipulation ¶ 13, subpart (b).

1 annually. Parties agreed to offset this additional depreciation expenses to prevent customer  
2 rate increases through a few mechanisms, including:

- 3 • **Excess Deferred Income Taxes:** As a result of the Tax Cuts and Jobs Act of  
4 2017, utilities were required to pay less in federal income taxes. Avista  
5 collected tax expenses in customer rates at the previous, higher tax rate, so they  
6 had an over-collection. The over-collected tax revenues will be applied to the  
7 remaining Colstrip account balance to assist in depreciating the asset and  
8 offsetting the customer rate impact.<sup>56</sup>
- 9 • **Temporary Tax Credit:** The Company will apply an additional \$0.9 million  
10 tax credit from the Tax Credit and Jobs Act to the Colstrip asset account  
11 balance for the rate year covered by this Settlement Stipulation.<sup>57</sup> Application  
12 of this tax credit will further offset the increased depreciation expense included  
13 in customer rates.
- 14 • **ERM Refund:** The remaining Colstrip net annual depreciation expense will be  
15 offset with a portion of funds from the ERM balance.<sup>58</sup> This will total \$0.5  
16 million.<sup>59</sup>

17 Although RCW 19.405.030 permits increased customer rates as a result of  
18 accelerating coal-fired generation assets to December 31, 2025, this Settlement shields  
19 Avista's customers from the impact of this adjustment. Customers will not see major rate

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<sup>56</sup> Stipulation ¶ 13, subpart (d)(1).

<sup>57</sup> Stipulation ¶ 13, subpart (d)(1).

<sup>58</sup> Stipulation ¶ 13, subpart (d)(1).

<sup>59</sup> Stipulation ¶ 13, subpart (d)(1)(c)(ii).

1 increases to pay back the remaining balance of Colstrip Units 3 and 4, so this term is in the  
2 public interest.

3 **Q. Please describe the terms related to low-income weatherization.**

4 A. There are two proposed changes to Avista's low-income weatherization  
5 program, which provides energy efficiency upgrades to income-qualifying customers. First,  
6 the Company agrees to increase funding by \$650,000, bringing the annual budget to \$3.0  
7 million effective August 1, 2020.<sup>60</sup> In addition to increased funding, there are changes to  
8 how weatherization funds can be spent. A total of 30 percent of funds can be reserved for  
9 the agency rate (20 percent direct and 10 percent indirect).<sup>61</sup> Increasing this funding  
10 allowance will improve the Community Action Agencies'<sup>62</sup> ("Agencies") ability to  
11 facilitate projects with Avista's low-income customers and contractors who complete the  
12 weatherization projects. Furthermore, the Company agrees to increase the Health, Safety, &  
13 Repair allowance to 30 percent of a project's total budget, up from 15 percent.<sup>63</sup>  
14 Oftentimes, Agencies are unable to complete weatherization projects due to conditions in a  
15 customer's home, such as a failing roof or infestations. Contractors are often unable to  
16 complete projects under these circumstances or installed measures will be ineffective.  
17 Reducing the barriers to project completion by allowing health, safety, and repair expenses  
18 will also help utilities achieve conservation goals and will help the State achieve climate

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<sup>60</sup> Stipulation ¶ 14, subpart (a).

<sup>61</sup> Stipulation ¶ 14, subpart (a).

<sup>62</sup> Community Action Agencies are responsible for ensuring that customers are income qualified for programs, including weatherization and rate assistance. In terms of weatherization, they coordinate between the Company, customers, and contractors.

<sup>63</sup> Stipulation ¶ 14, subpart (a).

1 goals. The agreed changed to the low-income weatherization program are in the public  
2 interest.

3 **Q. Please describe the low-income rate assistance terms and why they are**  
4 **in the public interest.**

5 A. The Company agrees to maintain the current funding formula for the Low-  
6 Income Rate Assistance Program (LIRAP) through the pendency of the next General Rate  
7 Case. The current five-year LIRAP plan, increases funding to the program by the larger of  
8 seven percent annually or two-times the residential base rate increase.<sup>64</sup> Without this  
9 Settlement term, there would be a level of uncertainty with the funding formula since the  
10 current program year (October 1, 2019 through September 30, 2020) is the final year of the  
11 five-year LIRAP plan.<sup>65</sup> This ensures that funding for customer rate assistance is  
12 commensurate with rate increases, since demand for rate assistance will increase along  
13 with customer rates. As a result, this term is in the public interest.

