

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-14_____

DOCKET NO. UG-14_____

DIRECT TESTIMONY OF

KELLY O. NORWOOD

REPRESENTING AVISTA CORPORATION

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I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Kelly O. Norwood and I am employed as the Vice President of State and Federal Regulation for Avista Utilities (Company or Avista), at 1411 East Mission Avenue, Spokane, Washington.

Q. Would you please briefly describe your educational background and professional experience?

A. Yes. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. I joined the Company in June of 1981. Over the past 32 years, I have spent approximately 21 years in the Rates Department with involvement in cost of service, rate design, revenue requirements and other aspects of ratemaking. I spent approximately 11 years in the Energy Resources Department (power supply and natural gas supply) in a variety of roles, with involvement in resource planning, system operations, resource analysis, negotiation of power contracts, and risk management. I was appointed Vice-President of State & Federal Regulation in March 2002.

Q. Please summarize your testimony in this proceeding?

A. Avista’s earned return in calendar year 2013 for its electric and natural gas operating results in the State of Washington improved significantly from prior periods, following the Washington Utilities and Transportation Commission’s (Commission’s) approval of the settlement agreement in our last general rate case. I will summarize the actual earned return, and the reasons why the earned return for 2013 improved from prior years.

1 I will also provide an overview of the Company’s ratemaking proposal in this filing based
 2 on our Attrition Analysis, as well as the “cross check” we have provided based on the
 3 development of pro forma adjustments from the historical test period to the future rate year.
 4 Both the Attrition Analysis and the Pro forma Cross Check Analysis produce similar results in
 5 terms of the need for electric and natural gas revenue increases for 2015, which is what you
 6 would expect if the proper adjustments are made to the historical test year information to reflect
 7 the revenues, expenses and rate base for the future rate year.

8 A table of contents for my testimony is as follows:

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15 **Q. Are you sponsoring any exhibits in this proceeding?**

16 A. No.

17

18 **II. 2013 WASHINGTON OPERATING RESULTS**

19 **Q. Please summarize Avista’s 2013 electric and natural gas operating results in**
 20 **the State of Washington.**

21 A. For the calendar year 2013 Avista earned a 10.5% return on equity from its
 22 Washington electric and natural gas operations. This actual return has not been adjusted in any
 23 way with “normalizing,” “restating,” or “commission basis” adjustments. The actual return

1 reflects actual weather conditions, actual hydroelectric generation, and actual wholesale market
2 conditions, among other variables, that can cause actual earned returns to be significantly
3 different than the earned returns under normal operating conditions.

4 **Q. Has the Company completed its analysis to normalize the 2013 calendar year**
5 **electric and natural gas operating results to see what the earned return would have been**
6 **under normal operating conditions?**

7 A. No. As of the date of this filing we had not completed that analysis. However,
8 Avista's "Commission Basis Reports" (CBR) are due to be filed with the Commission by April
9 30, 2014. In developing the CBRs, Avista will remove any prior period adjustments recorded in
10 2013, as well as non-recurring items, and adjust operating results to reflect normal weather and
11 hydroelectric conditions, and other appropriate adjustments approved by the Commission in the
12 last rate case to arrive at 2013 calendar-year operating results on a normalized, Commission
13 Basis. The resulting normalized rate of return can then be compared, after-the-fact, on an
14 "apples-to-apples" basis to the previously authorized rate of return, to see whether Avista over-
15 earned or under-earned for 2013 on a "normalized" basis.

16 **Q. When the Company completes the Commission Basis Report for the 2013**
17 **calendar year, do you expect the normalized ROE for 2013 to be close to the 9.8% ROE**
18 **approved by the Commission?**

19 A. Yes. Temperatures in Avista's service area for 2013 were warmer than normal in
20 the summer and slightly cooler than normal in the winter months. This resulted in increased
21 weather-related revenues for the Company in 2013. Preliminary estimates of the revenue
22 normalization adjustment necessary to reflect revenue under normal temperatures would reduce

1 the actual 2013 earned return, by itself, down close to the authorized ROE of 9.8%. Again, as
2 explained above, the Commission Basis normalized results for calendar year 2013 will be
3 completed on or before April 30, 2014.

