Exhibit No. __(SLM-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-14_______

DOCKET NO. UG-14_______

DIRECT TESTIMONY OF

SCOTT L. MORRIS

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Scott L. Morris and I am employed as the Chairman of the Board, President and Chief Executive Officer of Avista Corporation (Company or Avista), at 1411 East Mission Avenue, Spokane, Washington.

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

A. Yes. I am a graduate of Gonzaga University with a Bachelors degree and a Masters degree in organizational leadership. I have also attended the Kidder Peabody School of Financial Management.

I joined the Company in 1981 and have served in a number of roles including customer service manager. In 1991, I was appointed general manager for Avista Utilities' Oregon and California natural gas utility business. I was appointed President and General Manager of Avista Utilities, an operating division of Avista Corporation, in August 2000. In February 2003, I was appointed Senior Vice-President of Avista Corporation, and in May 2006, I was appointed as President and Chief Operating Officer. Effective January 1, 2008, I assumed the position of Chairman of the Board, President, and Chief Executive Officer.

I am a member of the Western Energy Institute board of directors, a member of the Gonzaga University board of trustees, a member of Edison Electric Institute board of directors, a member of the American Gas Association, and board director of the Washington Roundtable. On January 1, 2011, I was appointed to the Federal Reserve Bank of San Francisco, Seattle Branch board of directors and in January 2012 I was appointed as Chairman of the Board to

Innovate Washington by Governor Christine Gregoire. I also serve on the board of trustees of Greater Spokane Incorporated.

Q. What is the scope of your testimony in this proceeding?

A. In addition to providing a brief overview of Avista, I will summarize the Company's rate request in this filing, and provide some background on why utility costs are continuing to increase. A large part of our need for a rate increase is driven by the costs associated with continuing to expand and replace the facilities we use every day to serve our customers. When we remove the old equipment and replace it with new, it results in higher overall costs to serve customers.

My testimony will provide an overview of some of the measures we have taken to cut costs, as well as initiatives to increase operating efficiencies in an effort to mitigate a portion of the cost increases. I will briefly explain the Company's customer support programs in place to assist our customers, as well as our communications initiatives to help customers better understand the changes in costs that are causing our rates to increase.

Finally, I will introduce each of the other witnesses providing testimony on the Company's behalf.

A table of contents for my testimony is as follows:

Q. Are you sponsoring exhibits in this proceeding?

A. Yes. I am sponsoring two exhibits. Exhibit No. _____ (SLM-2) includes an overview of Avista and its utility and subsidiary operations, as well as a diagram of Avista's corporate structure. Exhibit No. _____ (SLM-3) includes a map showing Avista's electric and natural gas service areas.

Q. Would you please summarize Avista Utilities' request in this filing?

A. Yes. Avista is proposing an increase in electric base revenues over 2014 base revenues of 3.8%. Avista is requesting an overall net electric billed increase of 5.5%. This proposed 5.5% billed revenue increase effective January 1, 2015 is composed of the proposed base rate increase of 3.8%, the expiration of two rebates customers are receiving in 2014 resulting in a 2.8% billed revenue increase, and a 1.1% billed revenue decrease resulting from the Company's proposed Renewable Energy Credit (REC) Revenue Mechansim rebate.

Avista is proposing an increase in natural gas base revenues over 2014 base revenues of 8.1%. The proposed natural gas billed rate increase is 7.8%. The Company's request is based on a proposed rate of return of 7.71% with a common equity ratio of 49.0% and a 10.1% return on equity.

II. CHANGES IN COSTS TO SERVE CUSTOMERS

Q. Please explain why the overall cost to serve customers is increasing, resulting in a need to increase retail rates.

A. The increase in overall costs to serve customers is driven primarily by two major factors: 1) the continuing need to replace and upgrade the facilities and technology we use every day to serve our customers, and 2) low revenue growth.

With regard to revenue growth, although there has been improvement in the economy in recent years, we have experienced low revenue growth, and we expect this to continue even with the expectation that the economy will continue to improve. This low revenue growth is due, at least in part, to continuing advancements in the efficiency of end-use equipment, appliances and other devices, which puts downward pressure on energy usage by customers. In addition, Avista continues to run its successful energy efficiency programs, which help existing and new customers, use less energy in their homes and businesses. Avista's energy efficiency programs include not only our direct incentive programs that help fund energy efficiency measures for customers, and engineering assistance to help design and implement energy efficient measures, but also extensive education and information to encourage customers to take steps to use energy more efficiently.

In the long-term, this investment in energy efficiency is absolutely the right thing to do and will allow us to avoid building or acquiring new, higher-cost generating resources in the future. However, it also contributes to lower revenue growth to cover the investments necessary to maintain a safe, reliable utility system to serve our customers.

Q. Avista's retail rates include a depreciation component related to the facilities it has in place to serve customers. Is the amount of depreciation included in retail rates sufficient to cover the costs to replace Avista's facilities as the old facilities wear out?

A. No. Avista's retail rates are <u>cost-based</u>, which means the prices customers are paying today for 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 cost 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 replacement of facilities.

As an example, Company witness Mr. DeFelice, in his testimony, provides information demonstrating that the cost today of distribution poles is over ten times more expensive than they were fifty years ago.

In the next five years, our relatively small Company will need to spend approximately $1.7 billion of capital on utility generation, transmission and distribution facilities and other requirements. This $1.7 billion represents over 70% of the current rate base of approximately $2.4 billion dedicated to serving customers today. Utility equipment and facilities are big and expensive, and the required investment in new facilities is the primary reason we need an increase in retail rates.

