

**Exh. JH-1T  
Dockets UE-200900, UG-200901,  
and UE-200894  
Witness: Joanna Huang**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,**

**Respondent.**

**DOCKETS UE-200900, UG-200901,  
and UE-200894 (*Consolidated*)**

**TESTIMONY OF**

**Joanna Huang**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

***Results of Operations and Revenue Requirement Analysis,  
Restate Debt Interest,  
Pro Forma Labor Non-Executive, Pro Forma Labor Executive,  
Pro Forma Employee Benefits, Pro Forma Insurance Expense,  
Pro Forma IS/IT Expense, Pro Forma Property Tax***

**April 21, 2021**

**TABLE OF CONTENTS**

I. INTRODUCTION ..... 1

II. SCOPE AND SUMMARY OF TESTIMONY .....3

III. RESULTS OF OPERATIONS AND REVENUE REQUIREMENTS.....6

    A. Avista’s Presentation Of Revenue Requirements .....6

    B. Staff’s Presentation Of Revenue Requirements .....8

IV. CONTESTED ADJUSTMENTS.....9

    A. Restate Debt Interest – Electric And Gas, Adjustment 2.14.....9

    B. Pro Forma Labor Non-Executive, Adjustment 3.04 ..... 10

    C. Pro Forma Labor Executive, Adjustment 3.05 ..... 13

    D. Pro Forma Employee Benefits, Adjustment 3.06 ..... 15

    E. Pro Forma Insurance Expense, Adjustment 3.07..... 19

    F. Pro Forma IS/IT Expense, Adjustment 3.08.....24

    G. Pro Forma Property Tax, Adjustment 3.09.....28

## LIST OF EXHIBITS

Exh. JH-2	Electric Revenue Requirement Analysis
Exh. JH-3	Natural Gas Revenue Requirement Analysis
Exh. JH-4	Pro Forma Labor Non-Executive, Adjustment 3.04
Exh. JH-5	Pro Forma Labor Executive, Adjustment 3.05
Exh. JH-6	Pro Forma Employee Benefits, Adjustment 3.06
Exh. JH-7	Pro Forma Insurance Expense, Adjustment 3.07
Exh. JH-8	Pro Forma IS/IT Expense, Adjustment 3.08
Exh. JH-9	Pro Forma Property Tax, Adjustment 3.09

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Joanna Huang. My business address is 621 Woodland Square Loop SE,  
5 Lacey, Washington, 98503. My business mailing address is P.O. Box 47250,  
6 Olympia, Washington, 98504-7250. My business email address is  
7 joanna.huang@utc.wa.gov.

8

9 **Q. By whom are you employed and in what capacity?**

10 A. I am employed by the Washington Utilities and Transportation Commission  
11 (“Commission” or “UTC”) as a Regulatory Analyst in the Energy Section of the  
12 Regulatory Services Division.

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have been employed by the Commission since June 1996.

16

17 **Q. Would you please state your educational and professional background?**

18 A. I received a Master of Accounting degree from Washington State University in 1991  
19 and a Bachelor of Business Administration degree with a major in Accounting from  
20 National Chung-Hsing University, Taiwan, in 1987. Prior to my employment at the  
21 Commission, I was employed by the Washington State Department of Revenue as an  
22 Excise Tax Examiner. I performed desk audits on Business and Occupation tax  
23 returns.

1 I began my employment with the Commission in June 1996. My work  
2 generally includes financial, accounting and other analyses for general rate case  
3 proceedings and other tariff filings by the electric and natural gas utilities regulated  
4 by the Commission. I attended the National Association of Regulatory Utility  
5 Commissioners Annual Utility School in 1996 and 2001. In addition, I have  
6 attended numerous training seminars and conferences regarding utility regulations  
7 and operations.

8  
9 **Q. Have you testified previously before the Commission?**

10 A. Yes. I testified in Avista Corporation d/b/a Avista Utilities (“Avista” or “Company”)  
11 general rate cases in Dockets UE-190334 and UG-190335, Dockets UE-170485 and  
12 UG-170486, Dockets UE-160228 and UG-160229, Dockets UE-140188 and UG-  
13 140189, Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135,  
14 and Dockets UE-991606 and UG-991607; and Puget Sound Energy (PSE) general  
15 rate cases in Dockets UE-090704 and UG-090705, and in Dockets UE-072300 and  
16 UG-072301; a PSE Power Cost Only Rate Case in Docket UE-130617; Pacific  
17 Power general rate cases in Dockets UE-152253, UE-130043 and UE-032065; a  
18 Cascade Natural Gas Company Rate Case in Docket UG-200568; and a Northwest  
19 Natural Gas Company (NW Natural) filing in Docket UG-111233 regarding cost  
20 recovery of the Encana gas reserves through NW Natural’s annual purchased gas  
21 adjustment.

22 I have also participated in Commission Staff’s (Staff’s) investigation in the  
23 following general rate cases and other matters: Docket UE-011595, Dockets UE-

1 050482 and UG-050483, Dockets UE-070804 and UG-070805, Dockets UE-100467  
2 and UG-100468, and Dockets UE-110876 and UG-110877 (all Avista); Docket UG-  
3 152286 and Docket UG-060256 (Cascade Natural Gas Corporation); Docket UG-  
4 080546 and Docket UG-031885 (NW Natural); Dockets UE-070725 and UG-  
5 130137, and Dockets UE-170033 and UG-170034 (PSE).

6  
7 **II. SCOPE AND SUMMARY OF TESTIMONY**

8  
9 **Q. Please explain the scope and purpose of your testimony.**

10 A. The purpose of my testimony is to present Staff's revenue requirement analysis for  
11 the rate year beginning October 1, 2021. Staff conducted an independent, stand-alone  
12 analysis to determine the revenue required for the Company to have the opportunity  
13 to achieve Staff's recommended rate of return. Staff used a modified historical test  
14 year study with known and measurable pro forma adjustments. My testimony  
15 responds to the Company's pro forma studies sponsored by Company witness  
16 Elizabeth Andrews in Exh. EMA-2 and Exh. EMA-3.