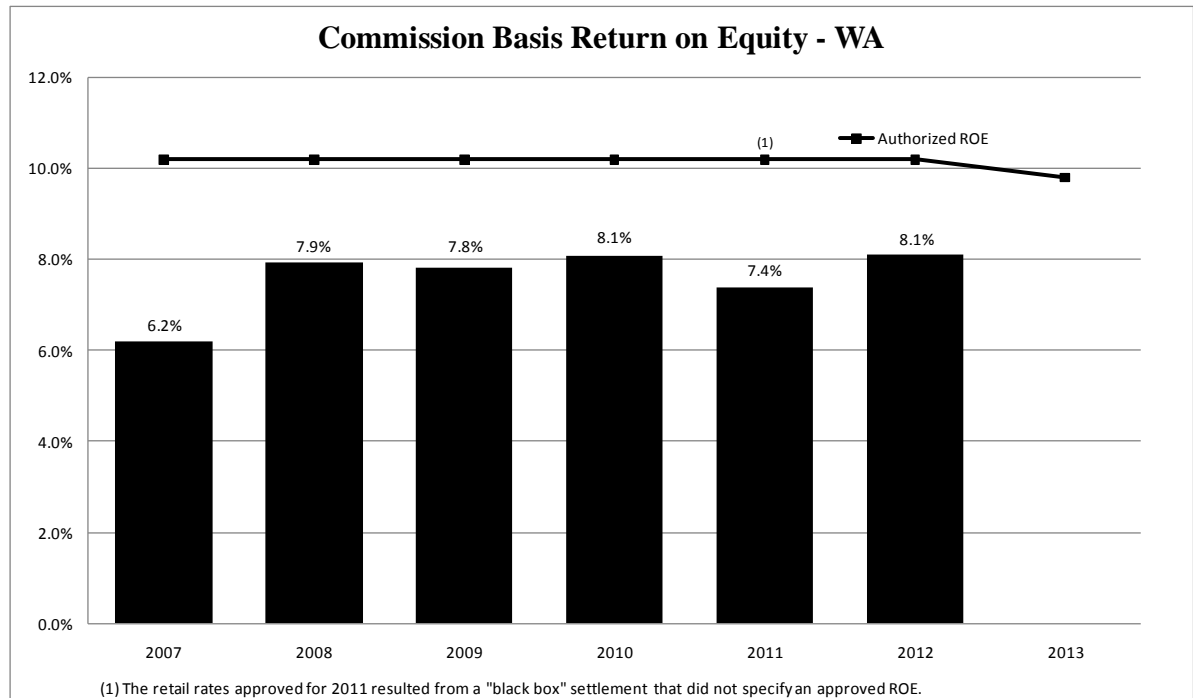
4 **Q. How does this improved return for 2013 compare with Commission Basis**
5 **normalized earned returns for prior years?**

6 A. The bar chart in Illustration No. 1 below shows Avista's earned ROE each year
7 from 2007 to 2012 for our combined electric and natural gas operations in the State of
8 Washington, on a normalized basis from the Company's annual Commission Basis Reports.

9 In developing these reports, which are filed on or before April 30th each year, Avista
10 normalizes the operating results for the prior calendar year to determine what its rate of return
11 would have been if the Company had experienced normal operating conditions, including,
12 among other things, normal temperatures, normal hydroelectric conditions and wholesale electric
13 prices, removal of prior period adjustments, etc.

14 The bar chart shows that all of the normalized ROEs for 2007 to 2012 were well below
15 the ROEs approved by the Commission as being reasonable. The current authorized ROE is
16 9.8%. The earned return in 2013 is a marked improvement over the prior years.

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Illustration No. 1

The expectation under the regulatory compact¹ is that, over time, there will be a reasonable opportunity, but not a guarantee, to actually earn the return on equity authorized by the Commission. It is understood that, in some years, the return will be below the authorized, and in other years it may be above the authorized. It is not reasonable, however, for the earned return, whether on an actual or normalized basis, to be consistently well below the authorized return every year.

Q. Why did Avista experience an improved return in 2013?

A. In the last few years the Commission and the Commission Staff have suggested that utilities consider the use of an attrition adjustment in the ratemaking process as one possible

¹ As an investor-owned utility Avista has the obligation to provide service to its customers and, in exchange for that obligation, the Company is entitled to charge retail rates that are fair, just and reasonable for the customer, and sufficient for the Company to earn a reasonable return for shareholders as determined by the Commission (the authorized ROE).

1 means to address the persistent under-earning that has been occurring.² In the development of its
2 2012 general rate case, filed April 15, 2012, Avista partnered with a consultant³ to develop an
3 attrition study, and a proposed attrition adjustment. In that Docket the Commission Staff
4 reviewed the Company's attrition analysis and conducted their own attrition study, using, for the
5 most part, the same basic methodology. While the settlement agreement in that case did not
6 explicitly include an attrition adjustment, the revenue increases reflected in the settlement
7 agreement did include additional revenues to address, at least in part, the attrition problem the
8 Company had been experiencing in prior years.

9 In its testimony supporting the settlement agreement, Commission Staff provided the
10 following testimony regarding its own attrition analysis:

11 First, Staff's attrition analysis shows Avista is experiencing significant attrition in its
12 utility operations. This is not a one-time phenomenon, because the historical trends
13 demonstrate attrition is present and ongoing. (emphasis added) This is
14 understandable, given Avista's capital expenditures to replace facilities necessary to
15 provide service to Avista customers, coupled with relatively little if any load growth
16 that will continue in 2013 and 2014, based on the most recent load forecasts
17 provided to the parties. (P.26, Exhibit JT-1T, Docket Nos. UE-120436/UG-120437
18 and UE-110876/UG-110877)
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20 The revenue increases reflected in the settlement agreement, and approved by the
21 Commission, provided meaningful progress in addressing the earnings shortfall Avista had been
22 experiencing.