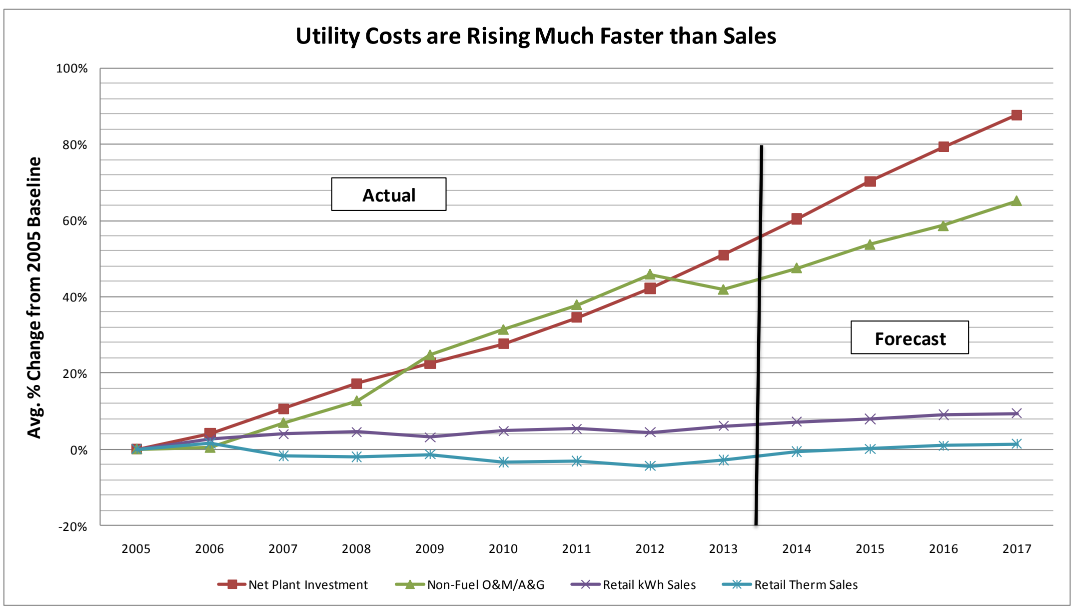
Q. How does Avista's growth in net plant investment compare with the growth in revenue, both for the recent historical period as well as expectations for future years?

A. The graph below shows actual information for the period 2005 to 2013, and forecasted information for 2014 to 2017. The red line on the graph shows the actual growth in net utility plant investment (electric and natural gas combined) through 2013, and the expected growth for 2014 through 2017.

The purple and blue lines on the graph show the changes in retail kilowatt-hour (kWh) sales and retail therm sales, respectively, for the same time period. The graph clearly shows that net plant investment is growing at a much faster pace than sales.

The graph also shows this mismatch is forecasted to continue to the future. Therefore, retail rates must be increased to cover this increase in net plant investment, since revenue growth is not sufficient to cover it. The green line on the graph also shows that non-fuel operations and maintenance (O&M) expenses and administrative and general (A&G) expenses are growing at a faster pace than sales.

<u>Illustration No. 1:</u>



Q. The trend in non-fuel O&M and A&G costs changed significantly in 2013 as compared to prior years. What caused that change?

A. During the 2005 to 2012 period the Company experienced increasing labor and employee benefit costs, such as medical costs and retirement plan costs, but also experienced significant increases in costs related to mandatory requirements related to, among others things, reliability, environmental compliance, safety, and security. These mandates, together with litigation and other claims related to the ownership and operation of hydroelectric resources, added significant costs to run the utility.

With regard to the reduction in the growth of O&M/A&G beginning in 2013, in the fourth quarter of 2012, Avista developed and implemented a Volunteer Severance Incentive Plan (VSIP) to reduce employee complement at the Company. This Plan was a direct response to the continuing increase in non-fuel O&M/A&G year over year, and a decision by senior management of the Company to take steps to reduce the growth in these expenses. In addition, in 2013, senior management made changes to Avista's pension and post-retirement medical plans, effective January 1, 2014, which has reduced future O&M/A&G costs.

Q. Did implementation of the VSIP plan meet the Company's expectations related to reducing the rate of growth in O&M costs?

A. Yes. As a brief recap of this Plan, in October 2012, the Company's Board of Directors approved the VSIP that proposed to reduce the total utility workforce in order to achieve necessary long-term, sustainable, Company-wide savings. The VSIP was designed as a "Double Yes" program. Eligible employees (regular full and part-time employees of Avista Utilities who were not covered by a collective bargaining agreement) had an opportunity to voluntarily leave the Company, (which constituted the 1st Yes). Employees who elected to participate in the program (total of 110), however, would still require approval by the Company's management. After weighing short and long term business needs, critical skill sets, and the ability to accommodate departure requests, the Company determined that 55 of the 110 employee requests would be approved (constituting the 2nd Yes of the "Double Yes" approach).

Each participant in the program was entitled to receive severance pay based on the participant's years of service and base pay as of December 31, 2012, not to exceed 78 weeks of a participant's base pay. Severance pay was distributed in a single lump sum cash payment to each participant in January 2013.

Through this program, effective January 1, 2013, Avista reduced its number of employees by 55, or approximately 6 percent, of the eligible 919 non-union employees. The cost of the program of $7.3 million was expensed in December 2012, and the annual benefits on a going-forward basis are approximately $5 million per year. Avista has a process in place to regularly review the total number of employees in order to preserve, to the extent possible, this reduction in O&M/A&G costs from a reduction in complement.

Q. Please explain the changes Avista has made to its pension and post-retirement medical plans effective January 1, 2014.