17  
18 **Q. In addition to the revenue requirement analysis, did you also analyze any**  
19 **specific adjustments in this proceeding?**

20 A. Yes. I present Staff's recommendations on the following adjustments:

- 21 • Restate Debt Interest, Adjustment 2.14  
22 • Pro Forma Labor Non-Executive, Adjustment 3.04  
23 • Pro Forma Labor Executive, Adjustment 3.05  
24 • Pro Forma Employee Benefits, Adjustment 3.06  
25 • Pro Forma Insurance Expense, Adjustment 3.07

- 1 • Pro Forma IS/IT Expense, Adjustment 3.08
- 2 • Pro Forma Property Tax, Adjustment 3.09
- 3

4 **Q. Please provide a summary of your conclusions and recommendations.**

5 A. I recommend rejecting Avista’s non-executive labor adjustment for a wage increase  
6 in 2021 for union employees. Avista has not provided a signed contract with the  
7 union, and therefore the effect of a potential wage increase cannot be determined, nor  
8 can it be assured of happening.<sup>1</sup> In addition, I recommend the Commission reject  
9 Avista’s pro forma adjustments to expenses associated with executive employees,  
10 because the Company’s proposed adjustment for officer salary increases is  
11 inadequately supported. Further, I recommend also rejecting Avista’s pro forma  
12 adjustments for employee benefits, insurance, and IS/IT expense. Avista consistently  
13 overestimates these levels of expense, and ratepayers have continued to overpay for  
14 these expenses. Because of the pattern of inaccurate projections, I recommend using  
15 test period actual expense levels to calculate the revenue requirement. Finally, I  
16 discuss Avista’s pro forma property tax adjustment and conclude that the Company’s  
17 *revised* adjustment, provided in discovery, is consistent with the Commission’s  
18 “known and measurable” standard for pro forma adjustments.

19  
20 **Q. Have you prepared any exhibits in support of your testimony?**

21 A. Yes. Exh. JH-2 and Exh. JH-3 present Staff’s revenue requirement analysis using a  
22 modified historical test year pro forma study for electric and natural gas operations,

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<sup>1</sup> See WAC 480-07-510(3)(c)(ii) (“Pro forma adjustments give effect for the test period to all known and measurable changes that are not offset by other factors”).

1           respectively. My Exh. JH-2 and Exh. JH-3 are Staff's responses to Andrews' Exh.  
2           EMA-2 and Exh. EMA-3 for Avista's electric and natural gas operations for the rate  
3           year revenue requirement.

4                     I also sponsor Exh. JH-4 through Exh. JH-9. Exh. JH-4 shows Staff's  
5           Adjustment 3.04, pro forma Labor Non-Executive expense. Exh. JH-5 shows Staff's  
6           Adjustment 3.05, pro forma Labor Executive expense, Exhibits JH-6 through JH-9  
7           show Staff's positions on pro forma adjustments to expenses categorized as  
8           Employee Benefits, Insurance Expense, IS/IT Expense, and Property Tax.

9  
10   **Q.   Please identify the other Staff witnesses and any adjustments that they address**  
11   **in their testimonies.**

12   A.   Staff witness David Parcell of Technical Associates, Inc. testifies on the appropriate  
13   cost of capital for Avista.

14                     Staff witness Aimee Higby discusses pro forma 2020 major capital additions,  
15   Adjustment 3.11 through Adjustment 3.15.

16                     Staff witness Amy White addresses pro forma Advanced Metering  
17   Infrastructure (AMI), Adjustments 1.04 and 3.16, and the Wildfire Plan, Adjustment  
18   3.17. While addressing the Wildfire Plan, White also addresses the accounting  
19   petition filed by Avista in Docket UE-200894 and its request for a balancing account  
20   for its ongoing wildfire operations and maintenance.

21                     Staff witness David Gomez addresses costs associated with Colstrip,  
22   including SmartBurn and other capital costs for Colstrip Units 3 and 4, and operation  
23   and maintenance expense. With regard to adjustments relevant to Colstrip costs, he



1 addresses Adjustment 3.19, pro forma Colstrip Capital and Amortization. In  
2 addition, Gomez testifies on non-Colstrip generation capital projects and on Avista's  
3 Energy Recovery Mechanism (ERM) proposal to adjust power supply and the ERM  
4 baseline. Finally, Gomez discusses rate recovery for the costs associated with  
5 Avista's entry into the Western Energy Imbalance Market (EIM), which affects  
6 Adjustment 3.18, pro forma EIM Expenditures.

7 Staff witness Betty Erdahl addresses Avista's tax accounting change from  
8 normalization to the flow-through method for federal income tax (FIT) expense  
9 associated with Industry Director Directive No. 5 mixed service costs (IDD #5) and  
10 meters along with the credit to customers from the associated tax benefits. Erdahl  
11 also proposes a refund of the allowance for funds used during construction (AFUDC)  
12 equity portion deferral approved in Dockets UE-190074 and UG-190075.

13 Staff witness Elaine Jordan testifies on Avista's cost of service, rate spread,  
14 and rate design, and recommends implementation of pricing pilots.

### 16 **III. RESULTS OF OPERATIONS AND REVENUE REQUIREMENTS**

#### 18 **A. Avista's Presentation Of Revenue Requirements**

20 **Q. What revenue requirement does Avista present for its electric operations in**  
21 **Washington?**

22 **A.** Avista proposes an annual revenue increase of \$44.2 million or 8.31 percent to its  
23 electric revenues for the rate year, beginning October 1, 2021.

1 **Q. What revenue requirement does Avista present for its natural gas operations in**  
2 **Washington?**

3 A. Avista proposes an annual revenue increase of \$12.8 million or 12.1 percent to its  
4 natural gas revenues for the rate year, beginning October 1, 2021.

5  
6 **Q. How does the Company present its rate year revenue requirement calculation in**  
7 **this general rate case?**

8 A. First, Avista's revenue requirement calculation starts with an average-of-monthly-  
9 averages (AMA) rate base as shown in Andrews' Exh. EMA-2 and Exh. EMA-3,  
10 page 1, column (b). Second, the Company calculates its own modified historical test  
11 period results of operations including several restating adjustments. Avista also  
12 includes a 2019 end-of-period (EOP) adjustment to rate base in electric Adjustment  
13 2.19 and gas Adjustment 2.15 to arrive at the restated results of operations shown on  
14 page 7 of Andrews' Exh. EMA-2 and Exh. EMA-3 for electric and natural gas  
15 operations, respectively. Third, the Company includes its proposed pro forma  
16 adjustments to arrive at its intended pro forma level results of operations.<sup>2</sup> The  
17 Company's overall revenue requirement calculation is shown in the third column of  
18 page 2 of Andrews' Exh. EMA-2 and Exh. EMA-3.

