Exh. TCB-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-240006

DOCKET UG-240007

DIRECT TESTIMONY OF

TIA C. BENJAMIN

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Tia C. Benjamin. I am employed by Avista Corporation as Manager of Regulatory Affairs in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Please briefly describe your educational background and professional experience.

A. I am a 2009 graduate from the University of Idaho with a Bachelor of Science degree, majoring in Accounting. After spending nearly four years in financial services in the public school system, I joined Avista in July 2011 where I have since served in several roles including an Analyst on our Asset Management team and several years on our Budget and Forecasting team before joining the Regulatory Affairs Department in September 2020. In my current role as Manager of Regulatory Affairs, I am responsible for, among other things, preparing the capital additions pro forma adjustments in the determination of the revenue requirement for all jurisdictions in which the Company provides utility services.

Q. Have you provided testimony before the Commission in prior proceedings?

A. No, this is the first rate proceeding in the State of Washington that I have testified in. However, I have provided testimony on these same types of issues in Avista's most recent general rate cases in the State of Idaho in Cases AVU-E-23-01 and AVU-G-23-01.

Q. What is the scope of your testimony?

A. My testimony in this proceeding first identifies Avista's capital witnesses who provide support for the capital additions (on a system level) that are reflected in the capital adjustments I sponsor, on a Washington electric and natural gas basis. These adjustments are included in the Company's electric and natural gas Pro Forma Studies, sponsored by Company witness Ms. Schultz. Next, I describe the Company's restating, pro forma, and provisional capital-related adjustments over the Company's Two-Year Rate Plan, that adjust the historical test period net plant at 12-months-ended-June 30, 2023 average-of-monthly averages (AMA) to a December 31, 2025 AMA basis for Rate Year 1 (RY1), and to a December 31, 2026 AMA basis for Rate Year 2 (RY2).

For the pro forma capital adjustments, I explain that the Company included the 6-month incremental July 1, 2023 through December 31, 2023 and calendar 2024 capital additions, to reflect an end-of-period (EOP) basis, as of December 31, 2024. Beyond 2024, the Company has included Washington electric and natural gas "provisional" capital additions for the period January 1, 2025 through December 31, 2025, for RY1, and January 1, 2026 through December 31, 2026, for RY2, for the Company's Two-Year Rate Plan.

In preparation of my capital additions pro forma and provisional adjustments, as shown in my "Capital Additions Adjustment Model" provided as Exh. TCB-2, I categorized capital additions occurring for the period July 2023 – December 2026, consistent with the Commission's Used and Useful Policy Statement (Policy Statement) and as further described by Ms. Schultz.[1] Specifically, I used the following categories to group the July 2023 through December 2026 additions: 1) Large or Distinct; 2) Programmatic; 3) Mandatory and

[1] "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), issued January 31, 2020, in Docket No. U-190531.

Compliance; and 4) Short-Lived Assets. Ms. Schultz incorporates the Washington electric and natural gas share of these pro forma and provisional adjustments within her proposed electric and natural gas revenue requirements for the Company's Two-Year Rate Plan.

I also provide the Company's proposed Provisional Capital Reporting content and process for recovery of its "provisional" capital additions included in this case from January 2025 through December 2026[2], that are "subject to review and refund" per the Commission's Policy Statement. This reporting will provide the Commission, Commission Staff, and other intervening parties the opportunity to do a final review and audit of actual capital additions transferred to Washington electric and natural gas utility plant at a future period, to ensure that the level of capital approved by the Commission and included in rates in this proceeding over the Two-Year Rate Plan is supported by actual, used and useful, plant. Through this reporting, a determination would be made of any amounts subject to refund to customers as a result of any over-statement of total net plant after accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT) included in electric or natural gas RY1 or RY2 pro formed results. The Company's proposed content and process for this reporting is consistent with the 2022 Provisional Capital Report filed by the Company on March 31, 2023, supported by Commission Staff[3] and acknowledged by the Commission on September 15,

[2] Pro Formed capital additions in this case, for the period July 2023 through December 2024, are subject to review and refund in Dockets UE-220053 et. al.

[3] On July 31, 2023, Commission Staff filed its Compliance Letter stating: "The report, accompanying workpapers, and follow up discussions suggests the provisional plant to be known and measurable, used and useful, and prudent. … Commission Staff opines that this report complies with the Commission's Order 10/04, entered December 12, 2022. As a result of this filing, there is no change in customer rates."

2023[4] (in Dockets UE-220053 et. al.)

The following illustration depicts the time periods defined as Pro Forma and Provisional Capital for this Multi-Year Rate Plan:

Illustration No. 1 – Pro Forma and Provisional Capital Additions

Pro Forma and Provisional Capital Additions Over Two Year Rate Plan		
Pro Formed Test Year[1]	**Rate Year 1 (2025)**	**Rate Year 2 (2026)**
Pro Forma: Jul. 2023 - Dec. 2023 → **+Pro Forma:** Jan. 2024 - Dec. 2024 →	**+Provisional: (RY1)** Jan. 2025 - Dec. 2025 →	**Provisional: (RY2)** Jan. 2026 - Dec. 2026 →

[1]Amounts included for recovery in Rate Year 1.
Test Period July 2022 - June 2023.

Finally, I will briefly discuss the Company's request for a 15-year depreciable life of certain software asset additions included in the Outage Management System & Advanced Distribution Management System (OMS & ADMS) project, primarily transferring to plant in 2025 and included within the 2025 AMA provisional capital adjustment.[5]

Before proceeding further, I wish to emphasize that the manner in which the Company is approaching the recovery of its capital investment during the Two-Year Rate Plan, including

[4] On September 15, 2023, the Commission Compliance Acknowledgment Letter stated: "The Commission finds that the Report complies with Order 10/04 and thus the revenue requirements shown therein are sufficient to justify the provisional capital included in the year two rates. Accordingly, the rates set forth in Avista's Report are no longer subject to later review and refund."
[5] Company witness Mr. Manuel sponsors this project and provides more information supporting this project.

the use of pro forma and provisional adjustments, and subsequent reporting is consistent with the approach used by the Company and approved by the Commission in our last General Rate Case (GRC).

A table of contents for my testimony is as follows:

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Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. TCB-2 through Exh. TCB-4. Exh. TCB-2 is the Capital Additions Adjustment Model reflecting all pro forma and provisional adjustments I sponsor. Exh. TCB-3 provides a summary of the capital additions included in each of the capital witnesses' testimony by Business Case for July 2023 – December 2026. Exh. TCB-4 provides the 2022 Provisional Capital Report filed with the Commission on March 31, 2023, showing that 2022 capital additions were in excess of that approved by the Commission in Dockets UE-220053 et. al.

<u>II. CAPITAL ADDITIONS SUPPORTING WITNESSES</u>

Q. Prior to discussing the adjustments you sponsor in this case, would you please provide a brief summary of the other witnesses who provide supporting testimony related to capital additions in this proceeding?

A. Yes. Other capital witnesses provide support for the specific capital additions included by the Company in its proposed Two-Year Rate Plan. Each capital witness provides detailed testimony and exhibits that describe the capital additions by Business Case, describes the need for and timing of these capital additions, as well as how they benefit our customers, for the period July 2023 through December 2026 on a system basis. Separate exhibits for each capital witness are provided, which include all Business Cases related to the capital projects included for the period July 2023 – December 2026. These witnesses are as follows:

<u>Mr. Alexis Alexander,</u> Director of Generation Production and Substation Support, will address capital additions specific to generation investments. See Exh. AGA-1T and Exh. AGA-2.

<u>Mr. Joshua DiLuciano,</u> Vice President of Energy Delivery, will explain capital investments related to electric transmission, electric and natural gas distribution, facilities and fleet, as well as general plant. See Exh. JDD-1T and Exh. JDD-2.

<u>Mr. Wayne Manuel</u>, Vice President and Chief Information Officer and Chief Information Security Officer, will provide an overview of Avista's Information Service/Information Technology (IS/IT) investments. This includes summaries of the Company's capital additions for a range of IS/IT systems used by the Company, many representing short-lived assets. See Exh. WOM-1T and Exh. WOM-2.

<u>Mr. David Howell</u>, Director of Electric Operations and Asset Maintenance, will discuss the Company's Wildfire Resiliency Plan investments. See Exh. DRH-1T through Exh. DRH-5.

<u>Ms. Nicole Hydzik</u>, Director of Energy Efficiency and Products & Services, will

discuss capital investments related to the Company's Transportation Electrification work and specific Customer Facing and Customer Experience technology investments. See Exh. NLH-1T and Exh. NLH-2.