A. In 2013, we made changes to the retirement income (pension) and post-retirement medical plans offered to non-union employees, effective January 1, 2014. Changes to plans offered to the bargaining unit employees will be subject to future negotiations.

For non-union employees, with regard to retirement income, Avista will no longer offer a pension plan for new hires beginning January 1, 2014. Avista will make a contribution to a

401(K) fund established for the employee, but will no longer offer a defined benefit pension plan that provides an annual annuity upon retirement.

For post-retirement medical, again for non-union employees only, beginning January 1, 2014, Avista will no longer provide funding for post-retirement medical for new hires. Following retirement, new hires would be permitted to participate in Avista's retiree medical plan, but would be required to pay the full premium associated with the plan. In addition, for both existing employees and new hires, when the retiree reaches age 65, Avista will no longer provide an Avista-sponsored medical plan. At age 65, retirees may choose from a variety of plans offered by the healthcare exchange company Extend Health. For existing retirees, Avista will continue to provide a monthly contribution to the employee for healthcare, but will no longer offer a Company-sponsored healthcare plan for retirees age 65 and older. Through these changes, Avista is transitioning out of funding medical coverage for retirees.

Company witness Ms. Feltes provides further details related to these changes to our retirement income and post-retirement medical plans. These changes result in a reduction to Avista's future funding obligation related to pensions and post-retirement medical costs, as well as a reduction in the annual expense associated with these plans.

Q. Turning back to the Company's investment in facilities, does the Company critically evaluate the need for new plant investment to ensure that the investments are necessary?

A. Yes. As Mr. DeFelice explains in his testimony, Avista has a Capital Planning Group that meets on a regular basis to review and prioritize all proposed utility capital investment projects. In recent years Avista has chosen to not fund all of the capital investment projects proposed by the various departments in the Company, driven primarily by the Company's desire to mitigate the retail rate impacts to customers. The decision to delay funding certain projects was made only in cases where the Company believed the amount of risk associated with the delay was reasonable and prudent.

However, as Company witness Mr. Thies explains in his testimony, we recently decided to increase capital spending. This decision was based on a number of considerations. As noted above, Avista has not funded some of the proposed capital projects, and there is a need for capital investment over and above the level the Company has been approving in recent years. Those projects proposed in the past, but not funded, did not go away; they were simply delayed and still need to be done. Even with the increased capital spending, we are not funding every proposed project.

Fortunately, interest rates remain near all-time lows and funding them now will result in a lower long-term cost to customers, versus waiting until interest rates and inflation rise. In addition, Avista currently does not have a need for new capacity and energy resources, or new renewable resources, which would otherwise put upward pressure on retail rates. Furthermore, electric and natural gas commodity costs continue to be relatively stable as compared to past years, and are expected to remain relatively stable for the near future.

Q. Do you have any concluding remarks related to the measures recently taken by Avista to control O&M/A&G costs and capital investment to mitigate the rate impact to customers?

A. Yes. Avista has a legal obligation to provide safe and reliable service to every customer that requests electric or natural gas service from the Company. When a new customer requests service, we must hook them up, even if the cost to serve that customer results in increased costs to all other customers. Likewise, if the facilities serving an existing customer are deteriorating and need repair, we must repair or replace them so that the customer continues to receive safe, reliable service.

We have received comments in the past that Avista should cut its costs, and "tighten its belt" like other businesses; and we have taken steps to do so. But at the same time we are not like other businesses, and there are limitations on how many cuts can be prudently made. Without the obligation to serve, we could consider refusing to hook up new customers, because it could avoid an increase in costs to our existing customers. Without an obligation to serve, we could consider no longer serving some of the more remote, more costly areas to provide service, which would allow us to avoid further investment, and reduce labor and other operating costs. Unregulated businesses have the opportunity to shut down aging facilities or under-producing retail outlets, eliminate product lines, and cut back on investment and maintenance. We do not.

As an example, on January 15, 2014 J C Penney announced plans to close 33 underperforming retail stores. In their news release they explained that:

> "[T]he Company will be closing 33 underperforming stores across the country in order to focus its resources on the Company's highest potential growth opportunities. These actions are expected to result in an annual cost savings of approximately $65 million, beginning in 2014."

In contrast, Avista has an obligation to continue to serve all existing customers with safe, reliable service, as well as hook up new customers that request service.

We do have opportunities to cut back on investment and operating costs, and we have where prudent to do so. But those opportunities are limited by our obligation to safely and reliably serve all customers, and our obligation to comply with numerous mandatory state and federal requirements. We simply don't have the choice to say no to new customers, no to maintaining a safe, reliable system, and no to mandatory requirements. Although we have taken measures to ensure that the costs we incur represent the most cost-effective and reliable way to continue to serve our customers, we continue to experience increases in costs to serve our customers.