14 **Q. What is the Disconnection Reduction Plan and why is it in the public**  
15 **interest?**

16 A. The Company agrees to gather and report customer disconnection data,  
17 which will be provided to the Commission and Public Counsel annually.<sup>66</sup> Annual  
18 disconnection data reports will include number of total disconnections, disconnections for  
19 non-payment, remote disconnection statistics, number of disconnected customers receiving  
20 low-income bill assistance, and several other critical data points.<sup>67</sup> In addition to annual

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<sup>64</sup> Stipulation ¶ 14, subpart (b).

<sup>65</sup> Testimony of Shawn Collins, Exh. SMC-1T at 5:4-6.

<sup>66</sup> Stipulation ¶ 14, subpart (c).

<sup>67</sup> Collins, Exh. SMC-1T at 19:13-20:9.

1 reports, the Company commits to working with the Energy Efficiency Advisory Group to  
2 develop a plan to reduce customer disconnections. As The Energy Project witness Mr.  
3 Shawn Collins points out, having the relevant data to develop a Disconnection Reduction  
4 Plan is particularly important with increasing rates and the forthcoming clean energy  
5 transition;<sup>68</sup> therefore, this term is in the Public Interest.

6 **Q. Please describe the Settlement term related to On-Bill**  
7 **Repayment/Financing.**

8 A. The Company agrees to work with stakeholders in the Energy Efficiency  
9 Advisory Group to develop an on-bill financing or repayment program for residential and  
10 small business customers.<sup>69</sup> Programs of this nature are designed to provide affordable  
11 financing to customers to fund energy efficiency upgrades, such as a new appliance or heat  
12 pump, and payments are facilitated through the utility's billing system. This not only helps  
13 customers reduce their energy bills, but they are able to make affordable payments for  
14 efficiency upgrades directly on their utility bill. Public Counsel has consistently supported  
15 these types of programs, dependent on how they are designed.

16 The Settlement also provides that the Company must reach agreement with the  
17 Energy Efficiency Advisory Group in terms of program design before filing.<sup>70</sup> This ensures  
18 that there will be buy-in from stakeholders before a program is implemented, which was  
19 critical for Public Counsel's support. In Public Counsel's view, on-bill repayment for  
20 financing programs should be designed in a way that does not unintentionally harm

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<sup>68</sup> Collins, Exh. SMC-1T at 16.

<sup>69</sup> Stipulation ¶14, subpart (d).

<sup>70</sup> *Id.*

1 customers. As such, there should be broad agreement among stakeholders before a program  
2 is filed with the Commission. If agreement is not reached on program design for residential  
3 or small business programs, the Company will file a status report for one or both customer  
4 classes.<sup>71</sup>

5 **Q. Please describe the Settlement term regarding low-income renewable**  
6 **energy projects.**

7 A. The Company agrees to discuss renewable energy projects intended to  
8 benefit low-income customers with the Energy Assistance Advisory Group.<sup>72</sup> This term  
9 does not include any additional financial commitments. Neither this term nor Public  
10 Counsel endorses any specific projects or programs to address this issue, though the  
11 equitable distribution of the benefits of renewable energy is a component of the CETA.<sup>73</sup>  
12 Thus, this term is in the public interest.

13 **Q. Please describe the transportation electrification term included in the**  
14 **Settlement.**

15 A. The Company reiterates its commitment to develop an Electric Vehicle  
16 Supply Equipment plan, which is already underway.<sup>74</sup> The Company will also aim to  
17 dedicate 30 percent of transportation electrification programs to low-income customers,  
18 include transportation in demand response pilots, and will include transportation  
19 electrification in upcoming integrated resource plans.<sup>75</sup> This term does not include any

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<sup>71</sup> *Id.*

<sup>72</sup> Stipulation ¶ 14, subpart (f).

<sup>73</sup> RCW 19.405.060(1)(c)(iii).

<sup>74</sup> Stipulation ¶ 14, subpart (g).

<sup>75</sup> *Id.*

1 additional financial commitments. Given statewide efforts to electrify the transportation  
2 sector and the state's clean energy goals, this term is in the public interest.

3 **Q. Please describe the natural gas special contracts term and why it is in**  
4 **the public interest.**

5 A. The Company commits to reviewing all of its natural gas special contracts  
6 for economic feasibility and will renegotiate any not in compliance by May 1, 2021.<sup>76</sup>  
7 Natural gas utilities may negotiate special contracts with large customers that offers  
8 discounted rates outside the approved rate schedules. As Public Counsel witness, Mr.  
9 Glenn Watkins, testified, many special contract customers have been on the same contract  
10 for more than a decade and two customers have been under the same contract for more than  
11 20 years.<sup>77</sup> These contracts should be reviewed to determine whether the Company is  
12 maximizing revenue from the discounted rates and other customers are not over-  
13 subsidizing the costs to serve the special contracts customers. Given the potential for cross-  
14 class subsidization, this term is in the public interest.