23 **Q. Did the revenue increases in the settlement agreement, standing alone,**
24 **provide sufficient revenues to fully address the earnings shortfall?**

² See page 67 of Exhibit No.____(KLE-1T) in Docket Nos. UE-111048 and UG-111049 (consolidated) and page 22 of the "Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets" in Docket No. U-100522.

³ Dr. Mark Lowry of Pacific Economics Group Research (LLC).

1 A. No, and this was made clear in Avista's testimony supporting the settlement
2 agreement:

3 For shareholders, the revenue increases reflected in the Settlement Stipulation
4 provide meaningful movement toward addressing the regulatory lag in the State of
5 Washington. The Settlement, together with Avista's aggressive management of the
6 growth in utility costs going forward, will provide the opportunity for the Company
7 to earn returns in 2013 and 2014 much closer to the Commission-authorized rate of
8 return, as compared to prior years. I will emphasize, however, that the revenue
9 increases from the Settlement Stipulation will provide a sufficient earnings
10 opportunity for Avista only with the implementation of additional, aggressive cost
11 management measures that the Company will undertake going forward. (emphasis
12 added) (P.21, Exhibit JT-1T, Docket Nos. UE-120436/UG-120437 and UE-
13 110876/UG-110877)
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16 In the fourth quarter of 2012, Avista developed and implemented the Voluntary
17 Severance Incentive Plan (VSIP), which was directly related to the need identified in Avista's
18 testimony above, i.e., the revenue increases from the settlement agreement alone were not
19 sufficient for Avista to earn a reasonable return in 2013; the Company had to aggressively cuts
20 its costs. Company witness Mr. Morris provides a brief summary of the VSIP program, which
21 reduced employee complement by 55, effective January 1, 2013. The expenses associated with
22 VSIP were recorded in December 2012, and the Company began realizing the benefits from
23 reduced costs (approximately \$5.1 million annually on a system basis) beginning in January
24 2013. The reduced costs related to VSIP was another major component contributing to an
25 improved ROE in Washington in 2013.

26 **Q. Were there other components to Avista's improved ROE for 2013?**

27 A. Yes. In a filing with the Commission dated April 12, 2013, in Docket No. UE-
28 130536, Avista proposed accounting treatment regarding its investment to date in the Reardan
29 Wind Project, as well as revenues received through a settlement agreement with the Bonneville

1 Power Administration (BPA) related to BPA’s prior use of Avista’s transmission system. The
2 proposed accounting treatment supported by the Commission Staff and the Industrial Customers
3 of Northwest Utilities (ICNU), and approved by the Commission, provided a net benefit to
4 Avista during 2013 of approximately \$3.1 million (Washington jurisdiction). This sharing of the
5 BPA settlement benefits between customers and shareholders approved by the Commission also
6 contributed to Avista’s improved earnings in 2013.⁴

7 **Q. What conclusions can be drawn from your testimony related to Avista’s 2013**
8 **earned return for its Washington electric and natural gas utility operations?**

9 A. Now that 2013 is history, we can see that the retail revenue increases for 2013
10 from the GRC settlement agreement, together with the cost cuts by Avista, and the sharing of
11 benefits from the BPA settlement, did in fact, provide Avista the opportunity to earn a return
12 close to that approved by the Commission.

13 In Avista’s last GRC, the Commission supported consideration of a different approach to
14 ratemaking, by approving a settlement agreement that included revenue increases that recognized
15 that the Company was continuing to experience attrition. The Commission stated on page 4 of
16 its Order: “The Commission finds, on the basis of the evidence presented, that consideration of

⁴ In the settlement discussions in Avista’s last general rate case in 2012, the Company disclosed the settlement negotiations with BPA, and the likelihood that an agreement would be executed in late 2012 or early 2013. Avista proposed a sharing of the benefits from the BPA settlement as a component of the general rate case settlement package, but it was not incorporated as part of the final general rate case settlement. Avista appreciates Commission Staff’s creativity in the development of the final structure of the proposed accounting treatment related to the Reardan Wind Project costs and BPA settlement revenues, which was ultimately approved by the Commission. The Company will also be mindful in the future of the Commission’s admonition in Footnote 1, page 4 of its Order 01 in the Reardan/BPA Docket No. UE-130536 that the parties should inform the Commission of all components that may affect the future rate period, even if items such as the BPA agreement are not yet completed and signed, but are likely to occur.