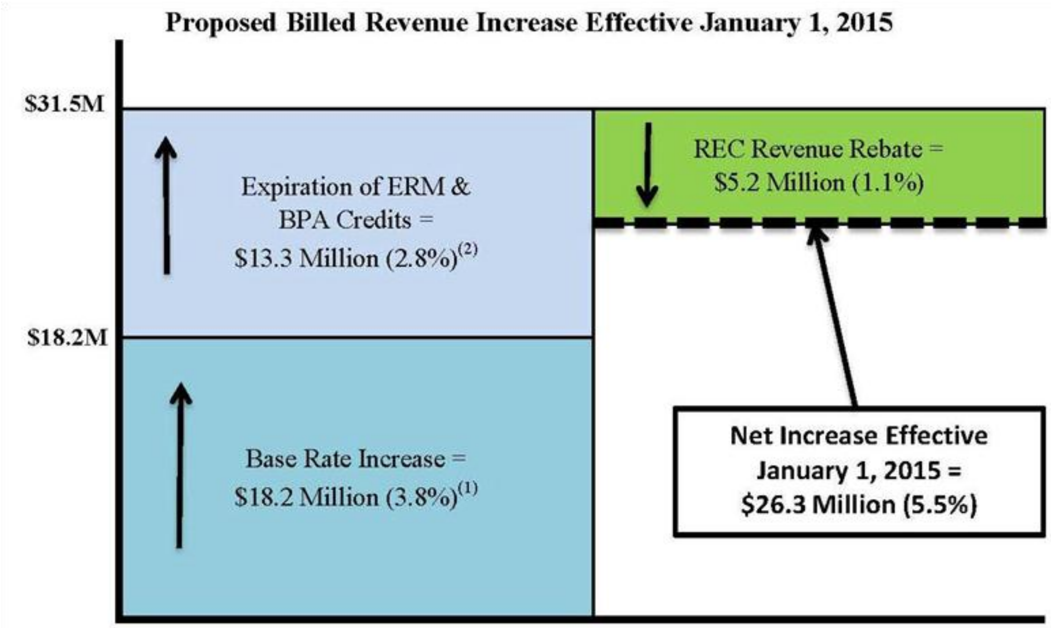
III. SUMMARY OF RATE REQUESTS

Q. Please provide an overview of Avista's electric rate request in this filing.

A. Avista is proposing an overall increase in electric base revenues over 2014 base revenues of $18.2 million or 3.8%, among the Company's electric general service schedules. The Company's request is based on a proposed rate of return of 7.71% with a common equity ratio of 49.0% and a 10.1% return on equity. Avista is requesting an overall net electric billed increase of 5.5%. This proposed 5.5% billed revenue increase effective January 1, 2015 is composed of the proposed base rate increase of 3.8%, the expiration of two rebates customers are receiving in 2014 resulting in a 2.8% billed revenue increase[1], and a 1.1% billed revenue decrease resulting from the Company's proposed REC Revenue Mechanism rebate.

[1] Reflects expiration of $9.0 Million rebate from ERM balancing account per Docket No. UE-120436, and expiration of $4.3 Million rebate of 2013/2014 BPA Settlement revenues from Docket No. UE-130536.

Illustration No. 2



(1) Increase in Base Rate Revenue over 2014 levels.
(2) Reflects expiration of $9.0 Million rebate from ERM balancing account per Docket No. UE-120436, and expiration of $4.3 Million rebate of 2013/14 BPA Settlement revenues from Docket No. UE-130536.

Details of the changes in costs related to the proposed revenue increase are provided by later witnesses. Company witness Mr. Ehrbar will provide details related to the proposed rate spread for the increase to each electric customer class, as shown in the illustration below:

Illustration No. 3:

Rate Schedule	**Increase in Billing Rates**	**Increase in Billed Revenues Net of New & Expiring Credits**
Residential Schedule 1	3.8%	5.6%
General Service Schedule 11	3.7%	5.4%
Large General Service Schedule 21	3.7%	5.4%
Extra Large General Service Schedule 25	3.8%	5.2%
Pumping Service Schedule 31	3.8%	5.3%
Street & Area Lights Schedules	3.6%	5.4%
Overall	**3.8%**	**5.5%**

Q. What is Avista's __natural gas__ rate request in this filing?

A. With regard to natural gas, the Company is requesting an overall increase of $12.1 million or 7.8% in billed rates. As with the electric increase, the Company's request is based on a proposed rate of return of 7.71% with a common equity ratio of 49.0% and a 10.1% return on equity. The proposed rate spread for each natural gas customer class is shown in the illustration below:

__**Illustration No. 4:**__

Rate Schedule	**Proposed Billed Revenue Increase**
General Service Schedule 101	8.3%
Large General Service Schedule 111	6.1%
Extra Large General Service Schedule 121	4.9%
Interruptible Sales Service Schedule 131	3.7%
Transportation Service Schedule 146 (excluding natural gas costs)	17.0%[2]
Overall Increase	**7.8%**