15 **Q. Please describe the Colstrip Community Transition fund included in**  
16 **the Settlement.**

17 A. The Settlement Stipulation includes a \$3 million Colstrip Community  
18 Transition Fund, intended to benefit the community surrounding the Colstrip Generation  
19 Plant upon its eventual closure.<sup>78</sup> Avista's shareholders will fund \$1.5 million of the  
20 contribution and the other half will be funded by ratepayers, though the electric revenue

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<sup>76</sup> Stipulation ¶ 14, subpart (h).

<sup>77</sup> Response Testimony of Glenn A. Watkins, Exh. GAW-1T at 12:9-13.

<sup>78</sup> Stipulation ¶ 14, subpart (l).

1 requirement included in this settlement does not account for this contribution.<sup>79</sup> The  
2 Company will defer the \$1.5 million worth of ratepayer contributions without carrying  
3 costs, and it will undergo prudence review in a future general rate case.<sup>80</sup> The 50-50 split  
4 between shareholders and ratepayers is consistent with the Settlement in the 2017 Puget  
5 Sound Energy GRC (Dockets UE-170033 and UG-170034).

6 The Settlement term also includes specific direction for disbursing funds from the  
7 Colstrip Community Transition Fund. Namely, the Company shall consider distributing  
8 funds to community groups, the City of Colstrip, labor organizations, and tribal  
9 organizations. The funds are intended to assist in the economic transition away from a coal-  
10 fired plant as the economic center of the community and cannot be used to fund any fossil  
11 fuel-related projects. Public Counsel does not oppose this term.

12 **Q. Please summarize your conclusions about the Settlement Agreement.**

13 A. The terms of the Settlement are a fair resolution of all contested issues in  
14 this proceeding, with the exception of natural gas revenue requirement, decoupling, and  
15 remaining ERM issues. Public Counsel supports all terms of the Settlement, except for the  
16 natural gas revenue requirement, because they are the result of good faith negotiations and  
17 reflect the interests of all Parties. Public Counsel's objection to the natural gas revenue  
18 requirement does not diminish its support of the remainder of the Settlement Agreement.  
19 The Settlement terms, except for the natural gas revenue requirement, are in the public  
20 interest for the reasons set forth in my testimony, above. The Commission should approve  
21 all terms of the Agreement in line with Public Counsel's recommendation.

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<sup>79</sup> *Id.*

<sup>80</sup> *Id.*



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

2           A. Yes

3           **Statement of AWEC**

4           **Q. Please explain why AWEC supports the Partial Multiparty Settlement**  
5           **Stipulation (“Stipulation”) filed with the Washington Utilities and Transportation**  
6           **Commission (“Commission”) on November 21, 2019 in these dockets.**

7           A. AWEC supports the Stipulation for several reasons. First, it provides a  
8           reasonable compromise on the overall revenue requirement, reducing Avista’s requested  
9           first-year increase from \$45.8 million to \$28.5 million on the electric side and from \$12.9  
10          million to \$8 million on the electric side. Second, the Stipulation eliminates the two-year  
11          rate plan Avista requested. This will avoid uncertain litigation over the merits of this rate  
12          plan before the Commission has issued policy guidance on how to value plant placed in  
13          service after the rate-effective date, which it is currently investigating in Docket No. U-  
14          190531. Third, while the Stipulation provides for a review of existing natural gas special  
15          contracts, it does not endanger the existence of those contracts based on the continued  
16          bypass feasibility of the customers on these contracts. Fourth, the Stipulation adopts  
17          AWEC’s rate design proposals for Schedule 25, which are better reflective of cost-  
18          causation for this group of customers. Finally, the Stipulation allows Inland Empire Paper  
19          (“IEP”), Avista’s largest electric customer in Washington and an AWEC member, to  
20          negotiate a special contract with Avista.