Q. How have capital witnesses presented the transfers-to-plant information in their testimony?

A. Mr. Alexander, Mr. DiLuciano, Mr. Manuel, Mr. Howell, and Ms. Hydzik, present capital transfers-to-plant information (gross plant additions) by year (July 2023 – December 2023, 2024, 2025 and 2026) and on a system basis (Washington, Idaho and Oregon jurisdictions, electric and natural gas), using the Commission's Policy Statement[6] to ensure that projects meet the requirements of being both "used and useful" and "known and measurable." A detailed listing, combined for all witnesses, by Business Case (projects) and by year totals, can be found in Exh. TCB-3.

Table No. 1 below reflects the pro forma and provisional transfers-to-plant (TTP) for projects that are discussed in each witness' testimony, on a system basis[7] (utility only, Washington, Idaho, Oregon, electric and natural gas).

[6] In the Commissions' "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), Docket U-190531, at para. 11, p. 5, it defines three broad types of investments they would consider for inclusion in rates: 1) specific - clearly defined, identifiable or discrete; 2) programmatic - made according to a schedule, plan or method; and 3) projected: i.e., the use of a k-factor, an attrition adjustment, or a growth analysis.
[7] System values exclude those Business Cases that are directly assigned to Idaho or Oregon.

Table No. 1 – Capital Additions Transfer-To-Plant (System)[8]

Capital Additions Transfer-To-Plant (System) $ in 000's									
Witness	**Exhibit No.**		**Proforma 07.2023 - 12.2023**		**Proforma 2024**		**Provisional 2025**		**Provisional 2026**
Mr. Alexander	Exh. AGA-1T	$	31,105	$	34,762	$	58,675	$	125,786
Mr. DiLuciano	Exh. JDD-1T		185,460		266,615		263,506		298,277
Mr. Manuel	Exh. WOM-1T		49,619		57,449		84,851		51,944
Mr. Howell	Exh. DRH-1T		13,977		16,961		15,465		15,500
Ms. Hydzik	Exh. NLH-1T		10,605		33,750		35,250		60,250
Total		$	290,765	$	409,537	$	457,747	$	551,756

Q. Are the capital additions for the calendar year 2023, included in each witness's testimony, treated differently than other capital additions in this rate case?

A. Yes. The Company's historical test period is twelve-months ended June 30, 2023. Included as pro forma adjustments are the six-month capital additions transferring to plant for the period July 2023 (actual additions) and August through December 2023 (expected additions). Consistent with prior practice, actual transfers-to-plant for August through December 2023 will be provided to all Parties through discovery as soon as available. Further, the 2023 and 2024 additions have been included as "pro forma" additions, because the Commission approved the level of net plant investment over the Company's Two-Year Rate Plan for calendar years 2023 and 2024, in Dockets UE-220053 et. al., contingent upon the provisional capital review filings in March 2024 for 2023 capital investments, and in March 2025 for 2024 capital investments, where actual investments and net plant after ADFIT

[8] Excludes transfers-to-plant associated with Colstrip Units 3 and 4 capital projects.

will be reviewed against that approved in the prior case. The capital transfers-to-plant for the 2025 – 2026 calendar years are included as "provisional" adjustments, and subject to review and refund in future periods through future reporting which will be filed in this Docket.

Q. Why is it important the Commission approve the capital adjustments as proposed in the Company's Two-Year Rate Plan?

A. The Commission's approval of all capital additions from July 1, 2023 through December 31, 2026, over the Two-Year Rate Plan, is important because the Company is making substantial levels of capital investment in its electric and natural gas system infrastructure to address customer growth, replacement and maintenance of Avista's aging system, and to sustain reliability and safety for all customers. As soon as any new plant is placed in service, the Company is required to start depreciating the capitalized cost and incur other costs related to the addition. As plant is completed and used in providing service to customers, it is appropriate for the Company to receive timely recovery of the costs associated with that plant. Unless these capital additions are reflected in retail rates in a timely manner, it has a negative impact on Avista's earnings, due to new plant typically being far more costly than similar plant that was embedded in rates decades earlier.

Furthermore, as Avista removes old equipment and replaces it with new, the depreciation component currently included in retail rates generally covers only a very small amount of the new facilities and equipment placed into service, especially for the long-lived assets. Avista's retail rates are cost-based, which means the prices customers are paying today for natural gas pipe, gate stations, transformers, distribution poles, substations, and transmission lines, among other facilities, are based on the cost to install those facilities, in some cases, 40, 50, and even 60 years ago. The costs of the same equipment and facilities today are many times more expensive. The depreciation component built into retail rates today is based on the much lower cost to install those facilities many years ago. Therefore, the depreciation component in retail rates covers only a small fraction of the annual costs associated with the new investment in facilities.

Also important, as discussed within Company witness Mr. Vermillion's testimony in his discussion of Senate Bill 5295, it is essential to close the "regulatory lag" gap while adjusting to a Multi-Year Rate Plan. In order to accommodate a revenue requirement that appropriately provides cost recovery of plant additions through RY1, and subsequently during RY2, plant additions were included as provisional adjustments. As noted previously, these projects will be subject to review and refund in future filings. This ensures the Commission has the opportunity to determine prudency of additions in future years, protect customers by confirming they pay only for prudently incurred net plant investment, and allow the Company an opportunity (not a guarantee) to earn its authorized returns.

III. PRO FORMA CAPITAL ADDITIONS ASSIGNED TO WASHINGTON

Q. What is the impact on Washington electric and natural gas gross Plant-in-Service for system additions discussed above?

A. The Company is proposing within its Two-Year Rate Plan to include all Washington electric and natural gas actual transfers-to-plant through July 2023 and expected transfers-to-plant through December 2024 on an EOP basis, and the average-of-monthly average (AMA) balances of expected 2025 additions within RY1. For RY2, Avista has included the incremental amount of 2026 additions on an AMA basis beyond that included in RY1.

First, Table Nos. 2 and 3 below provide gross capital additions – by witness – for pro forma July through December 2023, and pro forma 2024 additions, allocated or directly assigned to Washington electric (Table No. 2) and Washington natural gas (Table No. 3), that are included in RY1. These balances are included in my Capital Additions Adjustments plant-in-service amounts shown in Exh. TCB-2.[9]

Table No. 2 – Washington Electric Pro Forma Gross Transfers-to-Plant – by Witness

Washington Electric July 2023 - December 2024 Proforma Gross Transfers-To-Plant - by Witness[1]
$ in 000's

Witness	07.2023 - 12.2023	2024	Proforma Total
Mr. Alexander	$ 20,108	$ 22,455	**$ 42,563**
Mr. DiLuciano	90,300	124,470	**214,770**
Mr. Manuel	24,846	28,242	**53,087**
Mr. Howell	8,705	21,307	**30,012**
Ms. Hydzik	6,403	10,029	**16,431**
Total	$ 150,361	$ 206,502	**$ 356,863**

[1]Excludes impact of retirements.

[9] Balances shown in Table Nos. 2 – 6 reflect gross plant additions as shown in Exh. TCB-2, prior to the impact of retirements.

<u>Table No. 3 – Washington Natural Gas Pro Forma Gross Transfers-to-Plant – by Witness</u>

Washington Natural Gas July 2023 - December 2024 Proforma Gross Transfers-To-Plant – by Witness[1] $ in 000's			
Witness	**07.2023 - 12.2023**	**2024**	**Proforma Total**
Mr. Alexander	$ 4	$ -	**$ 4**
Mr. DiLuciano	27,643	43,284	**70,927**
Mr. Manuel	6,720	7,827	**14,547**
Mr. Howell	34	137	**171**
Ms. Hydzik	1,215	1,941	**3,156**
Total	$ 35,616	$ 53,189	**$ 88,805**

[1]Excludes impact of retirements.

Next, in addition to pro forma 2023 – 2024 plant additions, Table Nos. 4 and 5 below, provide the gross "provisional" capital additions by witness for calendar years 2025 – 2026 that are allocated or directly assigned to Washington electric and Washington natural gas in RY1 and RY2. These balances have further been categorized into the groups consistent with the Commission's Used and Useful Policy Statement[10] for "provisional" adjustments, as shown in the detail in the excel Capital Additions Adjustments Model, Exh. TCB-2 and as discussed further below.[11]

[10] This "categorization" was also employed in Avista's previous General Rate Case (GRC).
[11] The detail related to categorization in accordance with the Commissions Used and Useful Policy Statement can be found on the "TTP Detail" tab of the workpapers presented in Exh. TCB-2, identified as "WA Plant Category".