1 attrition in setting rates for 2013 is appropriate.”⁵ The Commission also found that a major
2 portion of the Company’s need for rate relief for 2013 was related to attrition in stating that:
3 “We agree with the Company and Staff that the proposed 2013 rate increase is based
4 significantly on attrition.”⁶

5 The point of this after-the-fact review of the ratemaking decisions related to 2013, and
6 the earned return for 2013, is that if there had been no recognition of attrition in ratemaking for
7 2013, the Company would have significantly under-earned in 2013. Avista could not have cut
8 costs enough to cover the shortfall. Even though approximately 110 employees signed up for the
9 VSIP program, the Company found that, in order to be able to continue to provide safe and
10 reliable service, only 55 positions could be eliminated. And these 55 positions were eliminated
11 only after extensive reassignment and the reshuffling of responsibilities within and among
12 departments to achieve that total.

13 However, the amount of attrition-related revenue embedded in the last settlement
14 agreement was not sufficient, on its own, to provide a reasonable return. The Company agreed
15 to a lesser amount of attrition-related relief through settlement, only because it had the
16 opportunity to cut costs and retain a share of the one-time BPA settlement.

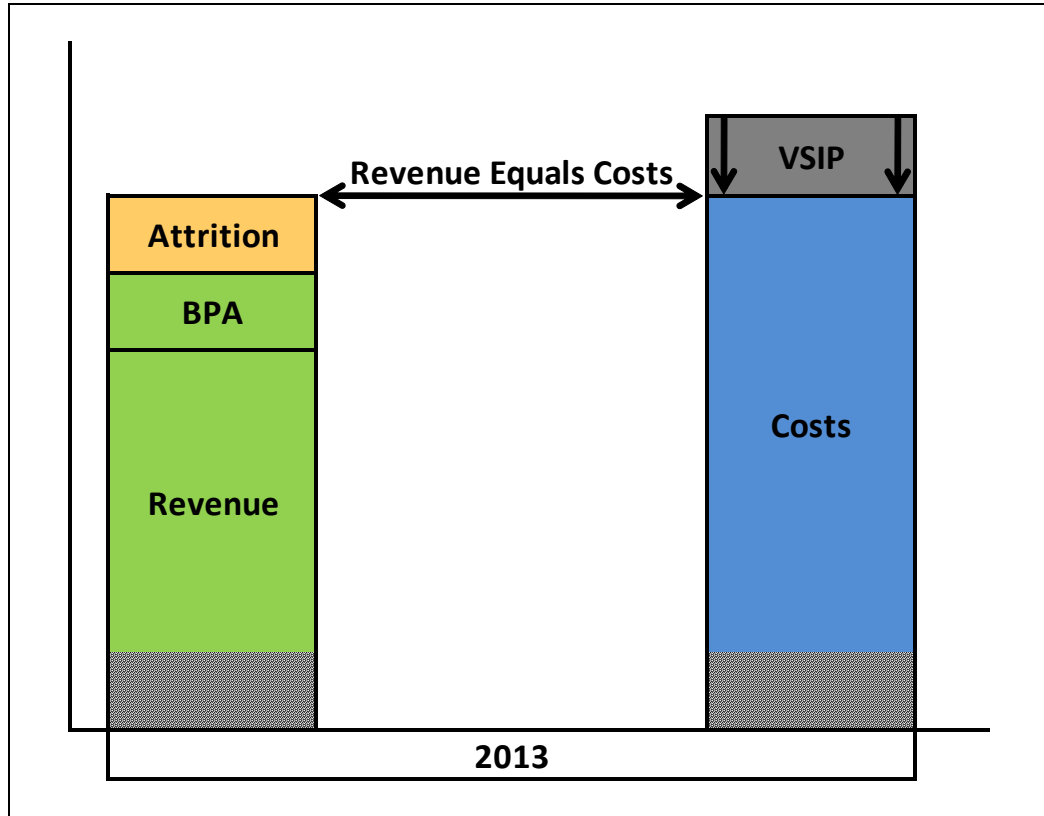
17 The three major components that contributed to the earnings improvement in 2013 are
18 illustrated in the bar chart below. The “Costs” bar in Illustration No. 2 represents the ownership
19 and operating costs of the utility, including the authorized return on investment. The VSIP
20 component represents the reduction in costs for 2013 related to the VSIP program. The Attrition
21 and BPA components in the “Revenue” bar reflect the improved revenues in 2013 related to the

⁵ Page 4, Order 09/14 in Docket Nos. UE-120436/UG-120437 and UE-110876/UG-110877.

⁶ Page 27, Order 09/14 in Docket Nos. UE-120436/UG-120437 and UE-110876/UG-110877

1 last rate case settlement agreement that reflected improved revenues related to attrition, and the
 2 one-time revenue benefit from the sharing of the BPA settlement revenues. The “Revenue” and
 3 “Costs” bars are equal which is reflective of revenues in 2013 being sufficient to cover Avista’s
 4 costs in 2013, and provide a return on investment equal to that authorized by the Commission.

