

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-190334

DOCKET NO. UG-190335

DOCKET NO. UE-190222

(CONSOLIDATED)

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

IN DOCKET NO. UE-190222

(ERM ISSUES)

1 **I. INTRODUCTION**

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

4 A. My name is Elizabeth M. Andrews and my business address is 1411 East Mission
5 Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs Department as
6 Senior Manager of Revenue Requirements.

7 **Q. Have you previously provided testimony in this consolidated case?**

8 A. Yes. My direct testimony and exhibits¹ in this proceeding generally covered
9 accounting and financial data in support of the Company's need for the proposed electric and
10 natural gas rate relief requested in the Company's filing. In that testimony, first I summarized the
11 Company's revenue increase requests for the proposed Two-Year Rate Plan for the period April
12 1, 2020 through March 31, 2022.² I also discussed the Company's proposed treatment for
13 recovering, on an accelerated basis, the depreciation expense associated with its 15% ownership
14 of Colstrip Units 3 and 4 that was originally included as a settlement proffered to the Commission
15 in Docket Nos. UE-180167 and UG-180168, but was set over for a later determination in this rate
16 case.³ Finally, in that Direct Testimony, I discussed changes in FASB and FERC accounting
17 methods since Avista's last general rate case filing in Washington.⁴

18 I also filed testimony⁵ in this proceeding in support of the Partial Multiparty Settlement

¹ See Exhs. EMA-1T through EMA-7.

² The Two-Year Rate Plan would not have precluded tariff filings authorized by or contemplated by the terms of the Energy Recovery Mechanism (ERM), Purchased Gas Adjustment (PGA), Public Purpose Rider Adjustment (DSM/LIRAP) or similar adjustments.

³ The revenue requirement in this case was completed prior to the finalization of the "100% Clean" legislation, which was signed into law in early May 2019, requiring the removal of coal in Washington State by 2025.

⁴ Only the FERC change associated with AFUDC impacted the Company's operating results beginning in 2018, as explained in the Company's filing with the WUTC on January 31, 2019 (Docket No. UE-190074/UG-190075).

⁵ See Exh. JT-1.

1 Stipulation, filed jointly by all participants in these dockets (UE-190334, UG-190335, and UE-
2 190222). The Stipulation, if approved, resolves all issues in this proceeding, with the exception
3 of (1) the Company’s decoupling proposal, which is not subject to any agreement among any of
4 the parties; (2) the natural gas revenue requirement of \$8.0 million, which Public Counsel does not
5 agree to or support; and (3) the remaining Energy Recovery Mechanism (“ERM”) issues in Docket
6 UE-190222 (that are not otherwise addressed in the investigation being conducted in Docket UE-
7 190882).

8 **Q. Please provide a brief overview of the 2018 ERM Review filing made by the**
9 **Company.**

10 A. Avista makes an annual filing each year in accordance with Docket No UE-011595,
11 which requires Avista to file annual testimony and supporting workpapers on or before April 1 of
12 each year in order to determine prudence for the power costs deferred in the previous calendar
13 year. Accordingly, on March 29, 2019, the Company filed with the Commission supporting
14 testimony and exhibits for Company witnesses Mr. Johnson, Mr. Dempsey, and Mr. Ehrbar, in
15 Docket UE-190222. Mr. Johnson’s testimony summarized the financial impact of the 2018 actual
16 power supply costs in comparison to what was authorized in Docket No. UE-150204 (January –
17 April 2018) and UE-170485, effective May 1, 2018. Mr. Dempsey’s testimony was primarily
18 related to outages at two of our generating plants during 2018. Mr. Ehrbar’s testimony addressed
19 the accounting associated with the power supply deferrals under the ERM, and the proposed rebate
20 resulting from the balance exceeding the \$30 million trigger, in accordance with the Multiparty
21 Settlement Stipulation in Docket No. UE-120436.

22 **Q. Please explain the remaining ERM issues to be decided here in Docket UE-**

1 **190222 and in Docket UE-190822.**

2 A. In this Docket UE-190222, the remaining issue to be decided is the review of the
3 prudence of the ERM deferral entries for the prior 2018 calendar year, with the exception of the
4 prudence of replacement power deferred expenses related to the Colstrip outage, which is to be
5 decided in Docket UE-190822. Specifically, the Colstrip outage issue (or MATS issue⁶), to be
6 decided in Docket UE-190822, relates to the limited scope issue of Avista's, Puget Sound Energy's
7 and PacifiCorp's decision making as co-owners of Colstrip leading up to the 2018 outage, and the
8 resulting costs of replacement power.