Table No. 4 – Washington Electric Provisional Gross Transfers-To-Plant – by Witness

Washington Electric 2025 - 2026 Provisional Additions
Gross Transfers-To-Plant - by Witness ($ 000's)[1]

Witness	Short-Lived Assets	Programmatic	Mandatory & Compliance	Large & Distinct	Provisional Total
2024 EOP Total	47,582	210,972	33,192	65,117	**356,863**
Additions Twelve Months AMA December 31, 2025					
Alexander	632	1,381	999	8,855	**11,868**
DiLuciano	-	46,782	5,561	1,754	**54,097**
Manuel	15,082	2,867	44	546	**18,539**
Howell	-	-	-	10,025	**10,025**
Hydzik	1,028	925	-	-	**1,953**
Incremental 2025 AMA Additions	**16,742**	**51,956**	**6,604**	**21,181**	**96,483**
Rate Year 1 Total	**$ 64,325**	**$ 262,927**	**$ 39,797**	**$ 86,298**	**$ 453,346**
Additions Twelve Months AMA December 31, 2026					
Alexander	$ 599	$ 5,740	$ 5,900	$ 34,790	**$ 47,029**
DiLuciano	-	97,499	9,493	4,653	**111,645**
Manuel	24,026	5,040	331	2,628	**32,024**
Howell	-	-	-	27,237	**27,237**
Hydzik	5,504	3,290	-	-	**8,794**
Incremental 2026 AMA Additions	**$ 30,129**	**$ 111,569**	**$ 15,724**	**$ 69,307**	**$ 226,729**
2-Yr Rate Plan Total	**$ 94,454**	**$ 374,496**	**$ 55,520**	**$ 155,605**	**$ 680,075**

[1] Excludes impacts of retirements.

<u>Table No. 5 – Washington Natural Gas Provisional Gross Transfers-To-Plant – by Witness</u>

Washington Natural Gas 2025 - 2026 Provisional Additions
Gross Transfers-To-Plant - by Witness ($ 000's)[1]

Witness	Short-Lived Assets	Programmatic	Mandatory & Compliance	Large & Distinct	Provisional Total
2024 EOP Total	11,588	35,890	35,750	5,577	**88,805**
Additions Twelve Months AMA December 31, 2025					
Alexander	-	-	-	-	-
DiLuciano	-	7,174	9,367	802	**17,343**
Manuel	2,431	866	14	168	**3,479**
Howell	-	-	-	86	**86**
Hydzik	321	-	-	-	**321**
Incremental 2025 AMA Additions	**2,752**	**8,040**	**9,381**	**1,056**	**21,229**
Rate Year 1 Total	**$ 14,340**	**$ 43,930**	**$ 45,130**	**$ 6,633**	**$ 110,033**
Additions Twelve Months AMA December 31, 2026					
Alexander	$ -	$ -	$ -	$ -	**$ -**
DiLuciano	-	16,683	19,793	1,635	**38,111**
Manuel	4,964	1,560	105	815	**7,444**
Howell	-	-	-	221	**221**
Hydzik	1,733	-	-	-	**1,733**
Incremental 2026 AMA Additions	**$ 6,697**	**$ 18,243**	**$ 19,898**	**$ 2,671**	**$ 47,508**
2-Yr Rate Plan Total	**$ 21,038**	**$ 62,173**	**$ 65,028**	**$ 9,304**	**$ 157,542**

[1] Excludes impacts of retirements.

Detailed information shown in the tables above, by pro forma and provisional adjustment by period, are available in native Exh. TCB-2 and Ms. Schultz's workpapers provided to all parties in this proceeding.

Using the information provided in Table Nos. 2 – 5 above, Table No. 6 below provides a <u>summary of total transfers-to-plant balances by year, and in total over the Two-Year Rate</u>

Plan for Washington electric and natural gas operations.

Table No. 6 – Washington System July 2023 – December 2026 (Two-Year Rate Plan) Gross Transfers-To-Plant

WA Capital Additions July 2023 - December 2026 (Two-Year Rate Plan) Gross Transfers-To-Plant[1] $ in 000's								
	Pro Forma EOP Jul-Dec 2023	Pro Forma EOP 2024	**Pro Forma Total**	Provisional AMA 2025	**Rate Year 1 Total**	Provisional AMA 2026	**Incremental Rate Year 2 Total**	**2-Yr Rate Plan Total**
Electric	$ 150,361	$ 206,502	**$ 356,863**	$ 96,483	**$ 453,346**	$ 226,729	**$ 226,729**	**$ 680,075**
Natural Gas	$ 35,616	$ 53,189	**$ 88,805**	$ 21,229	**$ 110,033**	$ 47,508	**$ 47,508**	**$ 157,542**
					$ 563,380		**$ 274,237**	**$ 837,617**

[1]Excludes impact of retirements, which would lower the overall net plant prior to A/D and ADFIT.

As can be seen in Table No. 6 above, RY1 Washington electric and natural gas gross plant additions, prior to the effect of retirements totals, $453.4 million and $110.0 million, respectively, for a Washington total of $563.4 million. For RY2, Washington electric and natural gas gross plant additions, prior to the effect of retirements, totals $226.7 million and $47.5 million, respectively, for a Washington total of $274.2 million. Over the Two-Year Rate Plan, Washington electric and natural gas gross plant additions total $837.6 million. As discussed by Ms. Schultz, these gross plant additions (adjusted for retirements, A/D, and ADFIT) are the main drivers of the Company's Two-Year Rate Plan.

Gross plant additions reflected in the capital adjustments for RY1 include pro forma capital additions for the period July 2023 – December 2024 and provisional capital additions for the period January 2025 – December 2025, or approximately two-years of transfers-to-plant or capital additions for 2025. While RY2 includes one year, 2026.[12]

Q. Please elaborate on the capital groupings used by the Company to prepare its adjustments.

A. For all pro forma and "provisional" capital additions included in this case, the Company has grouped additions to fit the Commission's defined categories in its Used and Useful Policy Statement[13] established for "provisional" capital. These "provisional" categories are: 1) specific, identifiable and distinct; titled: Large or Distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets.[14] The Company has included a 4th category, titled 4) Mandatory and Compliance.[15] Projects in this category reflect items that are mainly "programmatic," but are required to meet regulatory and other mandatory obligations. Earlier in Table Nos. 4 and 5, I provided the provisional capital transfers-to-plant balances, by witness, by category, and by year as of December 2025 and December 2026 of the capital additions included in the Company's case.

Q. Does the Company have a viewpoint on the use of "materiality thresholds" for capital project inclusion?

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[12] As discussed by Ms. Schultz, and shown in Table No. 6 above, RY1 transfers-to-plant are significantly larger than RY2. RY1 captures incremental capital deployed July 1, 2023 through December 31, 2025, essentially a 2-year period above current authorized levels, as compared to RY2, which covers only 2026 capital additions. Capital additions included in 2025 are included on an AMA basis, therefore, resulting in approximately 2 years additions in RY1. The incremental 2025 balance not in RY1 (because 2025 is on an AMA basis) is included in RY2, with 2026 additions included on an AMA basis, essentially resulting in 1 year of overall capital additions in RY2.

[13] Policy Statement issued January 31, 2020, in Docket U-190531.

[14] The Commission discussed their consideration of Short-Lived assets in Order 08 of Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.

[15]The Commission defined proposals related to three broad types of investments: 1) specific - clearly defined, identifiable or discrete investments (e.g., generating asset); 2) programmatic - investments by their very nature are made according to a schedule, plan or method (such as the replacement of power poles or other small distribution system investments necessary to provide safe and reliable service to Washington ratepayers); and 3) projected - examples include but are not limited to: the use of a k-factor, an attrition adjustment, or a growth analysis. See Used and Useful Policy Statement, Docket U-190531, para. 11, p. 5.

A. Yes, the Company does not believe the use of materiality thresholds is appropriate. Further, in a prior Avista general rate case (Order 08/05 in Dockets UE-200900 et. al.), the Commission was clear that it was not reliant on the use of a "materiality threshold," nor the number of projects when considering what projects will be included in rates. Rather the Commission is focused on whether the projects proposed for recovery were "used and useful," "known and measurable" and prudently incurred. In addition, the Commission noted it would not establish a one-size-fits-all approach, but rather review projects proposed by a utility in each GRC on a case-by-case basis.[16]

Q. Please describe how the system capital additions specific to Washington electric and natural gas are derived.

A. The Company directly assigns costs when appropriate. Costs not specifically identifiable to a specific jurisdiction are allocated in accordance with an approved allocation procedure. This process designates costs as common to all services and jurisdictions (CD.AA), common to electric operations only (ED.AN), common to natural gas operations in Washington and Idaho only (GD.AN), or common to natural gas operations only (GD.AA), as provided in Ms. Schultz's Exh. KJS-4.