19

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<sup>2</sup> Andrews, Exh. EMA-2 and EMA-3 at pages 8-10.

1           **B.     Staff's Presentation Of Revenue Requirements**

2

3   **Q.     What are Staff's recommended revenue requirements for Avista's electric and**  
4           **natural gas operations?**

5   A.     Staff's analysis, based on a modified historical test period with limited pro forma  
6           adjustments, results in recommended increases in annual revenues of approximately  
7           \$7.23 million for Avista's electric operations (or an increase of 1.36 percent)<sup>3</sup> and  
8           \$5.62 million for Avista's natural gas operations (or an increase of 5.34 percent).<sup>4</sup>  
9           Staff's revenue requirement calculation is based on Staff witness David Parcell's  
10          recommended 7.07 percent overall rate of return.

11

12 **Q.     Did Avista propose revenues for a second rate year in this general rate case?**

13 A.     No. Avista did not propose revenues for a second rate year in this general rate case.  
14          My revenue requirement model and supporting exhibits recommend a single-year  
15          revenue requirement through the one-year rate period starting in October 2021. My  
16          testimony responds to Andrews only with respect to Exh. EMA-2 and Exh. EMA-3.

17

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<sup>3</sup> Huang, Exh. JH-2 at page 2, line 9.

<sup>4</sup> Huang, Exh. JH-3 at page 2, line 9.

1 **IV. CONTESTED ADJUSTMENTS**

2

3 **A. Restate Debt Interest – Electric And Gas, Adjustment 2.14**

4

5 **Q. Please describe Staff’s proposed Adjustment 2.14, Electric and Gas - Restate**  
6 **Debt Interest.**

7 A. Staff’s proposed adjustment restating debt interest calculates the tax effect on interest  
8 using Parcell’s recommended weighted average cost of debt, 2.56 percent, applied to  
9 Staff’s recommended level of rate base. The difference between the Company’s and  
10 Staff’s adjustments results from differences in the weighted average cost of debt and  
11 the level of rate base used in the calculation.

12 The effect on federal income tax of the restated level of debt interest for the  
13 test period decreases Washington Net Operating Income (NOI) by \$646,000 and  
14 \$154,000 for electric and natural gas operations, respectively. These amounts are  
15 shown in my Exh. JH-2 at page 7 for electric operations, and in Exh. JH-3 at page 7  
16 for natural gas operations.

1           **B.     Pro Forma Labor Non-Executive, Adjustment 3.04**

2

3   **Q.     What is the pro forma adjustment for non-executive labor expense, Adjustment**  
4           **3.04?**

5   A.     This adjustment reflects changes to test period union and non-union employees’  
6           wages and salaries, excluding executive salaries, which are handled separately in the  
7           pro forma adjustment for executive labor expense, Adjustment 3.05.

8

9   **Q.     What portion of Avista’s adjustment to the pro forma level of union and non-**  
10           **union employees’ wages and salaries is at issue?**

11   A.     Staff disagrees with Avista’s proposed three percent wage increase to the pro forma  
12           level of union employee wages and salaries for 2021.

13

14   **Q.     Please explain how Avista adjusts the pro forma level of union employees’**  
15           **wages and salaries for 2019 and 2020.**

16   A.     During the test year, Avista gave its union employees a three percent increase on  
17           March 26, 2019. The 2019 portion of the employee wage adjustment adjusts union  
18           employee wages effective January 1, 2019, which treats the raise as if it had been in  
19           effect for the whole year. In addition to the 2019 wage increase, Avista includes an  
20           additional three percent increase for 2020.

21

22   **Q.     Do you believe that the Company’s pro forma wage increase for union**  
23           **employees for 2019 and 2020 should be included in rates?**

1 A. Yes. The Company's wage increases for union employees for 2019 and 2020 are  
2 known and measurable.<sup>5</sup> These wage increases were made in accordance with the  
3 terms of the Company's union contracts.

4

5 **Q. Did Avista adjust the pro forma level of union employees' wages and salaries**  
6 **for 2021?**

7 A. Yes. In addition to the three percent increases for 2019 and 2020 for union employees,  
8 Avista also adjusts the pro forma level of union employee wages and salaries for 2021.

9

10 **Q. Do you agree with Avista's pro forma adjustment to capture a three percent**  
11 **increase to wages for union employees in 2021?**

12 A. No. Avista has indicated that the Company has been negotiating with the Local  
13 IBEW Union No. 77 concerning a 2021 wage increase, but a contract has not yet  
14 been signed. The current contract with the Local IBEW Union No. 77  
15 (Washington/Idaho) expired on March 25, 2021.<sup>6</sup> The three percent wage increase  
16 for union employees in 2021 does not meet the Commission's known and  
17 measurable standard.<sup>7</sup> At present, whether or not employees will get a wage increase  
18 is uncertain. Unless and until a signed union contract is provided as evidence,  
19 including a three percent wage increase in rates for union employees in 2021 would  
20 be inconsistent with the Commission's ratemaking principles.

21

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<sup>5</sup> WAC 480-07-510(3)(c)(ii).

<sup>6</sup> Andrews, EMA-1T at 57:9-10.

<sup>7</sup> See WAC 480-07-510(3)(c)(ii).

1 **Q. Has Avista updated the contract agreement with the Local IBEW Union No. 77**  
2 **during the process of this general rate case?**

3 A. No.

4  
5 **Q. What do you propose with regard to Avista’s pro forma adjustment to union**  
6 **employee wage expense for 2021?**

7 A. Staff proposes rejecting Avista’s pro forma adjustment and excluding the wage  
8 increase for 2021 that may or may not occur.

9  
10 **Q. Please summarize your proposed adjustment for pro forma non-executive labor**  
11 **expense for both union and non-union employees for 2019, 2020, and 2021.**

12 A. The following table is a comparison of Avista’s and Staff’s positions on pro forma  
13 non-executive labor expense for both union and non-union employees for 2019, 2020  
14 and 2021.

Parties	Categories	2019	2020	2021
Avista	Union	0.714 %	3 %	3 %
	Non-Union	0.519 %	3 %	3 %
Staff	Union	0.714 %	3 %	0 %
	Non-Union	0.519 %	3 %	3 %

15 **Q. What is the overall impact of Staff’s proposed adjustment to pro forma non-**  
16 **executive labor expense, Adjustment 3.04?**

17 A. The overall net impact of Staff’s proposed pro forma non-executive labor expense  
18 adjustment is a decrease to electric and natural gas NOI of \$2,101,000 and \$626,000,

1           respectively. These amounts are shown in my Exh. JH-2 at page 8 for electric  
2           operations and in Exh. JH-3 at page 8 for natural gas operations.