Q. Is the Company proposing any changes to the cost of natural gas for its retail natural gas customers in this case?

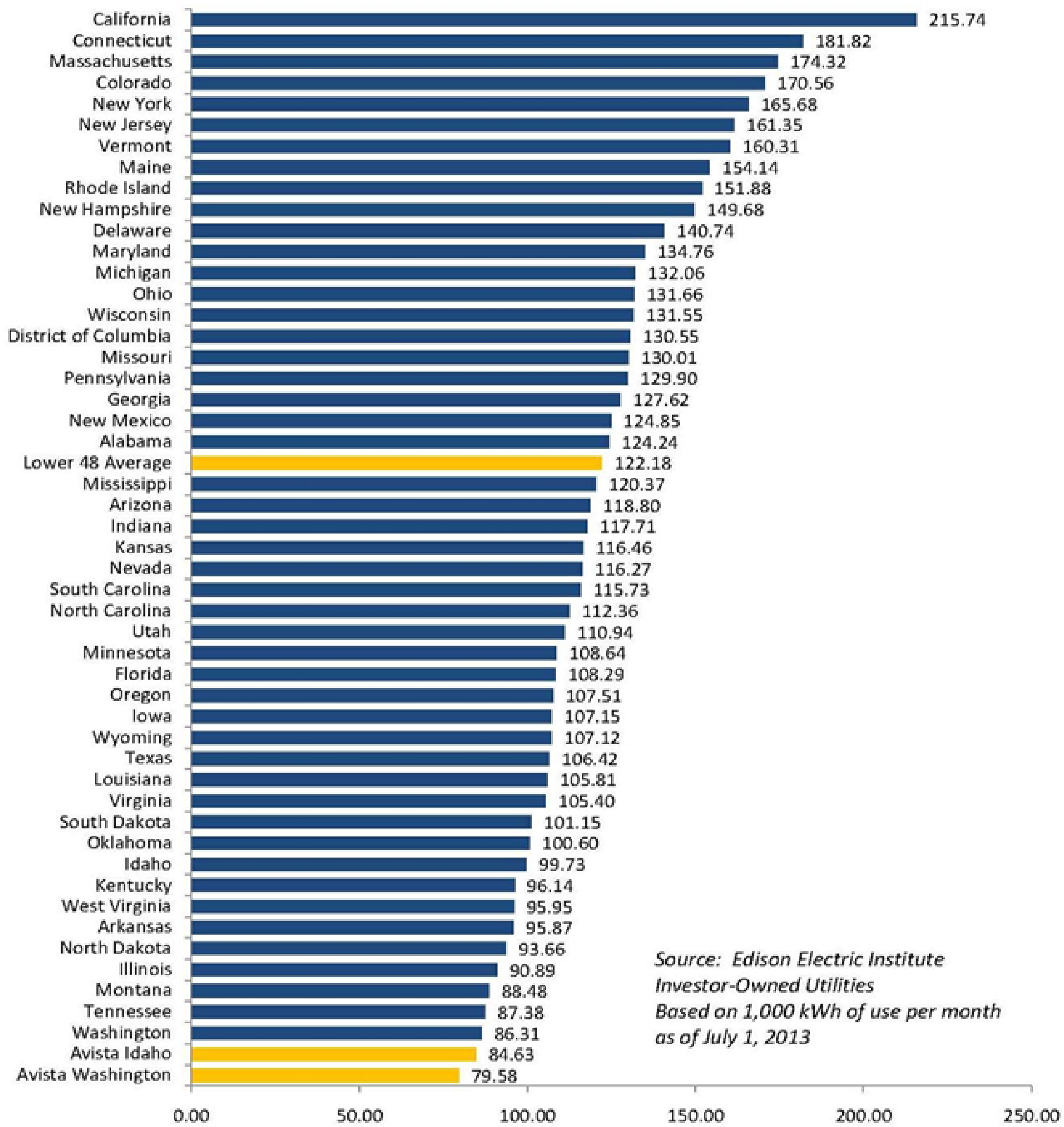
A. No. Avista is not proposing changes in this filing related to the cost of natural gas included in current rates for natural gas customers. Changes in natural gas costs are addressed in the annual Purchase Gas Adjustment (PGA) filings.

Q. How do Avista's retail rates compare to other utilities in the Northwest and across the country?

[2] For Schedule 146, including an estimate of 50.0 cents per therm for the cost of natural gas and pipeline transportation, the proposed increase to Schedule 146 rates represents an average increase of 2.3% in those customers' total natural gas bill.

A. Edison Electric Institute annually prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 5 provides a comparison of an Avista customer's monthly bill[3] in Washington and Idaho, with utility bills in other states. The chart shows that Avista's residential customers' rates are the lowest, or are among the lowest, in the Country.

Illustration No. 5 - Average Residential Monthly Electric Bill for Lower 48 States



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[3] Based on a residential customer's average usage of 1,000 kWh per month.

Our relatively low retail rates are due in large part to a history of our Company aggressively pursuing the acquisition and preservation of a diversified portfolio of low cost resources for the benefit of our customers. This portfolio includes hydroelectric, wood-waste fired, gas-fired baseload, gas-fired peakers, and coal-fired generation, together with long-term purchases of power and an aggressive energy efficiency program. Our low rates are also a result of Avista's aggressive efforts to control its costs, in order to keep retail rates as low as reasonably possible.

IV. COST MANAGEMENT AND EFFICIENCIES

Q. Are there recent examples of cost management that you would like to highlight?

A. Yes. On March 7, 2012, Washington Governor Christine Gregoire signed a biomass energy bill (SB5575), which qualified legacy biomass energy (built before 1999) as an eligible renewable resource for purposes of meeting the renewable portfolio standard (RPS) requirements of the Washington State Energy Independence Act (I-937). As a result of the bill's passage, the energy generated at Avista's Kettle Falls biomass plant qualifies to meet our RPS requirements, beginning in 2016. The passage of the bill, which involved a multi-year legislative effort led by Avista, will save our customers millions of dollars over the long-term, because Avista can now use this existing renewable power to meet our State mandates, which reduces the need to buy renewable energy credits or invest in the development of new resources.

The recent addition of the Palouse Wind Project to Avista's electric generation portfolio is another good example. Avista began receiving power from this relatively low-cost purchased power agreement (PPA) in December 2012. As background leading to acquiring the output to this Project, Avista had purchased the Reardan wind site in 2008 for the purpose of installing renewable wind generation to comply with the requirements of I-937. In 2009, the Reardan project was compared against 29 competing proposals for renewable energy offered by third-parties to Avista through a Request for Proposals (RFP). Analysis of all of the proposals showed that the Reardan Project was the Company's least-cost option for securing a new renewable resource for its customers. However, even though it was the least-cost option, the levelized cost to customers from Reardan would still be over 10 cents per kWh. After further consideration, the Company chose, in 2010, to delay development of Reardan due, in large part, to the fact that the Company did not have an immediate need for energy resources or renewable resources, immediate development of the Project would increase retail rates for customers, and the fact that Reardan represented a low-cost option to hold for later development.