Q. Are assets placed in service for new customers included within your adjustments?

A. Yes, additions associated with new customers (growth capital) were included in the pro forma and provisional capital transfers-to-plant, and ultimately in Ms. Schultz's electric and natural gas Pro Forma Studies. In addition, in accordance with the matching

[16] Order 08/05, Dockets UE-200900, et. al., paragraphs 195, 197 and 198.

principle, the Company also included the corresponding new revenues generated from this growth capital, included as an offset against capital investment in adjustments 4.02 and 5.08, 2024-2026 Capital Additions O&M & Revenue Offsets, as discussed by Company witness Ms. Andrews. This allows all plant-in-service used to provide electric and natural gas utility service to customers to be included within the rate-effective period.

Q. Has the Company included all offsetting factors it has determined applicable to the capital additions it included in this case related to 2024 through 2026 additions?

A. Yes. Ms. Andrews, at Exh. EMA-1T, summarizes all offsetting factors associated with 2024-2026 capital additions considered appropriate to include. As discussed by Ms. Andrews, the Company has included (and specific capital witnesses provide further detail, in relation to the capital additions they sponsor): 1) all direct offsets to O&M where applicable, 2) a "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (excluding those required for compliance purposes), and 3) offsetting revenue associated with growth revenue (Growth Capital Business Case).

In addition, also included in Ms. Andrews' summary discussion of offsets is the incremental reduction to depreciation expense of including retirements, as well as the impact on net plant investment (after ADFIT), by adjusting all existing plant investment for A/D and ADFIT through the Two-Year Rate Plan as of December 31, 2025 (AMA) for RY1 and December 31, 2026 (AMA) for RY2. All retirements, and the changes to A/D and ADFIT can be seen within the native version of Exh. TCB-2.

Q. Can you elaborate on the inclusion of retirements, and their significant

reduction to depreciation expense included in the Company's case over the Two-Year Rate Plan?

A. Yes. As summarized by Ms. Andrews and included within my capital adjustments for the period July 1, 2023 through 2026 AMA, I have included the following retirements, reducing overall <u>depreciation expense</u>.[17]

<u>Table No. 7 – Expense Reduction Due to Plant Retirements</u>

Expense Reduction Due to Plant Retirements
in $000s

	Electric	Natural Gas
Jul-Dec 2023 Retirements	$ (1,473)	$ (257)
2024 EOP Retirements	$ (8,547)	$ (1,246)
2025 AMA Retirements	$ (7,204)	$ (953)
Rate Year 1	$ (17,224)	$ (2,456)
2026 AMA Retirements	$ (7,103)	$ (831)
Incremental Rate Year 2	$ (7,103)	$ (831)
2-Yr Rate Plan Total	$ (24,327)	$ (3,287)

As can be seen in Table No. 7 above, the Company has included a reduction to depreciation expense for retirements of $17.2 million electric and $2.5 million natural gas in RY1, and an additional reduction in expense of $7.1 million electric and $0.8 million for natural gas in RY2 – totaling $24.3 million and $3.3 million, respectively over the Two-Year Rate Plan.

Q. Please explain the causes of the significant retirements, reducing

[17] Ms. Andrews shows a similar recap by Washington electric and natural gas retirements, lowering depreciation expense by year, on a revenue requirement basis, within her Exh. EMA-1T, Table Nos. 6 and 7.

depreciation expense in this case.

A. Retirements over the Two-Year Rate Plan are mostly due to the increased investment in short-lived assets. Over the last several years, there has been an increase in 5-year short-lived assets. The recent addition of two and three year asset lives, will continue to contribute to larger quantities of short-lived asset retirements. As the Company continues to invest in its software solutions, there continue to be new upgrades and enhancements to these assets, which are short-lived.

IV. SUMMARY OF CAPITAL ADJUSTMENTS

Q. Please summarize the capital-related adjustments included by the Company in this case.

A. As discussed by Ms. Schultz, the electric and natural gas Pro Forma Studies over the Two-Year Rate Plan include traditional restating, pro forma and provisional adjustments for RY1 and RY2.

Electric Capital Adjustments

As shown in Table No. 8 below, with regard to electric capital investments, the Company started with utility plant rate base balances from historical accounting information, which for this case consists of the actual AMA balances for the twelve-months ended June 30, 2023, and made the following adjustments to **Washington electric operations** to reflect the net plant (after A/D and ADFIT) balances as of RY1 and RY2:

Table No. 8 – Washington Electric Plant Adjustments[18]

Washington Electric Plant Adjustments in $(000's)

	Adj #	Plant in Service	Accumulated Depreciation	Accumulated DFIT	Net Plant (After ADFIT)
Rate Year 1 (July 2023 - December 2025)					
06/2023 AMA	Results	$ 3,691,449	$ (1,318,520)	$ (399,245)	$ 1,973,683
(1) Deferred FIT Rate Base	1.01			2,942	2,942
(2) Remove Colstrip	1.04	(213,545)	186,967	1,685	(24,893)
(3) Restate Capital 06.2023 EOP	2.15	100,975	(46,136)	(910)	53,930
(4) Pro Forma Capital Additions to 12.31.2023 EOP	3.15	110,787	(25,290)	(2,076)	83,421
(6) Pro Forma Capital Additions to 12.31.2024 EOP	3.17	153,538	(81,167)	(2,147)	70,224
(7) Provisional Capital Additions to 12.31.2025 AMA	4.01	75,800	(48,288)	(1,751)	25,761
Rate Year 1 Total		$ 3,919,004	$ (1,332,434)	$ (401,502)	$ 2,185,068
Rate Year 2 (2026)					
(8) Provisional Capital Adds to 12.31.2026 AMA	5.07	$ 172,783	$ (73,284)	$ (6,263)	$ 93,236
Rate Year 2 Total		$ 172,783	$ (73,284)	$ (6,263)	$ 93,236
2-Yr Rate Plan Total		$ 4,091,787	$ (1,405,717)	$ (407,765)	$ 2,278,304

Descriptions of each adjustment for RY1 and RY2 follow, with supporting exhibits provided as Exh. TCB-2; supporting detailed workpapers will be provided to all parties.

Rate Year 1

(1) **Adjustment (1.01) – Deferred FIT Rate Base**: This adjustment adjusts the electric and natural gas accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations at 06.2023 to the adjusted ADFIT balance reflected on an AMA basis. ADFIT reflects the deferred tax balances arising from timing differences between book recognition and tax recognition of certain income and deductions. The primary deductions that have timing differences, and therefore associated ADFIT, are accelerated tax depreciation over book depreciation and the repairs deduction.

(2) **Adjustment (1.04) – Remove Colstrip:** As sponsored and further discussed by Ms. Andrews, separate Tariff Schedule 99 "Colstrip Tracker," includes the recovery of Avista's Colstrip Units 3 and 4 costs (exclusive of transmission investment and those costs included in the Energy Recovery Mechanism ("ERM")), including operating and maintenance ("O&M") and other expenses, depreciation expense, decommissioning and remediation ("D&R") costs, and return on rate base. Therefore, these Colstrip costs are not included in base rates,

[18] Net Colstrip plant investment and depreciation expense is recovered through separate Tariff Schedule 99, and therefore must be removed from the Company's 12ME 06.2023 test period balances.

and must be excluded from the Company's 12ME 06.2023 test period results.

(3) **Adjustment (2.15) – Restate June 2023 AMA Rate Base to EOP**: This adjustment restates plant-in-service, A/D, and ADFIT from Average-of-Monthly-Averages (AMA) to End-of-Period (EOP) for the historic test year, excluding Colstrip plant balances.

(4) **Pro Forma Adjustment (3.15) – 2023 Pro Forma EOP**: This adjustment includes three components. The first component adjusts EOP June 30, 2023 rate base to EOP December 31, 2023 rate base by extending A/D and ADFIT balances on utility plant-in-service from June 30, 2023 EOP balances to December 31, 2023 EOP balances. The second component reflects the impact of retirements from July 1, 2023, through December 31, 2023. The third component reflects additions to plant-in-service, inclusive of new growth capital[19], between July 1, 2023, and December 31, 2023, on an EOP basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2023.

(5) **Adjustment (3.16) – Depreciation Study:** In accordance with Order 01 in Dockets UE-230123 and UG-230130 dated December 21, 2023, the Commission approved the Company's application to set new electric and natural gas depreciation rates effective January 1, 2024 per the Company's revised filed depreciation study. This adjustment captures the effect of updating electric and natural gas depreciation rates for both common/allocated plant and direct Washington plant effective January 1, 2024, on plant-in-service at December 31, 2023, on an AMA basis. The impact of changing depreciation rates for plant-in-service at January 1, 2024, on an EOP basis and all additions after January 1, 2024, is built into the other capital adjustments (3.17, 4.01, 5.07).