9 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

10 A. First, my testimony provides a summary of the portion of the Partial Multiparty
11 Settlement Stipulation in which all parties agreed to a two-year amortization period for the return
12 of the approximately \$35 million of ERM rebate. Next, I provide rebuttal testimony to AWEC
13 witness Mr. Mullins in regards to his proposal to modify the interest rate calculation utilized in the
14 ERM amortization. I also address Mr. Mullins' proposal to reset the authorized power supply
15 expense for the "\$12.3 million reduction in power costs" currently being addressed in UE-150204
16 the "2015 Remand" case.

17 In addition to my testimony, Company witness Mr. Kalich will address the response
18 testimony of Public Counsel witness Mr. Allison, primarily related to Avista's natural gas
19 optimization. Mr. Kalich also provides a brief overview of the progress of the power supply
20 workshops ordered in UE-170485.

21 _____
⁶ Company witness Mr. Dempsey within his direct testimony in Docket UE-190222, at Exh. TCD-1T, describes the Mercury & Air Toxics Standards ("MATS") emission exceedance that led to outages that occurred at the Colstrip Generating Station, specifically Units #3 and #4.

1 **II. ERM REBATE PERIOD AGREED TO PER PARTIAL MULTIPARTY**
2 **SETTLEMENT STIPULATION**

3
4 **Q. By way of context, please explain the components of the Partial Multiparty**
5 **Settlement Stipulation related to the refund of the Energy Recovery Mechanism deferred**
6 **balance.**

7 A. In accordance with paragraph 12 of the Partial Multiparty Settlement Stipulation,
8 the Parties agreed that the final ERM customer deferred balance approved by the Commission in
9 Docket UE-190222⁷ will be returned to customers over a two-year period beginning April 1, 2020,
10 through March 31, 2022, through Tariff Schedule 93, except for \$0.5 million, which will be applied
11 to the accelerated Colstrip production plant depreciation expense of \$2.6 million for the rate year
12 beginning April 1, 2020 (see paragraph 13 of the Partial Multiparty Settlement Stipulation).

13 Currently, the ERM refund balance stands at \$24.7 million, based on previously reviewed
14 ERM entries through 2017. Additional ERM entries for 2018 are currently under review in Docket
15 UE-190222 and UE-190882, but if approved, would increase the total deferral balance to \$34.4
16 million. The allocation of the refund amounts (over the two-year period) across rate schedules, as
17 proposed by the settling parties, will be consistent with the Company's proposal contained in Exh.
18 PDE-1T at 6:6-9 in Docket UE-190222.⁸

⁷The final balance approved by the Commission will also incorporate the determinations made in Docket UE-190882.

⁸ 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%.

Table No. 1

| Calculation of ERM Carrying Charge (Interest) for January 2019 | | | |
|---|--------------------|--|----------------------------------|
| Line # | Description | Gross Interest Rate Calculation | Interest Rate Calculation |
| 1 | ERM Balance | \$ (34,444,617) | \$ (34,444,617) |
| 2 | ADFIT | 7,233,370 | |
| 3 | Net ERM Balance | \$ (27,211,247) | \$ (34,444,617) |
| 4 | Interest Rate | 5.341% | 4.219% |
| 5 | Annual Interest | \$ (1,453,353) | \$ (1,453,353) |
| 6 | Monthly Interest | <u>\$ (121,113)</u> | <u>\$ (121,113)</u> |

As shown in Table No. 1 above, the “Gross Interest Rate Calculation” applies the actual cost of debt (line 4) of 5.341% to the ERM balance (line 1), net of ADFIT (line 2) of \$(27,211,247) (line 3). That produces a monthly interest expense of \$121,113 (line 6). This agrees with the amount shown in excel file “190222-AVA-workpapers-4-8-19.xlsx” on the tab labeled “Forecast Balance” in cell C9.