Avista continued to watch the market for wind resources, and in late 2010/early 2011, indications were that prices for wind turbines and other equipment had declined. Avista issued another RFP in February 2011, and executed the PPA with First Wind for the Palouse Wind Project in June 2011. Although the pricing for this PPA is confidential, Avista had requested renewable resource proposals with a levelized cost equal to or less than 6.2 cents/kWh, and the pricing was well below the prior estimates of Reardan.

By choosing to delay the Reardan Project, Avista was able to later take advantage of much lower cost wind generation, which resulted in substantial benefits for the Company's customers. Because the Palouse Wind Project is a PPA, Avista receives no earnings associated with acquiring the output from that Project. Therefore, Avista not only provided substantial cost savings to customers, but also passed up the opportunity to invest in the Reardan Wind Project and earn a return for shareholders on what would have been a substantial investment.

These are two recent significant examples highlighting the extent of the efforts that Avista has made to mitigate the long-term costs to its customers.

Q. Are there other measures Avista has taken to mitigate rate increases for customers?

A. Yes. In addition to the resource-related decisions explained above, the recent Voluntary Severance Incentive Plan to reduce employee complement and the changes to pension and post-retirement medical programs, further attest to Avista's efforts to control our costs and improve efficiency. We are focused on long-term sustainable savings to continuously improve our service to customers and manage costs into the future.

Some of the other continuing measures that we are continuing related to cost control and increased efficiency are briefly explained below.

Hiring Restriction

The Company continues to operate under a hiring restriction which requires approval by the Chairman/President/CEO, President of the Utility, the CFO, and the Sr. VP for Human Resources for all replacement or new hire positions.

Customer Touch Point Teams

In the fall of 2011, a team from across the Company identified every contact point or "touch point" a customer has with Avista. The objective of the initiative is to improve our customers' overall experience when doing business with us, as well as improve responsiveness in a respectful and least cost manner. This team identified a "touch point map" of 172 different customer interactions or touch points. Designing improvements to these touch points requires that we take an outside-in view of the customer interaction. To date, the touch point teams have made improvements to 54 distinct touch points. For example, three recent teams have focused on customer awareness of natural gas safety, the distributed generation application process, and accuracy of electric outage estimated restoration times.

V. COMMUNICATIONS WITH CUSTOMERS

Q. How is Avista communicating with its customers to explain what is driving increased costs for the Company?

A. The Company proactively communicates with its customers in a number of ways: customer forums, one-on-one customer interactions through field personnel and account representatives, bill inserts, social media, media contacts, group presentations, and through our employees' involvement in community, business and civic organizations, to name a few. We believe our communications are helping our customers and the communities we serve to better understand the issues faced by the Company, such as increased infrastructure investment, environmental mitigation and security, all of which have led to higher costs for our customers.

We have listened to our customers and learned that they want information and conversations with Avista employees to better understand the choices they have to manage how they use energy and the forces that are impacting their energy prices.

One of the important principles in our intensified outreach is to meet customers where they gather. Our conversations with customers use traditional and non-traditional communication channels, including one-on-one and group presentations, print, radio, website, newsletters, videos, social media and direct emails.

Another important customer segment that we seek to reach are those customers who gather online. We have a solid foundation on social media and use Twitter© and Facebook© to communicate with customers, as well as communicating through a blog on our www.avistautilities.com website. For customers who want a more private online conversation, we offer customers a conversation email account to make sure they are comfortable communicating with us. The website also includes a section focusing on rates and provides a video for customers on how rates are set, including the regulatory process. General rates information, as well as information on active rate filings are also included on the website.

Our employees provide excellent customer service, and this focus on communicating with our customers includes providing our employees messaging and new tools and training to make it easier to have conversations about Avista with friends, family and customers. We are finding that once a customer talks with one of our employees, and have the opportunity to voice their concerns and receive answers to their questions, their satisfaction level increases. We're listening to our customers' point-of-view and sharing ours about energy issues that directly affect us all.

We are continuing our focus on informing customers of the many programs we offer to provide assistance in managing their energy bills, and ensuring that our employees are equipped to engage in these conversations. Company witness Mr. Kopczynski will discuss in more detail our recent customer bill assistance campaign.

VI. CUSTOMER SATISFACTION

Q. What kind of feedback are you receiving from customers related to customer satisfaction?

A. I am pleased with the dedication of Avista Utilities' employees and their commitment to provide quality service to our customers. As I indicated earlier, while we continue to maintain tight controls on capital and O&M/A&G budgets, our customer service surveys indicate that customer satisfaction remains high. Our overall customer satisfaction from our voice-of-the-customer surveys in the fourth quarter of 2013 was 95% in our Washington, Idaho, and Oregon operating divisions. This rating reflects a positive experience for customers who have contacted Avista related to the customer or field service they received. These results can be achieved only with very committed and competent employees.

VII. CUSTOMER SUPPORT PROGRAMS

Q. Please explain the customer support programs that Avista provides for its customers in Washington

A. Avista Utilities offers a number of programs for its Washington customers, such as energy efficiency programs, the Low Income Rate Assistance Program (LIRAP), Project Share for emergency assistance to customers, the Customer Assistance Referral and Evaluation Service (CARES) program, level pay plans, and payment arrangements. Some of these programs will serve to mitigate the impact on customers of the proposed rate increase.