21          **Q. Why is the rate design for Schedule 25 in the Stipulation preferable to**  
22          **Avista’s proposed rate design in its application from AWEC’s perspective?**

1           A. As explained in Dr. Kaufman’s Response Testimony, Avista’s proposed rate  
2 design collects substantially more revenue through energy charges than is warranted by its  
3 own cost-of-service study.<sup>81</sup> Additionally, Avista provides a credit for transmission service  
4 to reflect the fact that transmission customers do not use distribution facilities, but this  
5 credit currently is too low to offset these distribution costs.<sup>82</sup> Accordingly, the Stipulation  
6 makes two changes to Avista’s rate design for Schedule 25. It applies the rate increase to  
7 this schedule to demand charges, which proportionally reduces the amount collected  
8 through energy charges. It also increases the transmission credit from \$1.10 per kVA to  
9 \$1.52 per kVA for greater than 60 kV service, and from \$1.40 per kVA to \$1.93 per kVA  
10 for greater than 115 kV service. This adjustment to the transmission credit will hold  
11 transmission customers harmless for the costs of distribution facilities they do not use.

12           **Q. Why does AWEC support allowing IEP to negotiate a special contract?**

13           A. As Mr. Jason Ball for Commission Staff testified, IEP is significantly larger  
14 than the other customers on Schedule 25, which may mean that IEP is not receiving a like  
15 or contemporaneous service to the other customers on this schedule.<sup>83</sup> Mr. Ball  
16 recommended as one option that Avista work collaboratively with interested customers on  
17 this schedule to negotiate a special contract.<sup>84</sup> IEP is interested in such an option and the  
18 Stipulation commits IEP and Avista to negotiate in good faith and to use best efforts to  
19 develop a special contract that would go into effect concurrently with the rate-effective  
20 date of Avista’s next general rate case. Parties agreed to this effective date so that Avista

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<sup>81</sup> Exh. LDK-1T at 31:5-16.

<sup>82</sup> Id. at 31:17-33:1.

<sup>83</sup> Exh. JLB-1T at 23:25 - 24:24.

<sup>84</sup> Id. at 23:28-30.

1 would not experience lost margin as a consequence of a timing difference between the  
2 effective date of the special contract and the effective date of new rates that incorporate the  
3 impacts of the special contract.

4 **Q. What other commitments does the Stipulation make with regard to the**  
5 **IEP Special Contract?**

6 A. The Stipulation provides that Commission Staff will be involved in the  
7 special contract negotiations. This will help to ensure that the broader public interest is  
8 represented in these negotiations. Additionally, if Avista and IEP reach an impasse in  
9 negotiations, the Stipulation commits the parties to submit their disputes to binding  
10 arbitration under Commission auspices, with the final determination submitted to the  
11 Commission for review and approval. At the same time, however, the Stipulation also  
12 provides IEP with the option, in its sole discretion, to remain on Schedule 25 rather than  
13 take service under a special contract. This was important to IEP in the event that, if  
14 binding arbitration was required, its results included conditions to which IEP could not  
15 agree. By staying on Schedule 25 in that event, neither Avista nor any other customer will  
16 be impacted, so it is appropriate to leave this decision to IEP's discretion. Finally, the  
17 Stipulation commits the parties not to contest the special contract, once it is submitted for  
18 Commission approval, solely on the basis that IEP is ineligible to negotiate a special  
19 contract. This provision exists simply to ensure good faith on the part of all parties to the  
20 Stipulation. It would be improper for a party to agree to this Stipulation if it believed IEP  
21 was ineligible as a threshold matter to negotiate a special contract.

1           **Q. What commitments does the Stipulation not make with regard to the IEP**  
2 **Special Contract?**

3           A. First and foremost, the Stipulation does not commit the Commission to  
4 approve the special contract. Because the Stipulation only commits Avista and IEP to  
5 negotiate in good faith and use best efforts to reach agreement on a special contract, the  
6 Stipulation does not articulate the justification for a special contract for IEP at this time.  
7 Once a special contract has been executed between the parties and submitted for  
8 Commission approval, Avista and IEP will demonstrate the basis for the special contract,  
9 including its compliance with all requirements of WAC 480-80-143.

10           Second, other than with respect to IEP's eligibility to negotiate a special contract,  
11 the Stipulation does not commit any party to the Stipulation to support the special contract.  
12 Parties are free to take any position on any issue related to the special contract in the rate  
13 case or other proceeding in which the special contract is being considered for approval.