5 **Illustration No. 2**



18 **Q. What does this imply for ratemaking in this rate case filing?**

19 A. Mr. Morris explained in his testimony that the implementation of the VSIP met
 20 our expectations, and that senior management has a process in place to closely monitor
 21 headcount going forward to minimize costs where possible. In addition, Mr. Morris explained
 22 the recent decisions to further reduce costs by eliminating Avista’s defined benefit pension plan

1 for new hires effective January 1, 2014, as well as transitioning out of funding post-retirement
2 medical care for new hires beginning January 2014, and for all retirees beginning in 2015. The
3 benefits from the reduced employee complement through VSIP, as well as reduced costs
4 associated with the changes in pension and post-retirement medical have been passed on to
5 customers through this filing, and have served to lower our revenue increase requests.

6 The evidence Avista has presented in this filing shows that the Company continues to
7 experience attrition. As I noted earlier, the Commission Staff recognized that, “This is not a one-
8 time phenomenon, because the historical trends demonstrate attrition is present and ongoing.”⁷

9 I will explain this ongoing attrition immediately below in my testimony, and Company
10 witness Ms. Andrews sponsors a detailed attrition study which demonstrates the revenue
11 increases necessary to address attrition. Absent the opportunity for one-time benefits, such as the
12 BPA settlement, it will be very important that the revenue increases granted in this case reflect
13 the full effect of attrition on the Company, in order for Avista to have the opportunity to earn a
14 reasonable return in 2015.

15

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III. ONGOING ATTRITION

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**Q. Before you continue your discussion of ongoing attrition, would you please
18 define attrition?**

19

A. Yes. I agree with the definition of attrition that the Commission Staff has
20 presented to the Commission in prior dockets:

21

⁷ P.26, Exhibit JT-1T, Docket Nos. UE-120436/UG-120437 and UE-110876/UG-110877.

1 The term is typically used to refer to the erosion of a company's rate of return over time
2 when the historical test period relationship in revenues, expenses and rate base accepted
3 by the Commission in a rate case does not hold during a future rate year. (Page 64,
4 Exhibit KLE-1T, Dockets UE-111048/UG-111049)
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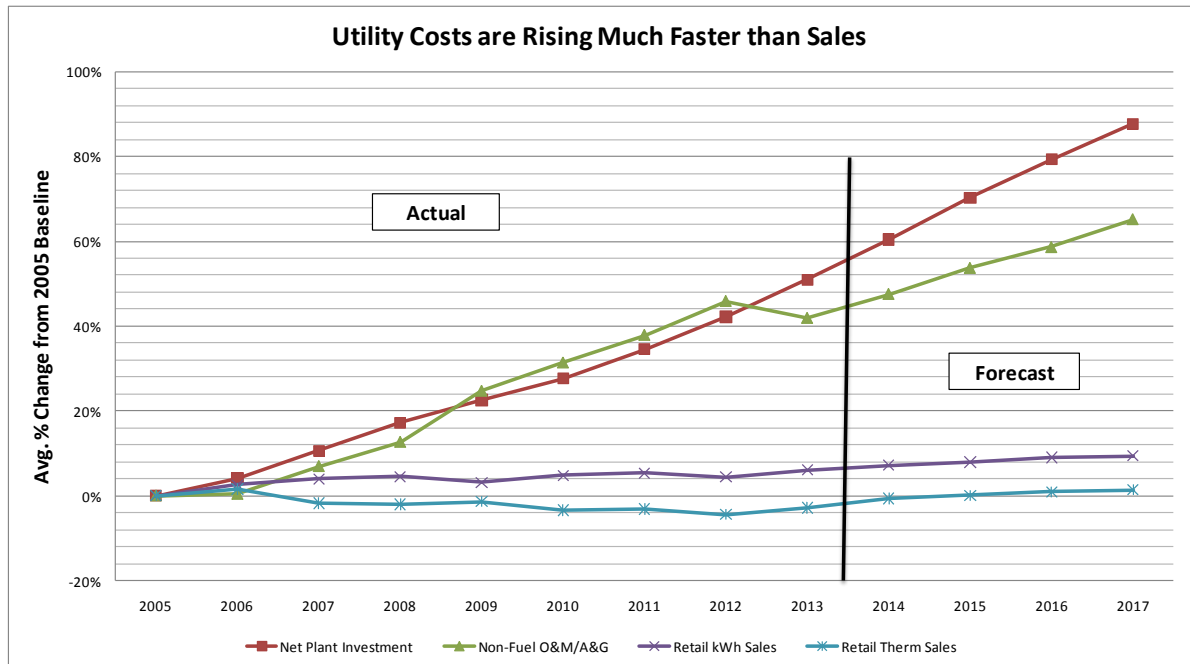
6 **Q. How does Avista's growth in revenue, expenses and rate base compare over**
7 **time, both for the recent historical period as well as expectations for future years?**

8 A. The graph below, which is also included in Mr. Morris's testimony, shows actual
9 information for the period 2005 to 2013, and forecasted information for 2014 to 2017. The red
10 line on the graph shows the actual growth in net utility plant investment through 2013, which is
11 representative of growth in rate base, and the expected growth for 2014 through 2017.⁸

12 The purple and blue lines on the graph show the changes in retail kilowatt-hour (kWh)
13 sales and retail therm sales, respectively, for the same time period. The graph shows this
14 mismatch in the growth of net plant investment and sales is forecasted to continue to the future.