In the 2012/2013 heating season, 26,100 Washington customers received approximately $8 million in various forms of energy assistance (Federal LIHEAP program, LIRAP, Project Share, and local community funds). Some of the key programs that we offer or support are as follows:

1. **Low-Income Rate Assistance Program (LIRAP).** Avista's Low Income Rate Assistance Program in Washington collects approximately $5.5 million per year through electric and natural gas tariff surcharges. The Company, with the assistance of community action agencies, directs these funds to customers least able to pay for electric and natural gas service. The purpose of the LIRAP program is to reduce the energy cost burden among those customers least able to pay energy bills. In the 2012/2013 heating period for example, the LIRAP funds supplied close to 12,700 grants to our customers.

2. **Project Share.** Project Share is a voluntary program allowing customers to donate funds that are distributed through community action agencies to customers in need. In 2013, Avista Utilities' customers donated $245,080 on a system-wide basis, of which $168,321 was distributed by Washington Community Action Agencies. In addition, the Company contributed $137,360 to Project Share for the benefit of Washington customers in 2013.

3. **Comfort Level Billing.** The Company offers the option for all customers to pay the same bill amount each month of the year by averaging their annual usage. Under this program, customers can avoid unpredictable winter heating bills.

4. **CARES Program.** CARES provides assistance to special-needs customers through access to specially trained (CARES) representatives who provide referrals to area agencies and churches for help with housing, utilities, medical assistance, etc.

These programs and the partnerships we have formed with community action agencies have been invaluable to customers who often have nowhere else to go for help. Mr. Kopczynski provides additional detail in his testimony concerning these and other programs designed to assist customers.

VIII. OTHER COMPANY WITNESSES

Q. Would you please provide a brief summary of the testimony of the other witnesses representing Avista in this proceeding?

A. Yes. The following additional witnesses are presenting direct testimony on behalf of Avista:

Mr. Kelly Norwood, Vice-President, State and Federal Regulation, will discuss the Company's earned return in calendar year 2013 for its electric and natural gas operating results, and the reasons why the earned return for 2013 was close to the authorized return.

He will also provide an overview of the Company's ratemaking proposal in this filing based on our Attrition analysis, as well as the "cross check" we have provided based on the development of pro forma adjustments from the historical test period to the future rate year.

Mr. Mark Thies, Senior Vice President and Chief Financial Officer, will provide a financial overview of the Company and will explain the proposed capital structure, overall rate of return, and Avista's credit ratings. He will also discuss, among other things, the Company's capital expenditures program and changes recently made to Avista's benefit plans.

In brief, he will provide information that shows:

- Avista's plans call for making significant utility capital investments in generation, transmission and distribution systems to preserve and enhance service reliability for our customers and replace aging infrastructure. Capital expenditures of $686 million are planned for 2014-2015. Capital expenditures of approximately $1.7 billion are planned for the five-year period ending December 31, 2018. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms.
- We are proposing an overall rate of return of 7.71 percent, which includes a 49.0 percent common equity ratio, a 10.1 percent return on equity, and a cost of debt at 5.42 percent. We believe our proposed overall rate of return of 7.71 percent and proposed capital structure provides a reasonable balance between safety and economy.
- Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB and Baa2 from Moody's Investors Service (Moody's)[4]. Avista must operate at a level that will support a solid investment grade corporate credit rating in order to access capital markets at reasonable rates, which will positively affect long-term costs to customers. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

[4] On January 30, 2014, Moody's upgraded Avista Corporation to Baa1, with a rating outlook of Stable.

Mr. Adrien McKenzie, as Vice President of Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of common equity. He concludes that:

- In order to reflect the risks and prospects associated with Avista's jurisdictional utility operations, his analyses focused on a proxy group of 25 other utilities with comparable investment risks;
- Because investors' required return on equity is unobservable and no single method should be viewed in isolation, he applied a number of well-accepted quantitative analyses to estimate a fair ROE for the Company;
- Based on the results of these analyses, Mr. McKenzie concluded that the cost of equity for the proxy group of utilities is in the 9.5 percent to 11.0 percent range, or 9.65 percent to 11.15 percent after incorporating an adjustment to account for the impact of common equity flotation costs; and
- As reflected in Mr. Thies' testimony, Avista is requesting a fair ROE of 10.1 percent, which falls below the 10.4 percent midpoint of his recommended range. Considering capital market expectations, the exposures faced by Avista, and the economic requirements necessary to maintain financial integrity, and support additional capital investment even under adverse circumstances, it is his opinion that 10.1 percent represents a conservative ROE for Avista.

Mr. Scott Kinney, Director of Power Supply, will provide an overview of Avista's resource planning and power supply operations. This includes summaries of the Company's generation resources, the current and future load and resource position, and future resource plans. As part of an overview of the Company's risk management policy, he will provide an update on the Company's hedging practices. He will also address hydroelectric and thermal project upgrades, followed by an update on recent developments regarding hydro relicensing.

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, will describe the Company's use of the AURORA$_{XMP}$ dispatch model, or "Dispatch Model." He will explain the key assumptions driving the Dispatch Model's market forecast of electricity prices.

The discussion includes the variables of natural gas, Western Interconnect loads and resources, and hydroelectric conditions. He will also describe how the model dispatches its resources and contracts to maximize customer benefit and tracks their values for use in pro forma calculations. Finally, he will present the modeling results provided to Company witness Mr. Johnson for his power supply pro forma adjustment calculations.