14           **Q. Does this conclude your testimony?**

15           A. Yes

16           **Statement of NVEC**

17           **Q. Please explain why NVEC supports the Partial Multiparty Settlement**  
18 **Stipulation ("Stipulation") filed with the Washington Utilities and Transportation**  
19 **Commission ("Commission") on November 21, 2019 in these dockets?**

20           A. NVEC supports the partial settlement for several reasons.

21           **Q. Does the Settlement resolve NVEC's concerns regarding Colstrip**  
22 **depreciation?**

1           A.    Yes, the settlement provides for the accelerated depreciation of Colstrip Units  
2    3 and 4 in a manner that complies with Avista’s obligations under Section 3 of 2SSB 5116,  
3    the Clean Energy Transformation Act (CETA), which requires each Washington electric  
4    utility to eliminate coal-fired resources from its allocation of electricity by the end of 2025  
5    and requires depreciation dates to be adjusted to meet the 2025 deadline. In general,  
6    Avista’s approach improves the alignment of the recovery of costs with the use of these  
7    assets from a customer perspective through its use of tax credits (“unprotected” EDIT and  
8    2018 temporary tax credits) for production plant to partially offset the rate increase, while  
9    also providing inter-generational equity for costs. Additionally, the application of protected  
10   EDIT tax credits for under-recovered decommissioning and remediation balances has the  
11   same benefits of reducing rate impacts and preserving intergenerational equity. As I  
12   discussed in testimony I sponsored in this proceeding (WVG-1T), inter-generational equity  
13   is preserved because the tax credits are owed to the same customers that have utilized  
14   generation from Colstrip Units 3 and 4, while at the same time underpaying depreciation  
15   expenses.

16           Also, importantly, capital expenditures made after December 31, 2017 are not  
17   included until they are determined prudent by the Commission, so that cost recovery for  
18   these expenditures will not occur without appropriate review and prudence determination.  
19   This condition is appropriate because it ensures that the risk of making future specific  
20   capital expenditures remains with Avista, and the Commission retains full authority to  
21   determine the prudence of these future expenditures.

1           **Q. Does the Settlement resolve NWECA's recommendations that Avista begin**  
2 **planning how to use the Colstrip Transmission assets after those units close?**

3           A. Yes, it includes commitments from Avista to proceed with reasonable steps to  
4 evaluate transmission assets related to Colstrip 3 and 4 in a timeframe and manner that will  
5 help ensure that those assets remain used and useful in serving Avista customers, or  
6 appropriately plan for other reasonable outcomes, when the plants shut down or the  
7 generation is no longer serving Washington customers. The transmission study will work  
8 toward the goal of ensuring that the transmission lines utilized for Colstrip generation  
9 remain fully utilized when unit closure occurs. In particular, NWECA points out that these  
10 transmission lines offer the opportunity to bring generation from Montana wind to  
11 Washington, a renewable resource that would help further the state's clean energy goals.

12           **Q. Does the Settlement begin the process of providing funding to the**  
13 **Colstrip community to transition from reliance upon coal generation?**

14           A. Yes, the settlement includes a commitment from Avista to provide \$3 million  
15 in funding for community transition efforts in the Colstrip area that include the local  
16 community, city, county, workers and tribal government. As Washington ratepayers exit  
17 the purchasing of power from these generators, it is important to ensure Avista is fulfilling  
18 its corporate responsibility to the local community of Colstrip, Montana.

19           The settlement provision is consistent with the testimony I sponsored in this case  
20 (WMA-1T) that outlines the importance of Avista's commitment to the Colstrip  
21 community. It is in the public interest of the State of Washington to encourage good  
22 corporate citizenship and a responsibility to workers and communities impacted by large-

1 scale changes in the energy industry. Following the example set in the TransAlta closure  
2 agreement<sup>85</sup>, Washington State has made it clear that affected communities should be  
3 afforded opportunities to pursue economic transition in the face of such changes. The \$3  
4 million figure is comparable, based on Avista's ownership share of Colstrip units 3 and 4,  
5 to the \$10 million commitment made by Puget Sound Energy (based on their ownership in  
6 Units 1, 2, 3 and 4) in UE-170033/ UG-170034. Other owners will hopefully be  
7 encouraged by the terms of the settlement to pursue similar commitments. The Settlement  
8 also makes it clear that this commitment may be increased in the future because it is not a  
9 "cap" or limitation on the amount that Avista may ultimately contribute to help the Colstrip  
10 community transition from coal-fired generation.

11 **Q. Does the Settlement require Avista to develop an on-bill repayment**  
12 **program that will increase the acquisitions of cost effective energy efficiency?**

13 A. Yes, the settlement includes a commitment from Avista to proceed with  
14 developing an on-bill repayment option for residential and small commercial customers  
15 that will advance energy efficiency acquisition to help offset rate increases customers will  
16 see as a result of this case. On-bill repayment programs are offerings made by a utility to  
17 their customers on an opt-in basis, to finance customer improvements related to electricity  
18 or natural gas service. The programs are intended to overcome barriers to the upfront costs  
19 of energy efficiency or distributed renewable generation projects by allowing customers to  
20 pay back the investments over a period of time directly on their utility bills. As I mentioned  
21 in my testimony (WMG-1T), an on-bill repayment option for customers will significantly

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<sup>85</sup> See SB 5769 (2011), §§ 101(4), (5); 106(3), (4); 301; 302.