15 The green line on the graph also shows that non-fuel operations and maintenance (O&M)
16 expenses and administrative and general (A&G) expenses are growing at a faster pace than sales.

⁸ The net plant numbers include total utility electric and natural gas investment in all three states (WA, ID, and OR).

Illustration No. 3

Q. The non-fuel O&M/A&G costs dip down in 2013, and then grow at a slower pace than in prior years. Does this reflect the benefits from the VSIP program and other cost management measures?

A. Yes. As Mr. Morris explained in his testimony, in the fourth quarter of 2012 Avista developed and implemented the VSIP program to reduce employee complement at the Company. This program was a direct response to the continuing increase in non-fuel O&M/A&G year over year, and a decision by senior management of the Company to take steps to reduce the growth in O&M/A&G expenses. In addition, as mentioned earlier, in 2013 senior management made changes to Avista's pension and post-retirement medical plans, effective January 1, 2014, which has reduced future O&M/A&G costs. Even with these cost management

1 measures, however, non-fuel O&M/A&G is still increasing at a faster pace than sales of kWh
2 and therms.

3 Because net plant investment (rate base) and non-fuel O&M/A&G are growing at a faster
4 pace than sales, Avista will still experience attrition going forward.

5

6 **IV. AVISTA'S PROPOSED ATTRITION ADJUSTMENT**

7 **Q. What has the Company proposed in this filing to address attrition?**

8 A. Avista prepared an Attrition Study to quantify this mismatch in the growth of
9 revenues, expenses and rate base for ratemaking purposes. The Company's proposed electric
10 and natural gas revenue increases in this filing are based on the Attrition Adjustments derived
11 from the electric and natural gas Attrition Studies. These Attrition Studies, which are sponsored
12 and explained by Ms. Andrews, used the same methodology Avista used in our last general rate
13 case, and are generally consistent with the approach taken by Commission Staff to address
14 attrition in our last case.

15 The Attrition Studies use normalized expense and rate base data for prior years from
16 Commission Basis Reports to develop growth trends in expenses and rate base. The data in the
17 Commission Basis Reports reflect normalized numbers based on normalizing methods
18 previously approved by the Commission. The trend in O&M/A&G expenses was adjusted
19 downward to reflect the cost-cutting recently implemented by Avista. The annual growth rates
20 from these trends were applied to test year expenses and rate base to arrive at the level of
21 expenses and rate base for the 2015 rate year. Power supply revenues and expenses for the rate
22 year included in the electric Attrition Study are based on those developed using the AURORA

1 model as explained by Company witness Mr. Kalich, and other adjusted power supply costs
2 presented by Company witness Mr. Johnson, all of which are based on methodologies used and
3 approved for ratemaking in Washington for many years. Retail revenues for the rate year are
4 based on the Company's most recent retail load forecast. The methodologies employed for the
5 load forecast have been refined over time and have been shared regularly with stakeholders in
6 the Integrated Resource Planning processes in Technical Advisory Committee meetings.

7 The Attrition Adjustment produced by the Attrition Study reflects the revenue increase
8 necessary for Avista to earn the proposed rate of return, accounting for the fact that rate base and
9 expenses will grow at a faster pace than revenue.