(6) **Pro Forma Adjustment (3.17) – 2024 Pro Forma EOP**: This adjustment includes three components. The first component adjusts plant-in-service at December 31, 2023 EOP balances to December 31, 2024 EOP balances by extending A/D and ADFIT balances. The second component reflects the impact of retirements from January 1, 2024 through December 31, 2024. The third component reflects additions to plant-in-service, inclusive of new growth capital, between January 1, 2024 and December 31, 2024, on an EOP basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the

[19] For the period July 1, 2023 through December 31, 2025, capital additions associated with connecting new customers to the Company's system (New Revenue – Growth Business Case) were included. As discussed by Ms. Andrews in her testimony, an increase in revenues from growth in the number of customers from the historical test year to the RY1 and RY2 rate periods are included, therefore, the growth in plant investment associated with customer growth was also included.

period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2024.

(7) **Provisional Adjustment (4.01) – 2024 EOP to 2025 AMA:** This adjustment includes three components. The first component adjusts plant-in-service at December 31, 2024 EOP balances to December 31, 2025 AMA balances by extending A/D and ADFIT balances. The second component reflects the impact of retirements from December 31, 2024 EOP balances to December 31, 2025 AMA balances. The third component reflects additions to plant-in-service, inclusive of new growth capital, between December 31, 2024, on an EOP basis and December 31, 2025, on an AMA basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2025.

Rate Year 2

(8) **Provisional Adjustment (5.07) – 2025 AMA to 2026 AMA**: This adjustment includes three components. The first component adjusts plant-in-service at December 31, 2025 AMA balances to December 31, 2026 AMA balances by extending A/D and ADFIT balances. The second component reflects the impact of retirements from December 31, 2025 AMA balances to December 31, 2026 AMA balances. The third component reflects additions to plant-in-service, inclusive of new growth capital, between December 31, 2025, on an AMA basis and December 31, 2026, on an AMA basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2026.

Natural Gas Capital Adjustments

As shown in Table No. 9 below, with regards to natural gas capital investments, the Company started with utility plant rate base balances from historical accounting information, which for this case consists of the actual AMA balances for the twelve-months ended June 30, 2023, and made the following adjustments to **Washington natural gas operations** to reflect the net plant (after A/D and ADFIT) balances as of RY1 and RY2:

Table No. 9 – Washington Natural Gas Plant Adjustments[20]

	Washington Natural Gas Plant Adjustments in $(000's)	Adj #	Plant in Service	Accumulated Depreciation	Accumulated DFIT	Net Plant (After ADFIT)
	Rate Year 1 (July 2023 - December 2025)					
	06/2023 AMA	Results	$ 846,495	$ (263,836)	$ (84,772)	$ 497,887
(1)	Deferred FIT Rate Base	1.01			(224)	(224)
(2)	Restate Capital 06.2023 EOP	2.15	24,607	(12,316)	117	12,408
(3)	Pro Forma Capital Additions to 12.31.2023 EOP	3.15	24,668	(5,409)	229	19,488
(4)	Pro Forma Capital Additions to 12.31.2024 EOP	3.17	39,763	(19,280)	85	20,568
(5)	Provisional Capital Additions to 12.31.2025 AMA	4.01	16,641	(12,041)	(1,396)	3,204
	Rate Year 1 Total		$ 952,174	$ (312,882)	$ (85,961)	$ 553,331
	Rate Year 2 (2026)					
(6)	Provisional Capital Adds to 12.31.2026 AMA	5.07	$ 35,842	$ (18,826)	$ 73	$ 17,089
	Rate Year 2 Total		$ 35,842	$ (18,826)	$ 73	$ 17,089
	2-Yr Rate Plan Total		$ 988,016	$ (331,708)	$ (85,888)	$ 570,420

Descriptions of each adjustment for RY1 and RY2 follow, with supporting exhibits provided as Exh. TCB-2; supporting detailed workpapers will be provided to all parties.

Rate Year 1

(1) **Adjustment (1.01) – Deferred FIT Rate Base: This adjustment adjusts the** electric and natural gas accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations at 06.2023 to the adjusted ADFIT balance reflected on an AMA basis. ADFIT reflects the deferred tax balances arising from timing differences between book recognition and tax recognition of certain income and deductions. The primary deductions that have timing differences, and therefore associated ADFIT, are accelerated tax depreciation over book depreciation and the repairs deduction.

(2) **Adjustment (2.15) – Restate June 2023 AMA Rate Base to EOP**: This adjustment restates plant-in-service, A/D and ADFIT from Average-of-Monthly-Averages (AMA) to End-of-Period (EOP) for the historic test year.

(3) **Pro Forma Adjustment (3.15) – 2023 Pro Forma EOP**: This adjustment includes three components. The first component adjusts EOP June 30, 2023 rate

[20] After completion of the Company's revenue requirement in this case, a correction to pro forma Adj. 5.07 – Provisional Capital Adds to 12.31.2026 AMA for natural gas only was found, increasing natural gas rate base by approximately $489,000 and revenue requirement by $46,000. Given the Company intends to update for actual transfers-to-plant within the capital adjustments during the pendency of the case, this correction will be included as part of that update.

base to EOP December 31, 2023 rate base by extending A/D and ADFIT balances on utility plant-in-service from June 30, 2023 EOP balances to December 31, 2023 EOP balances. The second component reflects the impact of retirements from July 1, 2023 through December 31, 2023. The third component reflects additions to plant-in-service, inclusive of new growth capital[21], between July 1, 2023 and December 31, 2023, on an EOP basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2023.

(4) **Adjustment (3.16) – Depreciation Study:** In accordance with Order 01 in Dockets UE-230123 and UG-230130 dated December 21, 2023, the Commission approved the Company's application to set new electric and natural gas depreciation rates effective January 1, 2024 per the Company's revised filed depreciation study. This adjustment captures the effect of updating electric and natural gas depreciation rates for both common/allocated plant and direct Washington plant effective January 1, 2024, on plant-in-service at December 31, 2023, on an AMA basis. The impact of changing depreciation rates for plant-in-service at January 1, 2024, on an EOP basis and all additions after January 1, 2024, are built into the other capital adjustments (3.17, 4.01, 5.07).

(5) **Pro Forma Adjustment (3.17) – 2024 Pro Forma EOP**: This adjustment includes three components. The first component adjusts plant-in-service at December 31, 2023 EOP balances to December 31, 2024 EOP balances by extending A/D and ADFIT balances. The second component reflects the impact of retirements from January 1, 2024 through December 31, 2024. The third component reflects additions to plant-in-service, inclusive of new growth capital, between January 1, 2024 and December 31, 2024, on an EOP basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2024.

(6) **Provisional Adjustment (4.01) – 2024 EOP to 2025 AMA:** This adjustment includes three components. The first component adjusts plant-in-service at December 31, 2024 EOP balances to December 31, 2025 AMA balances by extending A/D and ADFIT balances. The second component reflects the impact of retirements from December 31, 2024 EOP balances to December 31, 2025 AMA balances. The third component reflects additions to plant-in-service, inclusive of new growth capital, between December 31, 2024, on an EOP basis and December

[21] For the period July 1, 2023 through December 31, 2025, capital additions associated with connecting new customers to the Company's system (New Revenue – Growth Business Case) were included. As discussed by Ms. Andrews in her testimony, an increase in revenues from growth in the number of customers from the historical test year to the RY1 and RY2 rate periods are included, therefore, the growth in plant investment associated with customer growth was also included.

31, 2025, on an AMA basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2025.

<u>Rate Year 2</u>

(7) **Provisional Adjustment (5.07) – 2025 AMA to 2026 AMA**: This adjustment includes three components. The first component adjusts plant-in-service at December 31, 2025 AMA balances to December 31, 2026 AMA balances by extending A/D and ADFIT balances. The second component reflects the impact of retirements from December 31, 2025 AMA balances to December 31, 2026 AMA balances. The third component reflects additions to plant-in-service, inclusive of new growth capital, between December 31, 2025, on an AMA basis and December 31, 2026, on an AMA basis, inclusive of the depreciation expense, A/D, and ADFIT associated with these additions for the period. This adjustment also adjusts depreciation expense to reflect the appropriate level of expense at December 31, 2026.

Detailed calculations for each adjustment I sponsor will be provided in native Exh. TCB-2; supporting detailed workpapers will be provided to all parties.