1 increase the number of customers undertaking energy efficiency programs by removing  
2 barriers related to the upfront cost of these projects.

3 **Q. Does the Settlement provide appropriate increases in low-income**  
4 **weatherization funding?**

5 A. Yes, the settlement includes an increase to low-income weatherization  
6 funding of \$650,000, from \$2.35 million to \$3.0 million, effective August 1, 2020. This  
7 increase in funding will help to offset the rate increase for low-income customers by  
8 increasing the amount of energy efficiency assistance, which provides for on-going savings  
9 on customer bills. This support of low-income weatherization furthers state policies in  
10 support of low-income customers and energy efficiency, including the CETA.

11 **Q. Does the Settlement ensure that an appropriate amount of transportation**  
12 **electrification plan funding is used for low-income customers?**

13 A. Yes, the settlement provides for a commitment from Avista to set a goal of  
14 having at least 30% of program funds for its electric vehicle supply equipment (EVSE)  
15 plan purposes dedicated to low-income customer benefits. Ensuring that low-income  
16 customers benefit from the transition to transportation electrification and are not left  
17 behind as other customers with greater means move forward is an essential part of a just  
18 transition to clean energy in Washington State and consistent with the intent of CETA.

19 **Q. Does the multi-party settlement resolve all issues of concern for NWEC?**

20 A. No. Of concern to NWEC, the issues surrounding decoupling remain to be  
21 resolved by the Commission, following the evidentiary hearing.



1           In addition, in the interests of settlement, NWECC dropped its recommendations,  
2 discussed in the testimony of witness Amy Wheelless (AEW\_1T), that the Commission  
3 order Avista to discontinue use of its current natural gas line extension methodology,  
4 “perpetual net present value” (PNPV), and revert to the previous natural gas line extension  
5 methodology in Washington, which was based on the expected revenue of a given  
6 customer. NWECC still supports this recommendation, but will pursue it outside of this  
7 proceeding in generic proceedings or a future proceeding related to Avista.

8           **Q. What is your recommendation as it regards to the settlement?**

9           A. I recommend the Commission approve the settlement in full. The agreement  
10 represents an example of one of the key tenets of the NW Energy Coalition that successful  
11 solutions come from diverse interests coming together to forge collective agreement.

12           **Q. Does this conclude your testimony?**

13           A. Yes

14           **Statement of The Energy Project**

15           **Q. Mr. Collins could you please summarize the purpose of your testimony?**

16           A. The purpose of my testimony is to provide support for approval of the Partial  
17 Settlement Stipulation (Stipulation) filed with the Commission in this docket. My  
18 testimony focuses on the elements of the Stipulation that impact low-income customers  
19 within Avista’s service territory and explains why The Energy Project believes the  
20 Settlement is in the public interest.

21           **Q. Please discuss how the Stipulation addresses low-income issues.**

1           A.    The Stipulation is beneficial for low-income customers in several important  
2 respects. The parties agree to an annual increase in low-income weatherization funding of  
3 \$650,000, from \$2.35 million to \$3.0 million, effective August 1, 2020. Low-income  
4 weatherization measures increase energy affordability in the long run and help mitigate  
5 increased energy costs. Agencies in Avista territory have been able to fully utilize  
6 available funds and would be able to further expand delivery with the increased funds. The  
7 agreement also makes administrative changes to (1) more fully cover agency costs by  
8 allowing for a 10 percent agency indirect rate and a 20 percent project coordination, and (2)  
9 include repair-related expenses as an allowable use of weatherization funds.

10           Regarding energy assistance, the Stipulation provides for stability in LIRAP  
11 funding by establishing that the existing funding formula will continue through the next  
12 General Rate Case. This addresses the expiration of the current five-year LIRAP funding  
13 plan in September 2020.

14           In order to address concerns about the impact on low-income customers of  
15 disconnection for non-payment, Avista agrees to report data and to develop a  
16 Disconnection Reduction Plan in consultation with its low-income Advisory Committee.  
17 The plan would be filed with the Commission within one year of approval of the  
18 Stipulation.