3  
4           **C.     Pro Forma Labor-Executive, Adjustment 3.05**

5  
6           **Q.     What is the adjustment for pro forma executive labor expense, Adjustment**  
7           **3.05?**

8           A.     This adjustment reflects executive salary levels approved by Avista’s Board of  
9           Directors that are in effect as of February 2020. The executive salary levels are  
10          allocated between utility and non-utility activities based on actual levels in 2019 (90  
11          percent utility/10 percent non-utility).

12  
13          **Q.     Do you agree with Avista’s pro forma executive labor adjustment?**

14          A.     No. Avista proposes that ratepayers pay for salary increases of two percent to forty-  
15          three percent for its corporate officers. Upon Staff’s request for documents  
16          supporting these increases, Avista did not provide sufficient documentation to justify  
17          the increases. For example, when asked to provide executives’ job titles, detailed job  
18          descriptions, and responsibilities for both 2019 and 2020, Avista responded that a  
19          formal job description was not available.<sup>8</sup> Further, when asked to provide a  
20          comparison between 2019 and 2020 of executives’ job titles, detailed job  
21          descriptions, and responsibilities, Avista provided job changes only. Without this  
22          information, it is not possible to evaluate any justification for the increases.

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<sup>8</sup> Huang, Exh. JH-5 at pages 4-6 (Avista’s responses to UTC Staff Data Request Nos. 35, 36 and 37).



1 **Q. What is Staff’s proposed adjustment to the pro forma adjustment to executive**  
2 **labor expense, Adjustment 3.05?**

3 A. Staff proposes rejecting Avista’s pro forma adjustment and excluding all of the  
4 officer salary increases. This methodology is consistent with Staff’s recommended  
5 rejection of the Company’s unsupported pro forma adjustment to union employee  
6 wage expense for 2021.

7 Staff is also concerned by Avista’s disregard for the economic circumstances  
8 its customers face due to the Coronavirus Disease 2019 (COVID) pandemic. While  
9 Avista’s customers struggle, the Company wants them to pay for increases of up to  
10 43 percent for executive officers without providing sufficient supporting documents  
11 to validate these increases. Avista has failed to show that these executive salary  
12 increases are reasonable.

13  
14 **Q. What is the overall impact of Staff’s proposed pro forma adjustment to**  
15 **executive labor expense, Adjustment 3.04?**

16 A. The overall net impact of Staff’s proposed pro forma executive labor adjustment  
17 results in an increase to electric and natural gas NOI of \$368,000 and \$112,000,  
18 respectively. These amounts are shown in my Exh. JH-2 and in Exh. JH-3 at page 8  
19 for both electric operations and natural gas operations.

20

1           **D.       Pro Forma Employee Benefits, Adjustment 3.06**

2

3   **Q.       Please explain Avista’s pro forma adjustment for employee benefits,**  
4           **Adjustment 3.06.**

5   A.       Avista adjusts the 2019 retirement plans (401(k) and pension) and medical insurance  
6           for active employees and for those retired (post-retirement medical) to the expected  
7           amount for the rate effective period. Annually, the Company works with independent  
8           consultants to determine the appropriate level of expense for both the retirement  
9           plans (Willis Towers Watson) and the medical plans (Mercer).

10

11 **Q.       What is the amount of the Company’s adjustment?**

12 A.       Avista proposed including an approximately six percent increase to its current level  
13           of employee benefits, which would increase the expense from \$67,378,252 (system  
14           amount) to \$71,393,203. This equals a \$4,014,951 pro forma increase to its test year  
15           level of expense.

16

17 **Q.       Do you dispute Avista’s proposed increase for employee benefits?**

18 A.       Yes. Avista’s proposed increase is not credible. The employee benefits expense  
19           embedded in the test year is already higher than Avista’s prior five-year average  
20           (discussed below).<sup>9</sup> Projecting an increase that is even six percent higher than that  
21           strains credulity, especially because Avista has a history of inaccurately projecting

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<sup>9</sup> The pro forma level of employee benefits was \$53,951,000 in Dockets UE-140188 and UG-140189. See Huang, Exh. JH-6 at page 3, shaded in green.

1 employee benefits expense. Its projections have resulted in overestimations of its  
2 employee benefits expense in every one of its general rate cases since its filing in  
3 Dockets UE-140188 and UG-140189.

4  
5 **Q. Have Avista's pro forma projections been close to its actual employee benefits**  
6 **expense?**

7 A. No. I show Avista's projected versus actual expenses comparison in my Exh. JH-6.  
8 For example, in Avista's 2014 general rate case, Dockets UE-140188 and UG-  
9 140189, Avista proposed a pro forma level of employee benefits of \$53,951,000.<sup>10</sup> In  
10 the next year's rate case, Dockets UE-150204 and Docket UG-150205, Avista  
11 provided the actual expense for employee benefits. The actual expense level was  
12 \$51,194,312,<sup>11</sup> which is approximately \$2.8 million lower than what Avista claimed  
13 for the pro forma level of employee benefits in the prior year's general rate case.

14 In Dockets UE-150204 and UG-150205, Avista's proposed pro forma level  
15 of employee benefits was \$59,921,200,<sup>12</sup> while the actual employee benefits expense  
16 provided in Dockets UE-160228 and Docket UG-160229 was \$57,902,170,<sup>13</sup> again  
17 more than \$2 million lower than what Avista claimed for the pro forma level in the  
18 prior year's general rate case.

19 In Dockets UE-170485 and UG-170486, Avista included an uncontested pro  
20 forma level of employee benefits of \$69,690,986.<sup>14</sup> However, the actual employee

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<sup>10</sup> Huang, Exh. JH-6 at page 3, shaded in green.

<sup>11</sup> Huang, Exh. JH-6 at page 3, shaded in green.

<sup>12</sup> Huang, Exh. JH-6 at page 3, shaded in purple.

<sup>13</sup> Huang, Exh. JH-6 at page 3, shaded in purple.

<sup>14</sup> Huang, Exh. JH-6 at page 3, shaded in peach.

1 benefits expense in 2018 (presented in Dockets UE-190334 and UG-190335) was  
2 \$63,273,059,<sup>15</sup> approximately \$6.5 million lower than what Avista claimed for the  
3 pro forma level of expense in the prior year’s general rate case filing.