Mr. William Johnson, Wholesale Marketing Manager, will 1) identify and explain the proposed normalizing and pro forma adjustments to the July 2012 through June 2013 test period power supply revenues and expenses, 2) provide justification for retaining the current level of the Retail Revenue Credit in the Energy Recovery Mechanism (ERM), 3) describe a proposed mechanism to track, defer and return Renewable Energy Credit (REC) revenue to customers, and 4) describe the proposed level of expense and retail revenue credit for ERM purposes, using the pro forma costs proposed by the Company in this filing.

Mr. Steve Harper, Director of Gas Supply, will describe Avista's natural gas procurement planning process, and provide an update on the Company's 2012 Natural Gas Integrated Resource Plan.

Mr. Don Kopczynski, Vice President of Energy Delivery, will describe Avista's electric and natural gas energy delivery facilities and operations, and provide an update on Avista's three Smart Grid projects that have received grants through the Department of Energy (DOE). He will discuss the replacement of the Company's Aldyl A pipe in our natural gas distribution system, as well as summarize Avista's customer support programs in Washington.

Ms. Heather Rosentrater, Director, Engineering and Transmission Operations, describes Avista's transmission revenues and expenses for the 2015 rate year. She will also discuss

Avista's Transmission and Distribution capital expenditures, for the period June 2013 through the 2015 rate year.

Ms. Karen Feltes, Senior Vice-President, Human Resources and Corporate Secretary, will provide an overview of Avista's overall compensation philosophy. She will address the issues raised recently by the Washington Utilities and Transportation Commission regarding how executive compensation is set. She will explain how total executive compensation is set for Avista, and the appropriateness of including a portion of that compensation in retail rates. She will also provide an overview of non-executive employee compensation and benefits.

Mr. Jim Kensok, Vice President and Chief Information and Security Officer, will describe the increase in costs associated with Avista's information technology. These costs include the capital investments for a range of systems used by the Company, including the replacement of the Company's legacy Customer Information and Work and Asset Management System ("Project Compass"). He will also describe the additional expenses required to support applications and systems for cyber security and the operation of the new Customer Information and Work and Asset Management Systems. In addition, costs include the refresh of Avista's 20-year-old land mobile radio system, technology investments associated with Avista's grid modernization efforts and increases in application license fees and software maintenance costs.

Mr. Dave DeFelice, Senior Business Analyst, will cover Avista's capital investments in utility plant through December 31, 2015. In addition, for informational purposes only, he will provide information on capital investment through 2016 as an indication of the ongoing capital investments by the Company. Finally, he will discuss the impact of the recently authorized depreciation rates.

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will cover accounting and financial data in support of the Company's need for the proposed increase in rates based on the Company's electric and natural gas Attrition Studies. She will explain the overall methodology and results of the Company's Attrition Studies, providing the overall attrition revenue requirement, rate base and net operating income balances for its electric and natural gas operations. In addition, as a form of "cross check," she will also explain the Company's electric and natural gas results on a pro forma basis, provided for comparison purposes and further demonstrating the reasonableness of the Company's Attrition Studies. For informational purposes, she also provides information related to the Company's Attrition Studies calculated out to 2016. Lastly, she will explain how the Company has complied with past Commission Orders relating to: tracking Washington general rate case (GRC) expenditures; completing its Internal Audit of Utility expenditures; tracking separately Aldyl-A natural gas pipeline replacement program projects; and describing the Company's service and jurisdictional cost allocation methodologies.

Ms. Tara Knox, Senior Regulatory Analyst, covers the Company's electric cost-of-service study performed for this proceeding. Additionally, she is sponsoring the electric revenue normalization adjustments to the test year results of operations and the proposed Retail Revenue Credit rate to be used in the Energy Recovery Mechanism (ERM).

Mr. Joe Miller Senior Regulatory Analyst, will cover the Company's natural gas revenue normalization adjustments and cost of service study performed for this proceeding.

Mr. Patrick Ehrbar, Manager of Rates and Tariffs, discusses the spread of the proposed annual revenue changes among the Company's general service schedules as well as the proposed rate design within each schedule. He explains, among other things, that:

- The proposed increase in electric base revenues is 3.8% over 2014 levels, which consists of an increase in electric base retail revenues of $18.2 million. The proposed general increase over present billing revenues[5], including all other rate adjustments (DSM and Residential Exchange), and including the proposed REC Revenue Mechanism rebate, and expiring ERM and BPA Settlement rebates, is 5.5%.

- Including the effects of the rebates discussed above, the monthly bill for a residential customer using an average of 965 kWhs per month would increase from $80.09 to $84.98 per month, an increase of $4.89 or 6.1%. This includes the proposed increase in the monthly basic or customer charge from $8.00 to $15.00

- The proposed natural gas annual revenue increase in base rates is $12.1 million, or 8.1%. The overall revenue increase on a billing basis is 7.8%.

- The monthly bill for a residential customer using 65 therms per month would increase from $61.19 to $66.42 per month, an increase of $5.23 or 8.5%. This includes the proposed increase in the monthly basic or customer charge from $8.00 to $12.00.

In addition, he will provide further information related to the Company's proposed increase in the residential basic charge, the proposed Electric and Natural Gas Decoupling Mechanisms, the impact of DSM on sales, the proposed REC Revenue Mechanism rebate, and will provide an overview demonstrating how the Company met the requirements from the Order and Settlement Stipulation approved in Docket Nos. UE-120436 and UG-120437 (consolidated).

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

A. Yes.

[5] Included in present billing rates is a refund of approximately $9.0 million from the Energy Recovery Mechanism Schedule 93 (as approved in Docket No. UE-120436), and a refund of approximately $4.3 million from the Bonneville Power Settlement (Docket No. UE-130536). Effective January 1, 2015, the rebates associated with the ERM and BPA Settlement will expire.