19           In addition, as regards renewable energy, Avista agrees to potential renewable  
20 programs for low-income customers with its Energy Assistance Advisory Group and states  
21 its support for an aspirational goal that 30 percent of EVSE program funds be dedicated to  
22 low-income transportation electrification.

1           **Q. Are there other reasons for your support of the settlement?**

2           A. Yes. Under the original two-year rate plan proposal, electric customers faced  
3 a total 13.8 percent annual increase in rates, while the natural gas margin increase would  
4 have been 20.3 percent. A major benefit of the settlement for low-income customers is the  
5 significant reduction in the original size of Avista's rate request, dropping to 5.7 percent  
6 (base) for electric and 8.5 percent (base) for natural gas, and mitigating the bill impact for  
7 low-income households. The Energy Project also sees as a benefit that the two-year rate  
8 plan proposal is not adopted, allowing customers to avoid an automatic rate increase in  
9 2021 that would have occurred without further full review of the need for added revenue at  
10 that time. Another important aspect of the revenue requirement settlement from TEP's  
11 perspective is the smaller revenue need based on the agreement that the return on equity is  
12 reduced rather than being increased as originally requested.

13           The Energy Project also supports the rate spread and rate design elements of the  
14 settlement. The rate spread is fair to residential customers and TEP is pleased that Avista  
15 has not proposed increases to the monthly basic customer charge.

16           **Q. Does The Energy Project support approval of the Settlement?**

17           A. Yes. For the reasons discussed, TEP believes that the Settlement is in the  
18 public interest. The Energy Project recommends that the Settlement be approved by the  
19 Commission.

20           **Q. Does this conclude The Energy Project's testimony?**

21           A. Yes.

22

1     **Statement of Sierra Club**

2             **Q.    Could you explain the purpose of your testimony?**

3             A.    The purpose of my testimony is to explain why the Sierra Club supports the  
4    proposed Partial Settlement Stipulation (“Settlement”), filed with the Commission on  
5    November 21, 2019. The Sierra Club believes the Settlement is in the public interest in  
6    transitioning towards cleaner and more affordable energy for a few reasons.

7             **Q.    What is your recommendation?**

8             A.    I recommend that the Commission approve the Settlement in full. The  
9    Settlement provides significant environmental, economic and community transition  
10   benefits. As such, this Settlement is in the public interest, and can serve as a model for  
11   other Washington utilities that face similar issues with their ownership shares of the  
12   Colstrip Power Plant.

13            **Q.    Can you elaborate on why Sierra Club supports this Settlement?**

14            A.    The Sierra Club believes this Settlement is in the public interest for a few  
15   reasons. First, in line with the Clean Energy Transformation Act (CETA), Section 14(j) of  
16   the Settlement contains capital investment limitations at Colstrip. Avista agrees that it will  
17   not support capital expenditures at Colstrip that go beyond routine capital maintenance  
18   costs that extend the plant’s operational life beyond December 31, 2025. Washington  
19   ratepayers should not be paying for expenses that would prolong Colstrip’s life, and will  
20   instead only support repairs associated with protecting human health and safety. Such  
21   repairs will themselves be subject to future prudence determinations by the Commission to

1 ensure that Washington customers are not charged for costs from which they will receive  
2 no benefit.<sup>86</sup>

3         Second, the costs associated with the installation of Smartburn for Colstrip Units 3  
4 and 4 are not included in the rate base for this Settlement, as referenced at Sections 13(a)  
5 and 14(j). Sierra Club’s testimony from Dr. Ezra Hausman showed that “the installation of  
6 SmartBurn was unnecessary, premature at best, ineffective, and not required for  
7 compliance with any existing or future known requirement.” (Hausman direct, page 14 at  
8 6-8). As part of the overall Settlement, Sierra Club stipulates to the deferral of this issue at  
9 this time, but intends to continue to oppose recovery of these costs when they are  
10 considered by this Commission in the future.

11         Third, Avista will provide \$3 million in funds for a Colstrip Community Transition  
12 fund, divided between shareholder and ratepayer funds. As Washington will not be using  
13 coal-fired generation after late 2025, the fund aims to provide the local residents near  
14 Colstrip in Montana with monies to help move their economy forward beyond Colstrip’s  
15 eventual closure. Importantly, there is specific eligibility for tribal members and  
16 governments. These funds might be used for education, worker re-training, low income  
17 energy efficiency or renewable energy programs, or other projects that aid in transitioning  
18 the community away from coal-fired generation. No projects that fund fossil fuels are  
19 eligible. Avista can choose to contribute more funds to transition efforts beyond the \$3  
20 million pledged in this Settlement. This contribution is also in line with Puget Sound

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<sup>86</sup> Avista notes its belief in Joint Testimony that the Colstrip Ownership and Operation Agreement may obligate them to pay a share of costs for capital projects even if they voted against such projects. Sierra Club may differ in our interpretation of this Agreement and if Avista seeks recovery for such expenses, expects that the UTC will sort out this issue in a future rate case.