4 In Dockets UE-190334 and UG-190335, Avista included a pro forma level of  
5 employee benefits expense of \$73,027,454.<sup>16</sup> However, the actual employee benefits  
6 expense in 2019 (presented in Dockets UE-200900 and UG-200901) was  
7 \$67,378,252,<sup>17</sup> approximately \$5.65 million lower than what Avista claimed for the  
8 pro forma level in the last general rate case filing.

9

10 **Q. What is the takeaway from these pro forma versus actual employee benefits**  
11 **expenses?**

12 A. Avista consistently overestimates the level of employee benefits expense it will incur  
13 in the rate year. Since its 2014 general rate case, Avista has overestimated its  
14 employee benefits by a total of \$16.8 million. Therefore, Avista’s ratepayers have  
15 overpaid \$16.8 million since its 2014 general rate case.

16

17 **Q. What were Avista’s actual employee benefits in the most recent five years?**

18 A. The following table shows Avista’s actual employee benefits from 2015 to 2019.

	2015	2016	2017	2018	2019
Employee Benefits	\$62,819,163	\$70,405,510	\$66,083,302	\$63,273,059	\$67,378,252

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<sup>15</sup> Huang, Exh. JH-6 at page 3, shaded in peach.

<sup>16</sup> Huang, Exh. JH-6 at page 3, shaded in orange.

<sup>17</sup> Huang, Exh. JH-6 at page 3, shaded in orange.

1 **Q. What was the average level of Avista’s employee benefits in the last five years?**

2 A. Avista’s average employee benefits level was \$65,991,857 for the last five years  
3 from 2015 to 2019.<sup>18</sup>

4  
5 **Q. Please summarize your conclusion with respect to Avista’s proposed pro forma  
6 employee benefits adjustment in this proceeding.**

7 A. Avista proposes a six percent pro forma increase to its test year employee benefits  
8 expense of \$67,378,252. This adjustment represents an increase of \$4,014,951 to the  
9 Company’s test year level of expense, which increases the rate year level of  
10 employee benefits to \$71,393,203. Given that Avista has consistently over-estimated  
11 these costs, and that employee benefits expense is never higher than \$70,405,510  
12 over the last five years, Staff is unconvinced that Avista’s pro forma level of expense  
13 is realistic.

14  
15 **Q. What is Staff’s proposed adjustment to Avista’s pro forma employee benefits  
16 expense in this proceeding?**

17 A. Staff removes Avista’s pro forma adjustment to employee benefits expense, and uses  
18 the test year actual expense for the revenue requirement calculation. The test year  
19 actual expense of \$67,378,252 is known and measurable, and is reasonably  
20 consistent with Avista’s actual employee benefits expense for the last five years,  
21 from 2015 to 2019.<sup>19</sup>

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<sup>18</sup> Huang, Exh. JH-6 at page 4.

<sup>19</sup> See Huang, Exh. JH-6 at page 4.

1           **E.     Pro Forma Insurance Expense, Adjustment 3.07**

2

3   **Q.     Please explain the pro forma insurance expense adjustment.**

4   A.     This adjustment increases the 2019 test year level of insurance expense for general  
5           liability, directors and officers (D&O) liability, and property insurance to the level of  
6           insurance expense the Company will experience during the rate year. The system  
7           amount for D&O then is reduced by 10 percent per Dockets UE-090134 and UG-  
8           090135.<sup>20</sup>

9

10 **Q.     What is the amount of the adjustment?**

11 A.     Avista proposes including a whopping 158.66 percent increase to its current level,  
12           which would increase insurance expense from \$4,590,939 to the rate year pro forma  
13           level of \$11,874,745. This equals a \$7,283,806 pro forma increase to its test year  
14           level of expense. My Exhibit JH-7, showing Avista’s projected versus actual  
15           expenses comparison, is the system dollar amount before reducing by 10 percent per  
16           Dockets UE-090134 and UG-090135.

17

18 **Q.     Do you agree with Avista’s pro forma insurance expense adjustment?**

19 A.     No. I dispute the adjustment.

20

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<sup>20</sup> *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 56-57, ¶ 137 (Dec. 22, 2009) (2009 GRC Order).

1 **Q. Why do you dispute the adjustment?**

2 A. As with employee benefits expense, Avista has a history of overestimating its level  
3 of insurance expense.

4

5 **Q. Please explain Avista's history of overestimating its level of insurance expense.**

6 A. I show Avista's projected versus actual expenses comparison in my Exh. JH-7.  
7 Avista's proposed level of pro forma insurance expense was \$5,813,343<sup>21</sup> in Dockets  
8 UE-140188 and UG-140189. This level of expense was not challenged and was  
9 approved by the Commission. The actual insurance expense, which was provided in  
10 Dockets UE-150204 and UG-150205, was \$4,917,693.<sup>22</sup> This actual insurance  
11 expense is approximately \$0.9 million lower than what Avista claimed for the pro  
12 forma level of insurance expense in the prior year's general rate case.

13 In Dockets UE-150204 and UG-150205, Avista's proposed pro forma level  
14 of insurance expense was \$5,575,651.<sup>23</sup> This level of expense was challenged by  
15 both Staff and Public Counsel. The Commission rejected Avista's projected  
16 insurance adjustment, deciding instead to use test year insurance expense and reduce  
17 test year D&O insurance expense by 10 percent, consistent with the Commission's  
18 final order in Avista's 2009 general rate case.<sup>24</sup>

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<sup>21</sup> Huang, Exh. JH-7 at page 3, shaded in green.

<sup>22</sup> Huang, Exh. JH-7 at page 3, shaded in green.

<sup>23</sup> Huang, Exh. JH-7 at page 3, shaded in purple.

<sup>24</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-150204 and UG-150205, Order 05, 82, ¶ 244 (Jan. 6, 2016) (2015 GRC Order), *citing* 2009 GRC Order at 56-57, ¶ 137.

1           The actual insurance expense, which was provided in Dockets UE-160228  
2           and Docket UG-160229, was \$5,095,310.<sup>25</sup> This actual insurance expense is  
3           approximately \$0.5 million lower than what Avista claimed for the pro forma level  
4           of insurance expense in the prior year’s general rate case.