Q. Based on the adjustments described above and provided in Table Nos. 8 and 9, please summarize the change in electric and natural gas <u>net plant (after ADFIT)</u> for the Washington operations.

A. As sponsored by Ms. Schultz, the results of the electric and natural gas Pro Forma Studies reflect the <u>net plant after ADFIT</u> that will be in service during RY1 and RY2. Using the information from Table Nos. 8 and 9, Table No. 10 below provides a summary of adjustments for <u>RY1, electric net plant after ADFIT increases $211,385,000</u>, resulting from the June 30, 2023 AMA net plant after ADFIT results of operations balance of $1,973,683,000, adjusted to the December 31, 2025 AMA balance of $2,185,068,000. <u>For RY2, electric net plant after ADFIT, increases $93,236,000</u> from the December 31, 2025 AMA balance to the December 31, 2026 AMA balance of $2,278,304,000.

<u>Table No. 10 – Washington Net Plant After ADFIT</u>

Washington Net Plant After ADFIT $(000's)	Electric	Natural Gas	Total
06.2023 AMA Balance	$ 1,973,683	$ 497,887	$ 2,471,571
Rate Year 1 (July 2023 - December 2025) Adjustments	$ 211,385	$ 55,444	$ 266,829
Rate Year 1 Balance	$ 2,185,068	$ 553,331	$ 2,738,399
Rate Year 2 (2026) Adjustments	$ 93,236	$ 17,089	$ 110,325
Rate Year 2 Balance	$ 93,236	$ 17,089	$ 110,325
2-Yr Rate Plan Total	$ 2,278,304	$ 570,420	$ 2,848,724

<u>For RY1, natural gas net plant after ADFIT, increases $55,444,000</u> from the June 30, 2023 AMA balance of $497,887,000 to the December 31, 2025 AMA balance of $553,331,000. <u>For RY2, natural gas net plant after ADFIT, increases $17,089,000</u> from the December 31, 2025 AMA balance to the December 31, 2026 AMA balance of $570,420,000. These balances can also be seen in Ms. Schultz's electric and natural gas Pro Forma Studies at Exh. KJS-2 and Exh. KJS-3.

<u>V. PROVISIONAL CAPITAL REPORTING</u>

Q. The Company pro formed all capital projects for the period July 2023 through December 2026. Would you please explain how these capital projects were included in this case?

A. Yes. The Company typically has approximately 120 Business Cases completed on an annual basis, representing between $425 million and $475 million of annual capital spending (system), on an average basis between 2019-2023, as discussed by Company witness Mr. Christie. As explained by Mr. Christie, this level has been increased to $500 million in

2024, $525 million in 2025 and $575 million in 2026, on a system basis.[22]

As I have explained above, the Company has included as pro forma or provisional capital additions, all investments transferring to plant for the period July 2023 through 2026, beyond the 12-months ended 06.2023 test period. With regards to the 2023 capital additions included in this case, the Company's historical test period ending June 30, 2023 includes actual capital additions from January through June 2023. In addition, the Company pro formed actuals for July 2023 and expected August 1, 2023 through December 31, 2023 additions. The Company also pro formed all 2024 expected capital investments transferring to plant between January 1, 2024 through December 31, 2024. The Company then included as "provisional" capital additions all 2025 and 2026 expected capital investments transferring to plant between January 1, 2025 through December 31, 2026.

Q. Please explain why the Company has proposed that all 2023 – 2024 additions should be considered pro forma, whereas 2025 – 2026 are included as "provisional" and subject to "review and refund".

A. As noted above, for 2023 and 2024 additions, the Commission approved a level of capital investments through 2024, contingent upon the provisional capital review filings in March 2024 for 2023 capital investments, and in March 2025 for 2024 capital investments, in the Company's last general rate case (Dockets UE-220053, et. al). These investments, while not all actual and complete at this time, are included in existing base rates and will undergo final evaluation during the Provisional Capital Reporting process in that docket, reviewing actual investments transferring to plant in those years versus that approved in the prior general

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[22] Exh. KJC-1T, p. 20.

rate case.

The 2025 – 2026 "provisional" capital additions included in this case, will be reviewed through the annual Provisional Capital Reporting process described below,[23] filed on or before March 31st after each completed reporting period (calendar year), to assure that the incremental level of investment approved in this case is in service, used and useful during RY1 (2025) and RY2 (2026), in this proceeding.

Review of actual transfers-to-plant by calendar year through the Provisional Capital Reporting process as approved in Dockets UE-220053, et. al., and proposed below for the period 2025 and beyond, eases both the reporting requirements of the Company as well as the final audit/review of Staff and intervening parties. Using this approach, there will not be any estimates, nor any doubt, concerning what projects were completed and in-service when the final review occurs for each of the periods 2023 through 2026. Furthermore, by using this Provisional Capital Reporting process, making all additions in 2025 – 2026 subject to further review and refund, Avista is able to recover on a timely basis its costs of providing service to customers over the Two-Year Rate Plan in this proceeding.

The Company, will update during the process of this case, its capital additions adjustments to reflect all actual additions in 2023. And if applicable, will update expected transfers-to-pant for 2024-2026 prior to filing rebuttal testimony in this general rate case. This should help to ensure the Commission has before it a record that is as complete as possible with <u>actual</u> information through 2023 and expected through 2026, subject to an additional and final review and refund, in a future period. Illustration No. 1 above illustrates the capital

[23] As discussed below, the Company's Annual Provisional Capital Reporting process, for 2025 and beyond, is consistent with that approved in Dockets UE-220053, et. al.

additions included by the Company on a "pro forma" basis (Jul. 2023 – Dec. 2024) and "provisional" basis (Jan. 2025 – Dec. 2026).

Q. What is the Company proposing with regard to reporting on the provisional 2025 - 2026 capital additions included in this case?

A. Consistent with the reporting and process approved in Dockets UE-220053, et. al, for all capital additions in the period January 2025 through December 2026, by March 31st following the completion of each calendar year, Avista will file a report, in these dockets, with the Commission and all Parties, containing evidence (either directly or by reference to previously-filed evidence) as described below. This reporting will serve to validate that such plant is, in fact, in-service, is used and useful and at what cost (after any offsetting benefits). This will provide the Commission with assurance that the provisional capital additions and level of net plant included during the rate-effective period during RY1 (2025 AMA) and RY2 (2026 AMA) is in service for customers during the rate-effective periods, or will be subject to refund. This reported evidence shall be sufficient to demonstrate the prudence of the Business Cases, as well as the total net plant after ADFIT balances, approved by the Commission in RY1 and RY2. A summary of the reporting requirements and reporting process is described below and is consistent with the procedures employed in Avista's prior GRC.

I. **Content of Each Annual Report -**

Each annual report will provide evidence as follows:

a) Final actual "Net Plant after ADFIT" balances versus Commission Authorized "Net Plant after ADFIT" balances, for each calendar year. This will ensure final rates represent all actual additions, retirements, offset by Accumulated Depreciation (A/D) and Accumulated Deferred Federal Income Taxes (ADFIT) – representing final net plant balances that are used and useful, serving customers, and reflect associated costs (net of any benefits).

b) The justification for the Business Cases, including supporting information, if different than what was included in the Company's direct filed case;

c) Actual in-service date(s);

d) Actual final costs, as well as explanations for significant cost variances;

e) Any changes to the Business Cases themselves, (for example, deviations from the scope and descriptions provided in the initial filing in this case);

f) Evidence that any significant cost overruns and the decision to continue to invest in the project under any relevant changed circumstances was prudent;

g) Updated information (if any) on offsetting factors presented in this case specific to the Business Cases;

h) In responding to items (a) – (g) above, the Company will provide a listing of the Business Cases as filed in this proceeding for the calendar year, with updated information, and an explanation for any changes. As circumstances change, and capital is redeployed to other new or existing Business Cases during 2025 – 2026, any redeployed capital will be supported as prudent and used and useful, in order to allow for recovery.

i) Recovery of capital investment, therefore, will be capped at the total overall net plant after ADFIT and resulting revenue requirement balances, by calendar year, approved by the Commission, in its initial Order approving the Two-Year Rate Plan. The Company, however, reserves the right to seek a deferral for additional costs not recovered through this review process.