Avista’s “Net of Tax Interest Rate Calculation” applies the cost of debt, net of federal income taxes, of 4.219%. This rate is calculated as follows: actual cost of debt 5.341% x (1 - 21%), which results in the after-tax cost of debt. This rate is applied to the ERM balance, without removing the associated Accumulated Deferred Federal Income Tax balance. As shown on line 6, this calculation produces the exact same interest expense as the “Gross Interest Rate Calculation” shown in Table No. 1, both results are consistent with the direction ordered by the Commission.

Q. Mr. Mullins states “no” when asked if there are “normally any accumulated

1 **deferred income taxes associated with interest expense”¹². Is he correct?**

2 A. No. In the context of a deferred cost mechanism, the tax costs/benefits incurred or
3 received at the time the interest expense or income is recorded (and taxed) are set aside in the form
4 of accumulated deferred income taxes recorded on the total deferred balance to be recovered or
5 returned to customers in a future period (which includes carrying charges). During the period
6 when customers are paying surcharges or receiving rebates, the costs or benefits of taxes the
7 Company paid in the prior period are then passed on through the reversal of the accumulated
8 deferred taxes to offset the taxes the Company pays on the customer surcharges or rebates. The
9 deferred taxes are consistently applied regardless of whether the Company is deferring costs or
10 amortizing prior costs.

11 **Q. In the end, however, is Mr. Mullins’ adjustment for interest using the debt**
12 **cost, with no adjustment for taxes, appropriate?**

13 A. No, for two reasons.

- 14 1) The carrying charge was calculated in the manner set forth in the ERM mechanism
15 (Docket UE-011595), which has been consistently applied since 2002.
- 16 2) Any change to the basis of the carrying charge methodology should be done in the
17 context of making modifications to the mechanism itself, not in the process of
18 establishing prudence of the 2018 deferrals and subsequent application of the \$30
19 million trigger.

¹² Exh. BGM-12T, at 8:1-3.

1 **IV. AUTHORIZED POWER SUPPLY COSTS**

2 **Q. Mr. Mullins recommends the Commission recalculate the authorized level of**
3 **power supply, consistent with his recommendation in the 2015 “Remand Case” UE-150204,**
4 **due to what he believes is an understated level of authorized power supply expense of “\$12.3**
5 **million annual reduction to Avista’s power costs that Avista identified near the end of that**
6 **proceeding.”¹³ Is the authorized level of power supply expense currently at issue in this**
7 **Docket?**

8 A. No, it is not. The current level of authorized power supply expense was approved
9 in Docket UE-170485. For calendar 2018, the authorized power supply expense and power supply
10 base was a combination of that approved in Dockets UE-150204 and UE-170485, as discussed
11 further below. Based on those approvals, the power supply base used to establish the 2018 ERM
12 deferrals, were accurately reflected by the Company during 2018.

13 **Q. Mr. Mullins further states that if “the Commission determines not to account**
14 **for the \$12.3 million reduction in power costs in the remand proceeding, then it should**
15 **increase the deferral balance in the ERM accordingly to ensure that Avista is not provided**
16 **with a windfall by virtue of operating with baseline power costs that were significantly higher**
17 **than the utility’s own forecasts.”¹⁴ What is the Company’s response?**

18 A. First, Mr. Mullins bases his assertions on a false premise, namely that the power
19 supply baseline set forth in Docket UE-150204 et. al. was set incorrectly. As discussed by Mr.
20 Johnson in Exh. WGJ-1T, starting at page 16, line 1, energy cost deferrals are calculated as follows:

21 Energy cost deferrals under the ERM are calculated each month by subtracting base

¹³ Exh. BGM 12-T, at 9:22 - 10:7.

¹⁴ Exh. BGM 12-T, at 10:12 -16.