5           Avista did not present a traditional pro forma insurance expense adjustment  
6           in its next rate case, Dockets UE-160228 and UG-160229. In its “Cross Check”  
7           Study in that case, however, which resembled a pro forma study, Avista included  
8           estimated pro forma insurance expense levels of \$5,242,104<sup>26</sup> for 2017 and  
9           \$5,515,707 for 2018. Avista did not make any insurance expense adjustments in its  
10          next general rate case, Dockets UE-170485 and UG-170486. In Dockets UE-190334  
11          and UG-190335, the actual insurance expense that Avista provided was again lower  
12          than its estimate. The actual insurance expense for 2018 in Dockets UE-190334 and  
13          UG-190335 was \$4,590,939. This actual insurance expense for 2018 is more than  
14          \$0.9 million lower than what Avista claimed for the “Cross Check” Study  
15          pro forma level of insurance expense of \$5,515,707 in Dockets UE-160228 and UG-  
16          160229. In addition, this actual insurance expense for 2018 is much lower than what  
17          Avista claimed for the “Cross Check” Study pro forma level of insurance expense of  
18          \$5,242,104<sup>27</sup> for 2017 in Dockets UE-160228 and UG-160229.

19

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<sup>25</sup> Huang, Exh. JH-7 at page 3, shaded in purple.

<sup>26</sup> Huang, Exh. JH-7 at page 3, shaded in yellow.

<sup>27</sup> Huang, Exh. JH-7 at page 3, shaded in yellow.



1 **Q. In the pending case is the actual 2019 test year insurance expense that Avista**  
2 **presents in its results of operations lower than its pro forma estimate in its 2019**  
3 **general rate case?**

4 A. Yes, but Avista's projections from the 2019 general rate case are the closest to  
5 actuals that Avista has had since 2014 (off by only 3.54 percent). It is not clear,  
6 however, that the pattern has ended, as the projections are still higher than the 2019  
7 test year actuals presented in the pending case.<sup>28</sup>

8

9 **Q. Are there any other problems with Avista's projection of insurance expense in**  
10 **this case?**

11 A. Yes. Avista has significantly overestimated its insurance expense while the case is  
12 pending.

13

14 **Q. Can you please explain how Avista has overestimated its insurance expense**  
15 **while this case is pending?**

16 A. Yes. The amount of pro forma insurance expense in Avista's original filing in  
17 Dockets UE-200900 and UG-200901 is \$11,874,745. In response to Staff discovery,  
18 Avista significantly reduced its proposed insurance expense for both electric and  
19 natural gas operations.<sup>29</sup> The original proposed amount was revised down to  
20 \$8,913,134,<sup>30</sup> which means that the Company's original proposed amounts were  
21 overestimations of nearly three million dollars. To place this in context with the

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<sup>28</sup> See Huang, Exh. JH-7, page 3 of 8, shaded in peach.

<sup>29</sup> Huang, Exh. JH-7 at page 8 (Avista's Response to UTC Staff Data Request No. 130).

<sup>30</sup> Huang, Exh. JH-7 at page 5 (Avista's Response to UTC Staff Data Request No. 44).

1 Company's history of inflated projections of insurance expense: The revised  
2 adjustment changes the filed amount from an increase of 158 percent over Avista's  
3 2019 level of insurance expense to an increase of 94 percent over its 2019 level.

4

5 **Q. Do you support inclusion in rates of Avista's revised pro forma estimate of rate**  
6 **year insurance expense?**

7 A. No. The revised estimate of 2021 costs, which is 94 percent above the Company's  
8 costs in 2019, is not reliable. The fundamental issue, however, is that even Avista's  
9 revised pro forma level of insurance expense is still an estimate,<sup>31</sup> which is not a  
10 known and measurable expense.

11

12 **Q. What was Avista's actual insurance expense over the past six years, from 2014**  
13 **to 2019?**

14 A. Avista's actual insurance expense ranged from \$4,588,818 to \$5,105,612. The  
15 following table shows Avista's actual insurance expense from 2014 to 2019.

	2014	2015	2016	2017	2018	2019
Insurance Expense	\$4,998,778	\$5,105,612	\$4,970,574	\$4,713,719	\$4,588,818	\$4,590,939

16 **Q. What do you conclude from your comparison of the estimated pro forma**  
17 **insurance expense levels over the six-year period from 2014 to 2019?**

---

<sup>31</sup> See Huang, Exh. JH-7 at page 8.

1 A. Avista’s actual insurance expense **did not** vary much from 2014 to 2019. Avista has  
2 consistently overestimated its insurance expense since its general rate case filing in  
3 Dockets UE-140188 and UG-140189.

4  
5 **Q. What is your proposed adjustment to Avista’s insurance expense in the current**  
6 **proceeding?**

7 A. Staff proposes rejecting Avista’s pro forma insurance expense adjustment and  
8 leaving insurance expense at the actual test year level. The test period actual expense  
9 of \$4,590,939 is known and measurable. Based on Avista’s insurance expense for the  
10 last six years from 2014 to 2019,<sup>32</sup> the test year expense level is more representative  
11 of the rate year insurance expense than Avista’s pro forma estimate. Staff’s  
12 recommendation is consistent with the Commission’s decision in Avista’s 2015  
13 general rate case.<sup>33</sup>

14  
15 **F. Pro Forma IS/IT Expense, Adjustment 3.08**

16  
17 **Q. Please explain the pro forma IS/IT expense adjustment.**

18 A. This adjustment purports to update the 2019 test year level of information services  
19 and technology expense to levels expected during the rate period beginning October  
20 1, 2021.

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<sup>32</sup> See Huang, Exh. JH-6 at page 4.

<sup>33</sup> 2015 GRC Order at 81-82, ¶ 244 (“Avista’s proposed adjustment to insurance expense incorporates projected increases that are not known and measurable and not supported in the record [and] [t]hus we reject the adjustment”).

1 **Q. What is the proposed amount of the adjustment?**

2 A. Avista proposes including a nearly 30 percent increase to its current IS/IT expense of  
3 \$12,962,722 to the rate year pro forma level of \$16,838,554. This equals a  
4 \$3,875,832 pro forma increase to its test year level of expense.