II. **Process for Subsequent Review**

a) Each Annual Report will be filed no later than three months after the calendar year-end (on or before March 31st) annually. The burden of demonstrating prudence of each calendar year projects is on the Company and is not intended to shift the burden of showing prudency to the non-company parties.

b) All Parties will have the opportunity to review the evidence and have the ability to conduct discovery similar to discovery allowed in adjudicative proceedings (including, but not limited to, issuing data requests). Parties may then submit to this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party.

c) The Company, may at its discretion, submit to these dockets evidence mentioned above regarding capital additions once they are complete in order to expedite the review process.

d) Parties will complete their review and file any response no later than four months (on or before July 31st annually), after the "Provisional Reporting" for each calendar period filed by the Company (i.e., March 31st).

e) The Parties reserve the right to evaluate the capital additions and to account for direct offsetting factors (i.e. benefits) to the provisional capital projects. Offsetting factors considered in this context will be limited to offsets that might occur directly as a result of Avista's investment in the specified Business Cases and will not include offsets that do not directly result from the investment in the specific business cases. Where any efficiency adjustment is used by the Company in lieu of a direct benefit, that adjustment will continue for the 2025 – 2026 period.

f) Any amounts determined <u>subject to refund</u> to customers, will <u>be deferred for later return to customers</u>, until a change in rates has occurred to reflect the necessary change for the capital amount refunded. Future return of any refunded amounts may be through a separate tariff or other future proceeding. The refunded amount will include interest at the authorized rate of return.

g) After the non-Company Parties submit their responses to the Commission, Avista will file a petition to amend the final order in this docket in accordance with WAC 480-07-875. The petition to amend the final order will indicate whether the parties agree to the proposed rate change or if a dispute exists that would require further process under WAC 480-07-875. If there is no dispute, the petition will specify any changes to RY1 or RY2 rates, based on updated information, or explain that no changes to RY1 or RY2 rates are necessary. RY1 or RY2 rates will go into effect in this case in December 2024 and December 2025, respectively, but the RY1 and RY2 rate amounts are subject to refund, with regards to 2024[24] through 2026 capital investment, until the review of these business cases are complete and accepted by the Commission through an amended order.

Q. Have you prepared a schematic that illustrates the process you have described above for 2025 and 2026 provisional capital?

A. Yes. As depicted in Illustration No. 2 below, for the 2025 capital additions

[24] 2023 capital investment subject to review per Dockets UE-220053, et. al., will be reviewed in 2024 prior to the completion of this case, with any applicable reductions reflected in RY1 base rates effective in December 2024. 2024 capital investment subject to review per Dockets UE-220053, et. al., will not be reviewed until 2025, with any applicable reductions reflected in RY2 base rates in this case, effective in December 2025.

report, the Company will file its report on or before March 31, 2026. The non-Company Parties will submit their responses to the Commission on or before July 31, 2026. Shortly thereafter, Avista will file a Petition to Amend the Final Order in these electric and natural gas dockets, indicating whether the Parties agree that the level of 2025 capital additions included in the revenue requirement for RY1 was appropriate, or if a refund is necessary for any over-collection during RY1. It will also indicate what, if any, reduction for the revenue requirement in RY2 is required to reflect the lower level of capital in service for 2025. If there is no dispute among the Parties, the Petition will specify any changes to the revenue requirement for RY2 (for 2025 additions only), or future rates, based on updated information or explain why no changes to the revenue requirement for RY2 is necessary. If there is any dispute among the Parties, further process would be required under WAC 480-07-875. If the Commission determines that a refund is required, but has not yet completed its work by the time RY2 rates go into effect in December 2025, any amounts subject to refund included in rates would be deferred until such time as rates are adjusted to reflect the Commission's decision. Any deferred balances would be returned to customers in a later proceeding or as otherwise ordered by the Commission.

Illustration No. 2 – 2025 Capital Reporting Example

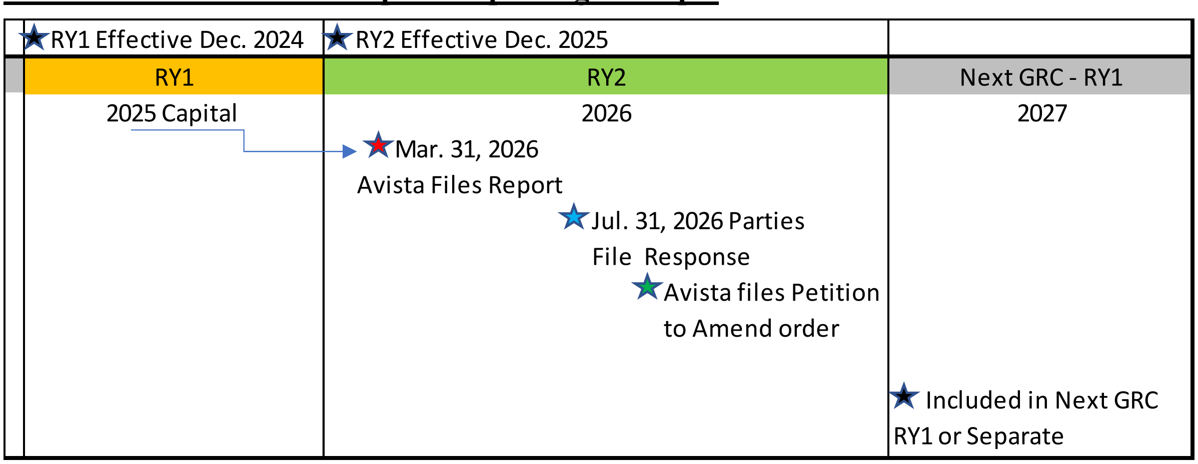
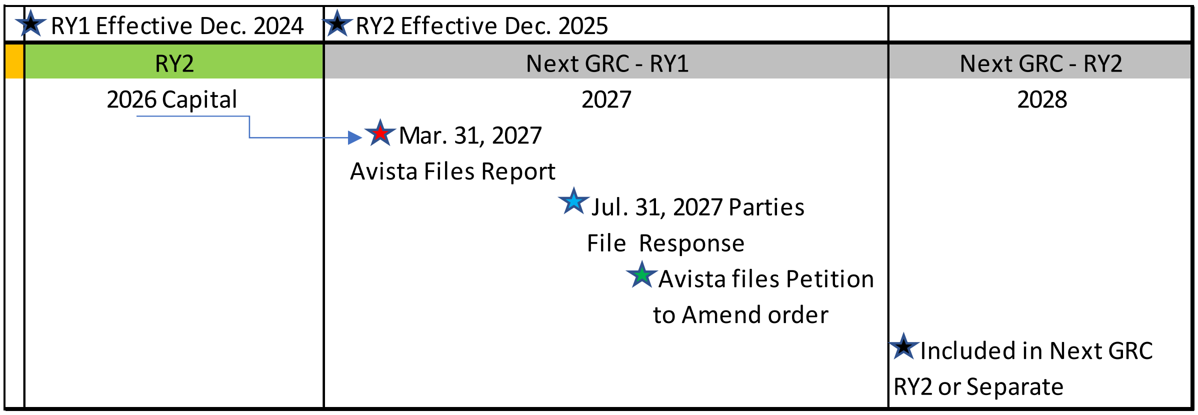


Illustration No. 3, provides the same sequence for the RY2 capital reporting cycle for the 2026 capital report.

<u>Illustration No. 3 – 2026 Capital Reporting Example</u>



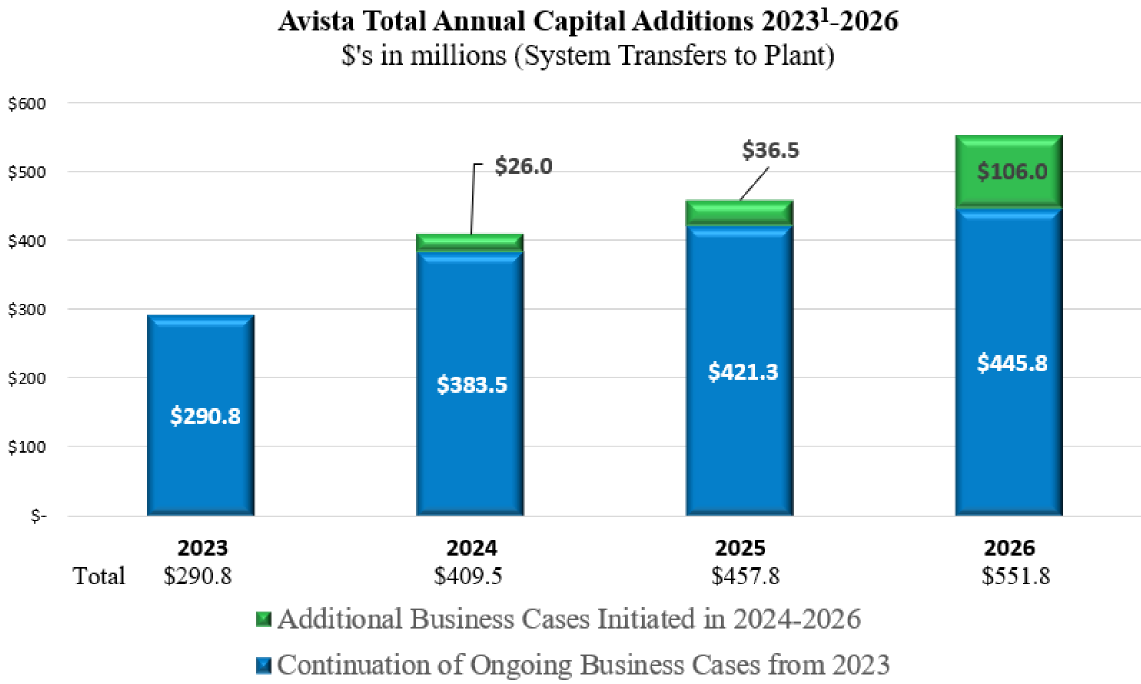
As can be seen in Illustration Nos. 2 and 3, the 2025 and 2026 Provisional Capital Reports filed, reviewed and any required refund, if applicable, will occur in the Company's <u>next</u> GRC or other proceeding, to amend rates for any amounts subject to refund. As noted above, any amounts subject to refund included in rates would be deferred until such time as rates are adjusted to reflect the Commission's decision. Any deferred balances would be returned to customers in a later proceeding or as otherwise ordered by the Commission.