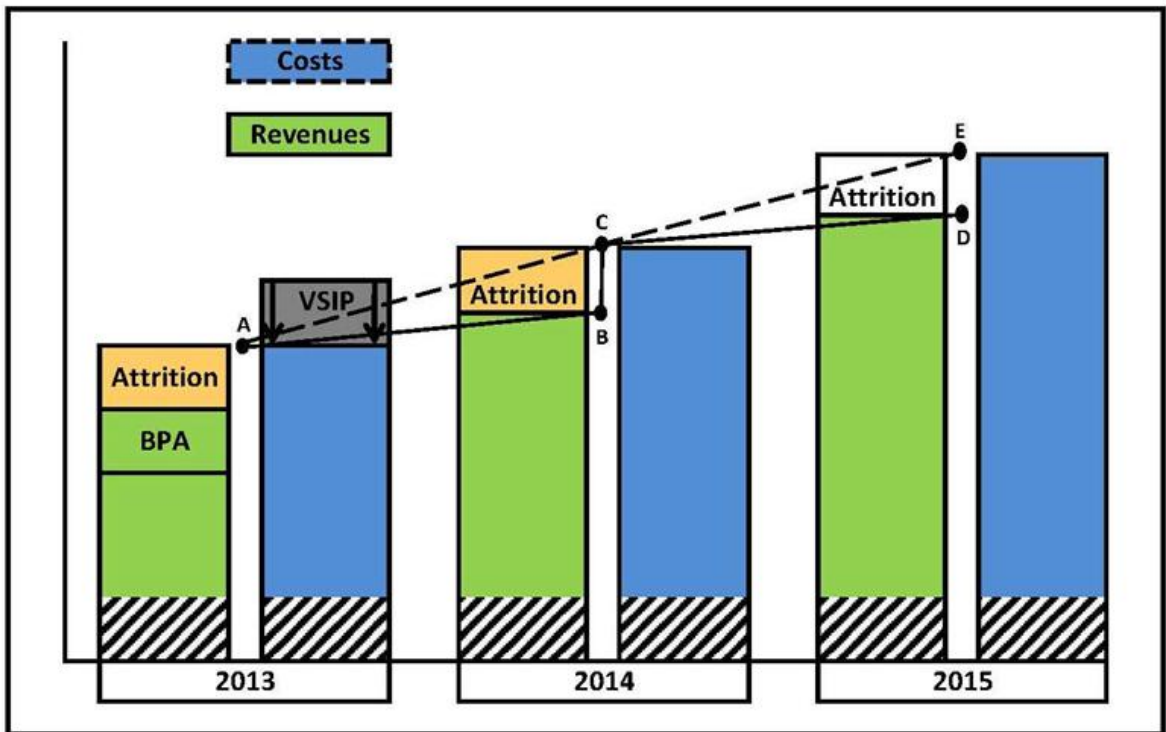
10 As explained in Ms. Andrews testimony, the electric Attrition Study produces an attrition
11 adjusted revenue requirement of \$18.2 million over rates currently in effect. The natural gas
12 Attrition Study produces an attrition adjusted revenue requirement of an additional \$12.1 million.

13 **Q. Do you have an illustration that shows how the Attrition Adjustment covers**
14 **this mismatch in the growth in revenues and costs over time?**

15 A. Yes. The bar chart in Illustration No. 3 below shows how the Attrition
16 Adjustment over time provides additional revenues to cover the growth in costs that are
17 increasing at a faster pace than revenues. The "Revenue" and "Costs" bars for 2013 are identical
18 to those shown in Illustration No. 2 above. The chart illustrates that between 2013 and 2014,
19 Costs (from Points A to C) are increasing at a higher rate than Revenues (from Points A to B).
20 The Attrition Adjustment provides addition revenues to make up the difference between the
21 higher growth in costs, and the lower growth in revenues, such that the "Revenues" for 2014 are
22 equal to the "Costs" in 2014, including the authorized return on investment.

1 The Attrition Adjustment in 2014 represents the second-step revenue increase effective
 2 January 1, 2014 from Avista’s last general rate case settlement. The Attrition Adjustment for
 3 2015 represents the Attrition Adjustment necessary from this rate case filing to allow Avista the
 4 opportunity to recover its operating costs, and earn the return on investment to be authorized by
 5 the Commission in this case.

6 **Illustration No. 4**



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 18
 19 **Q. In Avista’s last general rate case in 2012, the Company provided, in addition**
 20 **to the attrition analysis, a pro forma study as a “cross check” on the proposed Attrition**
 21 **Adjustment. Has the Company also included a pro forma study in this filing to compare**
 22 **with the attrition analysis?**

1 A. Yes. Ms. Andrews includes this pro forma analysis (Pro Forma Cross Check
2 Study) in her testimony and exhibits. Ms. Andrews started with the unadjusted results of
3 operations for the 12-months ended June 2013 and prepared specific restating and pro forma
4 adjustments that have, at various times, been adopted in prior rate cases. She pro formed plant
5 investment through the end of the June 2013 historical test period (year-end test period rate
6 base), and then added incremental rate base investment through the 2015 rate year on an average
7 of monthly average basis.

8 Ms. Andrews also includes a number of pro forma adjustments to utility operating
9 expenses in order to reflect the level of expenses that are expected in the 2015 rate year. Finally,
10 Ms. Andrews captured in her analysis the impact of the ongoing electric energy efficiency
11 program. In a general rate case, we begin with historical test period kWh sales, but those kWh
12 sales need to be reduced to reflect the reduced consumption by customers related to Avista's
13 energy efficiency program, from the historical test year to the rate year.

14 The total revenue requirement associated with Ms. Andrews' electric Pro Forma Cross
15 Check Study is \$18.3 million. By comparison, Ms. Andrews' electric revenue requirement from
16 the Attrition Study is \$18.2 million. It is not surprising that the difference between the two is
17 small, because if both analyses properly capture the changes in the growth in rate base, expenses
18 and revenues between the historical test year and the future rate year, both should yield similar
19 results.