1 net power supply expense from actual net power supply expense to determine the
2 change in net power supply expense. The base levels for 2018 result from the power
3 supply revenues and expenses approved by the Commission in Docket No. UE-
4 150204 for the months of January through April and Docket No. UE-170485 for
5 the months of May through December. The methodology compares the actual and
6 base amounts each month in FERC accounts 555 (Purchased Power), 501 (Thermal
7 Fuel), 547 (Fuel) and 447 (Sales for Resale) to compute the change in power supply
8 expense. These four FERC accounts comprise the Company's major power supply
9 cost/revenue accounts. The ERM also includes changes in Accounts 565
10 (transmission expense), 456 (third-party transmission revenue), and broker fees.
11 (emphasis added)

12
13 The Company, therefore, as noted above, based the first four months (January through April 2018)
14 of its 2018 ERM deferred power supply costs, as a result of the Commission approved baseline in
15 Docket No. UE-150204, and as filed by the Company on January 7, 2016 in compliance with final
16 Order 05.¹⁵ The Company based the remaining eight months (May through December 2018) of
17 its 2018 ERM deferred power supply costs, as a result of the Commission approved baseline in
18 Docket No. UE-170485, and as filed by the Company on April 27, 2018 in compliance with final
19 Order 07.¹⁶

20 Therefore, the combined ERM power supply base approved by the Commission in both the
21 2015 and 2017 cases, compared to the actual power supply expense in 2018, resulted in the
22 Company accurately recording the ERM power supply deferred balance. If “the final rates
23 approved in the 2015 rate case did not reflect a \$12.3 million annual reduction to Avista’s power
24 costs” as argued by Mr. Mullins, that would be a reflection on revenues authorized in the 2015
25 case – which is an issue to be determined in the “2015 Remand” proceeding; not the authorized
26 “ERM power supply base” itself, nor the 2018 ERM deferred balance recorded by the Company.

¹⁵ See filed document: “UE-150204 et al Compliance Filing Attachment 3.”

¹⁶ See filed document: “170485-et-al-AVA-Cply-Attch-3-04-27-18.”

1 In the end, without conceding that, in fact, “the rate case did not reflect a \$12.3 million
2 annual reduction to Avista’s power costs,”¹⁷ in the Company’s 2015 general rate case, that issue
3 has nothing at all to do with the level of baseline power supply costs set in that case or the total
4 ERM deferred balance to be reviewed and approved in this case. Once again, the purpose of this
5 Annual ERM Review is to determine the prudence of the 2018 actual deferred power supply
6 expense, and thereby also establishing the ERM deferral balance owed customers.

7 Furthermore, it is highly inappropriate to adjust authorized power supply expense, or the
8 ERM powers supply base, determined by this Commission in Docket UE-170485, in this Annual
9 ERM Review. As discussed by Company witness Mr. Kalich (see Exh. CGK-3T), the Company
10 is currently in a workshop process, as ordered by the Commission in Docket UE-170485, intended
11 to review the inputs into the overall power supply modeling. The purpose of the power supply
12 workshops is to reach consensus amongst the parties as to how to set authorized power supply
13 expense, and therefore any ERM power supply base, in a future proceeding. A change to the
14 authorized level, as proposed by Mr. Mullins, therefore, is outside of the scope of this annual
15 review proceeding.

16 **Q. Before concluding your testimony, please address Mr. Mullins statement that**
17 **workpapers provided by the Company in response to AWEC Data Request 165 contained**
18 **several “#REF” errors¹⁸?**

19 A. As a Company, we do our best to carefully review our attachments prior to sending

¹⁷ Staff witness Mr. McGuire discusses this issue in his 2015 Remand testimony at Exh. CRM-7T, at 9:17-20 “In fact, the Commission expressly recognized the Power Supply Update, and its effect on revenue requirement, in Order 05: “The Company’s update to the power supply adjustment was filed on October 29, 2015, and reduced the electric revenue requirement by \$12.3 million.” (Order 05 at par. 12.)

¹⁸ Exh. BGM-12T, at 10:20-23.

1 them out and make every attempt to provide properly functioning workpapers where appropriate.
2 That said, often excel workpapers have linking and cross-referencing included within the
3 functioning native electronic excel files – links that can be inadvertently broken upon opening by
4 the user. As such, when reviewing Mr. Mullins’ response testimony in this docket, the Company
5 opened each attachment within the electronic version of the Company’s response to
6 AWEC_DR_165. Through this review, we were unable to locate any #REF errors in our electronic
7 records. To the best of our knowledge, such errors must have been generated as it was opened via
8 an outside source. Had Mr. Mullins contacted the Company to correct these references, we could
9 have isolated the cause of these error references. To the best of our knowledge, what was provided
10 to AWEC and/or other parties, did not include such error references.

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

12 A. Yes, it does.