Q. Without minimizing the importance of the subsequent review of "provisional" expenditures, as described above, would you put that review into some kind of perspective?

A. Yes. First of all, Avista wants to make sure that the Commission and the parties have a full and fair opportunity to review all "provisional" expenditures for 2025-2026, to be assured that they are prudent and reflect actual costs of in-service, "used and useful" plant. We recognize that this subsequent review of Annual Reports by the parties calls for accelerated treatment, but it should also be acknowledged that by far the vast majority of expenditures in 2025-2026 relate <u>to a continuation of existing Business Cases</u> approved by the Commission for the 2023-2024 Two-Year Rate Plan (only the level of investment has changed). As such, the parties and the Commission have in recent years reviewed such Business Cases during prior cases, and the 2022 Provisional Capital Report process, and will during this 11-month long rate case process, as most of the capital investment relates to ongoing, multi-year efforts that continue over time, at various funding levels. The rationale and justification for these ongoing projects, however, does not change over time, only the funding levels. This should facilitate any subsequent review of changes in expenditure levels within each Business Case.

For illustrative purposes, witnesses Mr. Alexander, Mr. DiLuciano, and Mr. Manuel, who address most of the capital projects, have included yearly bar charts for 2023-2026 depicting the yearly spend within each existing Business Case versus "provisional" expenditures associated with an entirely new Business Case in 2025-2026. As shown, in the aggregated chart below that combines the results in those areas covered by the witnesses, in excess of 80% of "provisional" expenditures have their genesis in existing test period Business Cases:

<u>Chart No. 1 – Avista Total Annual Capital Additions July 2023-2026</u>



[1]2023 includes the pro forma period of July-December only.

2026 additional business cases primarily made up of three large distinct projects: Noxon Rapids Gantry Crane Modernization, Post Falls North Channel Spillway Rehabilitation, Metro 115kV Substation

Q. As an example of the Provisional Capital Reporting proposed by the Company in this case, the Company filed its 2022 Provisional Capital Report on March 31, 2023, following the same content and process described above, as approved in Dockets UE-220053, et. al. Please provide the results and outcome of that report.

A. As required in Dockets UE-220053, et. al., the Company filed its first ever Provisional Capital Report, following the guidance and process described above for its 2022 capital investments. As presented in Exh. TCB-4, and shown in Table No. 11 below, the Company filed with the Commission it's report identifying by business case actual transfers-to-plant of $269 million on a Washington basis, as compared to the transfers-to-plant of $214 million authorized by the Commission in Dockets UE-220053 et. al., or $55 million over that approved. Also shown in Table No. 11, Avista's 2022 actual net plant after ADFIT total balance was $33.8 million more than approved in the prior case. The Company was therefore approved for a lower level of capital additions than was actually placed into plant for the 2022 period.

Table No. 11 – 2022 Actual Transfer-To-Plant & Net Plant After ADFIT versus Authorized

Washington 2022 Actual Transfer-To-Plant & Net Plant After ADFIT versus Authorized (000s)			
	Electric	Natural Gas	Washington Total
Actual Transfers-To-Plant	$ 214,330	$ 54,698	$ 269,028
As-Filed Transfers-To-Plant	$ 167,665	$ 46,387	$ 214,052
Variance Over Authorized	$ 46,665	$ 8,311	$ 54,976
Actual Net Plant After ADFIT	$ 2,001,820	$ 504,232	$ 2,506,052
As-Filed Net Plant After ADFIT	$ 1,968,699	$ 503,561	$ 2,472,260
Variance Over Authorized	$ 33,121	$ 671	$ 33,792

For each business case with a variance of greater than $500,000 and +/-10%, the Company provided additional supporting documentation with its filed 2022 report, which included an explanation for each variance, discussion of management oversight and identified any updates to direct O&M offsets.

Also, as required per the prior general rate case, for the level of 2023 capital approved by the Commission in Dockets UE-220053, et. al., the Company will file its 2023 Provisional Capital Report on or before March 31, 2024 and will file its 2024 Provisional Capital Report on or before March 31, 2025. Any results of the 2023 capital additions report requiring amounts to be refunded, will be updated during the process of this case, if applicable, prior to RY1 (2025) in this case going into effect. For 2024 capital additions, any amounts requiring refunds to customers would be updated with the RY2 rate effective date in late December

2025. Any amounts owed customers related to the 2023 and 2024 reports will be deferred for later return to customers, until a change in rates has occurred with RY1 or RY2 effective rate changes. The deferred refunded amount will include interest at the authorized rate of return during deferral and amortization of the amounts.

VI. PROPOSED 15 YEAR LIFE ON OUTAGE MANAGEMENT SYSTEM & ADVANCED DISTRIBUTION MANAGEMENT SYSTEM INVESTMENT

Q. Would you please describe the project the Company is requesting a 15-year life for and why?

A. Yes. The Company is requesting a 15-year life for certain software assets transferring to plant in 2025 within the Outage Management System & Advanced Distribution Management System (OMS & ADMS) project, due to a longer expected life of those software assets. Of the 2025 transfers-to-plant expected for the project, approximately $20.5 million will be associated with this 15-year asset.

Table No. 12 below shows the expected transfers-to-plant on a system basis for this project during the Two-Year Rate Plan – resulting in hardware of $4.1 million completed through 2025, certain software with a 5-year life completed through 2024 of $2.9 million, and the remaining software completed in 2025 of $20.6 million and $700,000 in 2026.

<u>Table No. 12 – OMS & ADMS Project Capital Additions during 2-Yr Rate Plan (System)</u>

Outage Management System & Advanced Distribution Management System (OMS & ADMS) Capital Additions Gross Transfers To Plant - System Basis[1] $ in 000's								
Depreciation Category	Pro Forma EOP Jul-Dec 2023	Pro Forma EOP 2024	**Pro Forma Total**	Provisional AMA 2025	**Rate Year 1 Total**	Provisional AMA 2026	**Incremental Rate Year 2 Total**	**2-Yr Rate Plan Total**
Hardware	$ 207,212	$ 363,747	**$ 570,959**	$ 3,520,000	**$ 4,090,959**	$ -	**$ -**	**$ 4,090,959**
Software - 5 Yr	$ 1,864,873	$ 1,001,131	**$ 2,866,004**	$ -	**$ 2,866,004**	$ -	**$ -**	**$ 2,866,004**
Software - 15 Yr	$ -	$ -	**$ -**	$ 20,579,250	**$20,579,250**	$ 700,000	**$ 700,000**	**$ 21,279,250**
Total	$ 2,072,085	$ 1,364,878	**$ 3,436,963**	$ 24,099,250	**$27,536,213**	$ 700,000	**$ 700,000**	**$ 28,236,213**

1Excludes impact of retirements, which would lower the overall net plant prior to A/D and ADFIT.

As described by Mr. Manuel, a dependable outage management system is critical for Avista to provide safe and reliable energy to our customers. A modern Advanced DMS (ADMS) enables the ability to deliver more geographically specific Estimated Restoration Time (ERT) information to electric customers during outages. Without approval in this case to use a 15-year depreciable life for certain software, the Company would be required to depreciate the project over 5 years, which would substantially increase the cost to customers, while not reflecting the fact that Avista will in all likelihood use this new system for well beyond its 15-year requested life (as demonstrated by how long Avista has used its present system).

Q. Does this conclude your pre-filed direct testimony?

A. Yes, it does.