5  
6 **Q. Do you agree with Avista's adjustment on Pro Forma IS/IT expense?**

7 A. No. Like employee benefits and insurance expense, Avista's proposed IS/IT expense  
8 is an unsubstantiated projection and does not meet the known and measurable  
9 standard, as set forth in the Commission's rule on pro forma adjustments.<sup>34</sup>

10

11 **Q. Can you please explain why Avista's proposed IS/IT expense is**  
12 **unsubstantiated?**

13 A. Yes. I compare Avista's projected versus actual expenses in my Exh. JH-8. Avista's  
14 proposed level of pro forma IS/IT expense was \$1,693,445 for 2014 and  
15 \$2,173,626<sup>35</sup> for 2015 in Dockets UE-140188 and UG-140189. This level of expense  
16 was not challenged and was approved by the Commission. The actual IS/IT expense  
17 was provided in Dockets UE-150204 and UG-150205 and was only \$832,346 for  
18 2014.<sup>36</sup> This actual IS/IT expense is more than \$1.3 million lower than the pro forma  
19 level of IS/IT expense of \$2,173,626 that Avista estimated in the prior year's general  
20 rate case.

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<sup>34</sup> WAC 480-07-510(3)(c)(ii).

<sup>35</sup> Huang, Exh. JH-8 at page 3, shaded in green.

<sup>36</sup> Huang, Exh. JH-8 at page 3, shaded in green, non-labor only.

1 Avista proposed an IS/IT expense adjustment in its Cross Check Study in  
2 Dockets UE-160228 and Docket UG-160229. In its Cross Check Study, Avista  
3 proposed an outrageous pro forma IS/IT expense of \$23,226,485<sup>37</sup> for 2017 and  
4 \$23,935,095<sup>38</sup> for 2018. The actual IS/IT expense of \$18,558,146<sup>39</sup> that Avista  
5 provided in its 2017 general rate case, Dockets UE-170485 and UG-170486, was  
6 again much lower than the Company's estimate in its Cross Check Study in the 2016  
7 general rate case. Avista again overestimated its IS/IT expense in its Cross Check  
8 Study in the 2016 general rate case.

9  
10 **Q. Did Avista propose any IS/IT expense adjustment in Dockets UE-170485 and**  
11 **Docket UG-170486?**

12 A. Yes.

13  
14 **Q. Please continue.**

15 A. In Dockets UE-170485 and UG-170486, Avista's proposed pro forma level of IS/IT  
16 expense was \$19,897,122<sup>40</sup> for the 2017 level of pro forma IS/IT expense. In  
17 Dockets UE-170485 and UG-170486, Avista included the non-labor and labor  
18 portions of IS/IT expenses. This is significant because in its next general rate case  
19 Avista included only non-labor portions of the expense. My Exh. JH-8, at page 3,  
20 contains both the combined amounts and the separate amounts of the non-labor and

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<sup>37</sup> Huang, Exh. JH-8 at page 3, shaded in red, non-labor only.

<sup>38</sup> Huang, Exh. JH-8 at page 3, shaded in red, non-labor only.

<sup>39</sup> Huang, Exh. JH-8 at page 3, shaded in red, non-labor only.

<sup>40</sup> Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.

1 labor portions of IS/IT expenses. The level of pro forma IS/IT expense was not  
2 challenged in Dockets UE-170485 and UG-170486 and was approved by the  
3 Commission.

4 In Avista’s 2017 general rate case, the Company proposed a rate plan.  
5 Associated with the rate plan, Avista presented a “rate year study” for 2018 IS/IT  
6 expense. The estimated level of 2018 IS/IT expense in the rate year study was  
7 \$20,503,092.<sup>41</sup> The rate plan, and thus the rate year study, in Dockets UE-170485  
8 and UG-170486, was not accepted by the Commission.

9 In Avista’s next general rate case, Dockets UE-190334 and Docket UG-  
10 190335, Avista used a level of IS/IT expense that included only non-labor portions  
11 of the expense. The actual level of 2018 IS/IT expense was \$11,440,101.<sup>42</sup> This  
12 actual IS/IT expense is approximately one half of the amount that Avista estimated  
13 as its pro forma level of IS/IT Expense in the prior years’ general rate case filings in  
14 2016 and 2017. (For comparison purposes, I have used only the non-labor portion of  
15 IS/IT expenses here.)  
16

17 **Q. What was Avista’s proposed pro forma IS/IT expense in Dockets UE-190334**  
18 **and Docket UG-190335?**

19 A. Avista’s proposed pro forma IS/IT expense in Dockets UE-190334 and Docket UG-  
20 190335 was \$15,364,946.<sup>43</sup>

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<sup>41</sup> Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.

<sup>42</sup> Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.

<sup>43</sup> Huang, Exh. JH-8 at page 3, shaded in light-pink color, non-labor only.

1 **Q. What is Avista’s actual IS/IT expense in Dockets UE-200900 and Docket UG-**  
2 **200901?**

3 A. Avista’s actual IS/IT expense in the current proceeding is \$12,962,722 for 2019. This  
4 is an overestimation of the pro forma amount in its 2019 general rate case by more  
5 than \$2.4 million.

6  
7 **Q. What was the trend that developed over the five-year period from 2015 to 2019?**

8 A. Avista seems to habitually overestimate IS/IT expense. My analysis demonstrates  
9 just how aggressive and far-fetched these estimates are. When Avista overestimates  
10 IS/IT expense, ratepayers then overpay for something that was never implemented.

11  
12 **Q. What is your proposed adjustment to Avista’s IS/IT expense in this proceeding?**

13 A. Staff proposes using the test year actual expense and rejecting the pro forma  
14 adjustment. The test year actual expense better represents the level of expense in the  
15 rate year.

16  
17 **G. Pro Forma Property Tax, Adjustment 3.09**

18  
19 **Q. Please explain the pro forma adjustment to property tax, Adjustment 3.09.**

20 A. This adjustment is to bring the 2019 level of property tax expense included in  
21 adjustment 2.02, Restate 2019 Property Tax, to the level of pro forma property tax  
22 expense the Company will experience during the rate year.

1 **Q. Do you agree with Avista’s pro forma property tax expense adjustment in**  
2 **Dockets UE-200900 and UG-200901?**

3 A. No. I disagree with the Company’s original proposed pro forma property tax  
4 adjustment.

5  
6 **Q. Why do you disagree with Avista’s pro forma property tax expense adjustment**  
7 **Dockets UE-200900 and UG-200901?**

8 A. Avista has overestimated its pro forma property tax expense in its filed case and then  
9 drastically reduced that estimate in discovery.<sup>44</sup> Avista made this type of reduction in  
10 its last general rate case, Dockets UE-190034 and UG-190035,<sup>45</sup> as well as in this  
11 one. Avista’s consistent overestimates in both its 2019 and 2020 general rate cases  
12 show that the Company’s proposed original pro forma property tax expense is not  
13 reliable.