20 For natural gas, the total revenue requirement associated with Ms. Andrews' Pro Forma
21 Cross Check Study is \$12.6 million. By comparison, Ms. Andrews' natural gas revenue
22 requirement from the Attrition Study is \$12.1 million.

1 **Q. Are the Company’s proposed electric and natural gas revenue increases in**
2 **this filing based on the Attrition Studies or the Pro Forma Cross Check Studies?**

3 A. The Company’s proposed electric and natural gas revenue increases in this filing
4 are based on the Attrition Studies. The pro forma analyses are provided for informational
5 purposes only.

6 **Q. Did the Company review the Expedited Rate Filing (ERF) and K-Factor**
7 **mechanism recently approved by the Commission for Puget Sound Energy?**

8 A. Yes. Avista reviewed this mechanism (Puget Mechanism), but chose to not
9 propose a similar mechanism. The Puget Mechanism appears to be designed to accomplish the
10 same thing as an attrition adjustment. In general terms, in the Puget Mechanism, the historical
11 test year is reviewed to determine whether the utility under-earned or over-earned on a
12 normalized basis during the period. The revenue adjustment necessary for the utility to earn its
13 authorized rate of return is calculated.

14 Next, trends in the growth rates of rate base, expenses, and revenues over time are
15 assessed to determine a K-Factor. The test year normalized revenue per customer is escalated by
16 this K-Factor for the number of years from the historical test year to the future rate year, which
17 provides increased revenues to the utility. This K-Factor is representative of the difference in the
18 annual growth rates of rate base and expenses versus revenues. For example, if rate base and
19 expenses (weighted together) are growing at an annual rate of 4% per year, and revenues are
20 growing at 1% per year, revenues would need to increase by the difference between the two,
21 which is 3% per year, i.e., a K-Factor of 3%.

1 Similar to the Attrition Adjustment produced by the Attrition Study, the Puget
2 Mechanism determines the revenue increase necessary to earn the proposed rate of return,
3 accounting for the fact that rate base and expenses will grow at a faster pace than revenue.

4 **Q. Why is approval of the attrition-adjusted revenue requirement necessary?**

5 A. Through this filing Avista has demonstrated that it continues to experience
6 attrition, where rate base and operating expenses are growing at a faster rate than revenues.
7 Commission Staff, in our last rate case, conducted its own attrition analysis and arrived at a
8 similar conclusion that, “attrition is present and ongoing.”⁹

9 In reviewing the actual, after-the-fact operating results for 2013, the results demonstrate
10 that if the Commission had not approved the rate relief for 2013 in the settlement, which was
11 driven in large part by attrition, the Company would have significantly under-earned in 2013.
12 Absent the opportunity for one-time benefits, such as the BPA settlement, it will be very
13 important that the revenue increases granted in this case reflect the full effect of attrition on the
14 Company, in order for Avista to have the opportunity to earn a reasonable return in 2015.

15 **Q. In closing, how were the “temporary” electric and natural gas 2014 rates**
16 **approved by the Commission in the Company’s last general rate case addressed in this**
17 **filing?**

18 A. In Order No. 9 (Dockets UE-120436 & UG-120437), at para. 72, the Commission
19 stated:

20 However, we make clear that the testimony and trending data offered in support of
21 the proposed rate increase for 2014 are substantially less precise than we would
22 require in a fully-litigated rate case. For this reason, we find that the 2014 rate
23 increase should be instituted on a temporary basis such that, on January 1, 2015,

⁹ P.26, Exhibit JT-1T, Docket Nos. UE-120436/UG-120437 and UE-110876/UG-110877.

1 Avista's rates would revert back to their 2013 levels, absent intervening Commission
2 action. (emphasis added)
3

4 The Company is requesting an increase in electric base rates of \$18.2 million and an
5 increase in natural gas base rates of \$12.1 million effective January 1, 2015 over and above
6 existing 2014 base rates. The Company's Attrition Study demonstrates the need not only for the
7 \$18.2 million electric and \$12.1 million requests, but also assumes the continuation of the \$14.0
8 million electric and \$1.4 million natural gas rate increases that went into effective January 1,
9 2014 (i.e., the "temporary" rate increases). In addition, the Pro Forma Cross Check Study also
10 supports the continuation of not only the 2014 rates, but an incremental 2015 revenue
11 requirement of \$18.2 million (electric) and \$12.1 million (natural gas) as well. Documentation
12 related to its capital expenditure plans and trending analysis more than supports what the
13 Commission previously approved for 2014. As such, the Company not only requests approval of
14 the proposed revenue requirement above 2014 levels, but, in the process, to make the 2014
15 revenue increase permanent as well.

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

17 A. Yes.