1 Energy (PSE's) recent \$10 million fund for community transition, and is roughly in line  
2 with Avista's proportional ownership share of Colstrip. The Sierra Club believes this  
3 Settlement may encourage other Colstrip owners to contribute to transition efforts as well.  
4 This section of the Settlement is aligned with the Sierra Club's goal of endeavoring for a  
5 just transition to cleaner sources of energy.

6 Fourth, Colstrip costs are accounted for in Section 13 of this Settlement. The  
7 depreciation costs for Colstrip units 3 and 4 will be accelerated to 2025 to comply with the  
8 CETA legislation. However, both transmission assets and decommissioning and  
9 remediation (D&R) costs are also part of this settlement and are treated separately. Upon  
10 Commission approval of this Settlement, \$33 million will be placed into a regulatory asset  
11 for Colstrip production plant D&R costs, and Avista will be tracking these costs. Should  
12 Avista end up spending more money than the \$33 million on Colstrip production plant  
13 D&R—as Sierra Club expects that they may well do—those costs will be eligible to be  
14 “trued up” to the actual cost in a future rate case, less any insurance monies or other funds.  
15 Because Avista will only be eligible to “recover...the actual, prudently incurred D&R  
16 costs” both Washington ratepayers, and the community of Colstrip will be protected.  
17 Washington ratepayers will not incur unnecessary expenses, and Colstrip residents will  
18 have the contaminated area reclaimed.<sup>87</sup>

19 Finally, there are many additional benefits to this settlement, including \$3 million

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<sup>87</sup> The Settlement is silent on Avista's return on equity for the Colstrip D&R regulatory asset, an issue raised in Dr. Hausman's direct testimony regarding the originally-proposed regulatory asset. Sierra Club continues to believe that the permitted rate of return on this asset should reflect the significantly reduced risk relative to physical utility assets, and the Sierra Club reserves its right to address this issue in a future rate case as appropriate.

1 for weatherization funds for low-income households, a plan to limit utility disconnections  
2 for low-income ratepayers, and support for electric vehicles, with a goal of dedicating 30%  
3 of the electric vehicle supply equipment (EVSE) program funds to low-income  
4 transportation electrification efforts.

5 **Q. Does this conclude your testimony?**

6 A. Yes

7 **IX. CONCLUSION**

8 **Q. In conclusion, why is this Partial Multiparty Settlement Stipulation “in  
9 the public interest?”**

10 A. This Stipulation should be approved for the following reasons:

11

12 • It strikes a reasonable balance between the interests of the Company and its  
13 customers, including its low-income customers. As such, it represents a  
14 reasonable compromise among differing interests and points of view.

15

16 • The Company’s general rate case filing has been subjected to great scrutiny  
17 through the discovery process: approximately seven months have passed  
18 since the case was filed and the Company has responded to over 840 data  
19 requests (including sub-parts).

20

21 • Ample opportunity has been afforded all Parties to participate meaningfully  
22 in the settlement process.

23

24 • In the final analysis, any settlement reflects a compromise, in the give-and-  
25 take of negotiations; the Commission, however, has before it a Partial  
26 Multiparty Settlement Stipulation that is supported by sound analysis and  
27 sufficient evidence. Its approval is “in the public interest,” and satisfies the  
28 requirement that rates be fair, just, reasonable and sufficient.

29

30 **Q. Are there legal standards that must be satisfied with respect to any  
31 settlement?**

1           A.     Yes. The Commission’s charge is to regulate in the public interest. The  
2 settlement, if approved, must result in rates that are fair, just, reasonable and sufficient.  
3 (RCW 80.28.010.) As such, the Commission must not only assure fair prices and services  
4 to customers, but also “provide the utility with rates sufficient to cover its prudently  
5 incurred costs and an opportunity to recover a return on its investment.” (WUTC v Avista  
6 Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 (December 21, 2005) at  
7 p. 10.) In the final analysis, it is the “end result” that matters, not the methods by which  
8 rates are determined. (Id., at p.11) The settlement represents the Parties’ best efforts at  
9 arriving at an end result that satisfies these requirements.

10           **Q.     Does that conclude your pre-filed direct testimony?**

11           A.     Yes, it does.