14  
15 **1. Dockets UE-190034/UG-190035**

16  
17 **Q. Did Avista revise its pro forma property tax expense increase after filing its**  
18 **general rate case in Dockets UE-190034 and UG-190035 on April 30, 2019?**

19 A. Yes. In a response to Staff discovery, Avista *significantly* reduced its proposed  
20 expense for both electric and natural gas operations.<sup>46</sup>

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<sup>44</sup> See Huang, Exh. JH-9 at page 3 (Avista’s response to UTC Staff Data Request No. 49).

<sup>45</sup> Huang, Exh. JH-9 at page 4 (Avista’s response to UTC Staff Data Request No. 88 in Dockets UE-190334 and UG-190335).

<sup>46</sup> Huang, Exh. JH-9 at page 4 (Avista’s response to UTC Staff Data Request No. 88 in Dockets UE-190334 and UG-190335).



1 **Q. By how much did Avista propose to revise its pro forma property tax increase**  
 2 **in Dockets UE-190034 and UG-190035?**

3 A. Avista proposed to reduce its original proposed amount by *more than two-thirds* for  
 4 both electric and natural gas operations. This means that the Company’s original  
 5 proposed amounts were more than three times higher than the revised amounts for  
 6 both electric and natural gas operations<sup>47</sup> in Dockets UE-190034 and UG-190035.  
 7 Even Avista seems to have recognized that it had overestimated pro forma property  
 8 tax significantly.

9  
 10 **Q. Please continue.**

11 A. The following table shows the original proposed pro forma property tax expense  
 12 contrasted with the revised amounts for both electric and natural gas operations in  
 13 Dockets UE-190034 and UG-190035.

<b>UE-190334/UG-190335</b>			
<b>Property Tax Adjustment 3.09-Electric</b>			
	Original Adj.	Revised Adj.	Overestimate or Change to Filed Adj.
Production/Transmission	2,163,207	1,063,812	(1,099,396)
Distribution	1,395,066	(11,094)	(1,406,160)
<b>Total</b>	<b>3,558,274</b>	<b>1,052,718</b>	<b>(2,505,556)</b>
<b>Property Tax Adjustment 3.09-Natural Gas</b>			
	Original Adj.	Revised Adj.	Overestimate or Change to Filed Adj.
Underground Storage	28,751.83	6,249	(22,503)
Distribution	447,141.85	97,185	(349,956)
<b>Total</b>	<b>475,894</b>	<b>103,435</b>	<b>(372,459)</b>

<sup>47</sup> Huang, Exh. JH-9 at page 4 (Avista response to UTC Staff Data Request No. 88 in Dockets UE-190334 and UG-190335).

1                                   **2.     Dockets UE-200900/UG-200901**

2

3     **Q.     What is the amount of the pro forma property tax adjustment that Avista**  
4           **originally proposed in this proceeding?**

5     A.     Avista originally proposed a pro forma property tax expense in the amount of  
6           37,951,822 (system).<sup>48</sup> The increase is 8.27 percent more than the Company’s  
7           current property tax expense.

8

9     **Q.     Did Avista revise its pro forma property tax expense increase after Avista**  
10           **originally proposed it in the general rate case filing on October 30, 2020, in**  
11           **Dockets UE-200900/UG-200901?**

12     A.     Yes. In a response to Staff discovery, Avista *significantly* reduced its proposed  
13           expense for both electric and natural gas operations,<sup>49</sup> just as it did in Dockets UE-  
14           190034 and UG-190035.

15

16     **Q.     By how much did Avista propose to revise its pro forma property tax expense**  
17           **increase in this general rate case in Dockets UE-200900/UG-200901?**

18     A.     Avista proposed to reduce its original proposed amount by nearly half of its original  
19           proposed adjustments for both electric and natural gas operations.<sup>50</sup> This means that  
20           the Company’s original proposed amounts were overestimated by nearly 50 percent

---

<sup>48</sup> This amount reflects an increase of \$2,899,851 to the Company’s test year level of property tax expense, which totals \$35,051,971 after Avista restated the 2019 accrued amount to actual property tax expense in Adjustment 2.02.

<sup>49</sup> Huang, Exh. JH-9 at page 3.

<sup>50</sup> Huang, Exh. JH-9 at page 3.

1 over the revised amounts for both electric and natural gas operations.<sup>51</sup> Again, even  
 2 Avista seems to have recognized that it overestimated pro forma property tax  
 3 significantly.

4

5 **Q. Please continue.**

6 A. The following table shows the original proposed pro forma property tax expense  
 7 adjustment contrasted with the revised amounts for both electric and natural gas  
 8 operations in this proceeding.<sup>52</sup>

<b>UE-200900/UG-200901</b>			
<b>Property Tax Adjustment 3.09-Electric</b>			
	Original Adj.	Revised Adj.	Overestimate or Change to Filed Adj.
Production/Transmission	1,155,667	561,879	(593,788)
Distribution	552,452	433,334	(119,118)
<b>Total</b>	<b>1,708,119</b>	<b>995,213</b>	<b>(712,906)</b>
<b>Property Tax Adjustment 3.09-Natural Gas</b>			
	Original Adj.	Revised Adj.	Overestimate or Change to Filed Adj.
Underground Storage	34,896	19,345	(15,551)
Distribution	428,128	237,344	(190,784)
<b>Total</b>	<b>463,024</b>	<b>256,689</b>	<b>(206,335)</b>

<sup>51</sup> Huang, Exh. JH-9 at page 3.

<sup>52</sup> Huang, Exh. JH-9 at page 3.

1 **Q. What is your conclusion with respect to Avista’s pro forma property tax**  
2 **expense adjustments?**

3 A. Avista has overestimated property tax expenses in its last two general rate case  
4 filings, Dockets UE-190034/UG-190035 and UE-200900/UG-200901. This indicates  
5 a pattern of overestimation that resembles its practice of overestimating other pro  
6 forma expenses.

7  
8 **Q. What is your proposed adjustment to Avista’s property tax?**

9 A. Staff proposes to adopt Avista’s revised level of proposed property tax expense. The  
10 overall net impact of this adjustment to Avista’s filed case is a decrease to electric and  
11 natural gas NOI of \$786,000 and \$203,000, respectively. These amounts are shown in  
12 my Exh. JH-2 and Exh. JH-3 at page 9 for both electric and natural gas operations.

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

15 A. Yes.