

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-080416

SUPPLEMENTAL DIRECT TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

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1 **I. INTRODUCTION**

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

4 A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as
5 Manager of Revenue Requirements in the State and Federal Regulation Department. My
6 business address is 1411 East Mission, Spokane, Washington.

7 **Q. Are you the same Elizabeth M. Andrews who provided prefiled direct**
8 **testimony in this Docket on behalf of Avista Corporation?**

9 A. Yes, I am.

10 **Q. Could you please explain the purpose of providing this supplemental**
11 **testimony in this proceeding?**

12 A. Yes. The purpose of my testimony and exhibits is to update the accounting and
13 financial data supporting the Company's justified electric revenue requirement for information
14 that was not available to Avista at the time it filed its original prefiled direct evidence on March
15 4, 2008, and to make certain corrections. The net effect of these revisions serves to justify or
16 demonstrate an increase in the needed revenue requirement from \$36.6 million to \$47.4 million.
17 The Company, however, has not revised its tariff filing to reflect these changes, and accordingly,
18 is not requesting additional rate relief beyond the requested \$36.6 million.

19 My supplemental testimony and exhibits update the Company's electric revenue
20 requirement for Washington's share of the pro forma power costs for the rate year, as presented
21 in the supplemental testimony of Company witnesses Mr. Kalich and Mr. Johnson. It also
22 corrects certain pro forma and restating adjustments from the original filing, and updates various

1 adjustments based on more recent data than Avista had available to it when it prepared its
2 original filing.

3 Included in the table below is a summary of the adjustments made in this filing, showing
4 the changes from the Company's originally filed revenue requirement.

	<u>Description</u>	<u>Adjustment</u>	<u>Revenue Requirement</u>
	As filed March 4, 2008		\$36.6
1	Update to Power Supply Expense	PF1 – Pro Forma Power Supply	\$8.2
2	Production Property Correction	PF2 – Production Property Adj.	\$2.1
3	Colstrip Generation O&M Expense Reduction	PF12 – Pro Forma Colstrip Mercury Emission O&M	(\$.7)
4	Add Noxon Generation Upgrade Capital to Match Power Supply	PF14 – Pro Forma 2009 Noxon Upgrade	\$1.6
5	Remove A&G Non-Utility Costs	PF15 – Pro Forma Misc. Adj.	(\$.1)
6	Deferred FIT Correction	FIT	(\$.1)
7	Debt Interest Associated with Updated Rate base Adjustments	Restate Debt Interest	<u>(\$.2)</u>
	Updated Revenue Requirement		\$47.4

5

6 **Q. Are you sponsoring any exhibits to be introduced in this proceeding?**

7 A. Yes. I am sponsoring Exhibit No. ___(EMA-5) (Updated Electric Revenue
8 Requirement) and ___(EMA-6) (Summary of Revised Electric Revenue Requirement
9 Adjustments), which were prepared under my direction. Exhibit No. ___(EMA-5) consists of
10 worksheets, which show actual 2007 operating results, revised pro forma, and revised proposed
11 electric operating results and rate base for the State of Washington, the Company's calculation of
12 the general revenue requirement, the derivation of the net operating income to gross revenue

1 conversion factor, and the pro forma adjustments proposed in this filing. Exhibit No. ___(EMA-
2 6), shows the adjustments to the Company's original prefiled Electric Revenue Requirement
3 revised for each pro forma and restating adjustment needed to determine the revised Electric
4 Revenue Requirement.

5
6 **II. UPDATE TO ELECTRIC REVENUE REQUIREMENT**

7 **Q. Would you please summarize the results of the Company's updated pro**
8 **forma study for the electric operating system for the Washington jurisdiction?**

9 A. Yes. After taking into account the standard Commission Basis adjustments, as
10 well as additional pro forma and normalizing adjustments, including revisions, the pro forma
11 electric rate of return ("ROR") for the Company's Washington jurisdictional operations is
12 5.37%, (compared to the original filed return of 6.04%). This return level is below the
13 Company's requested rate of return of 8.43%. The revised incremental revenue requirement
14 necessary to give the Company an opportunity to earn its requested ROR is \$47,364,000 for the
15 Company's electric operations (an increase of \$10,747,000 above the original filed amount of
16 \$36,617,000). As I noted earlier, although the demonstrated need for rate relief is \$47.4 million,
17 the Company has not changed its request for rate relief of \$36.6 million in this supplemental
18 filing.

19
20 **III. CALCULATION OF UPDATED ELECTRIC REVENUE REQUIREMENT**

21 **Q. Could you please give a brief discussion of the primary factors driving the**
22 **Company's need to update its justified electric revenue requirement at this time?**

1 A. Yes. The primary factors driving the Company's need to update its electric
2 revenue requirement, as explained further by Mr. Kalich and Mr. Johnson, are the increased
3 expenses caused by higher natural gas fuel prices for the 2009 rate year, which are significantly
4 higher than that filed in the Company's direct filing, and to reflect all actual electric and natural
5 gas fuel transactions the Company has entered into as of June 30, 2008. This net increase in pro
6 forma power supply expense is \$12,212,000 on a system basis. The Washington allocation of
7 this adjustment of \$7,887,731 is incorporated into the revised Pro Forma Power Supply
8 adjustment described later in my testimony.

9 Company witness Ms. Knox discusses the impact of the revised pro forma power supply
10 expense, and other adjustments discussed below, on the Pro Forma Production Property
11 adjustment. Ms. Knox also discusses the correction of an error included in the calculation of the
12 originally filed Pro Forma Production Property adjustment.

13 In addition to the adjustments noted above, other adjustments to update the Company's
14 revenue requirement have been included for known changes and to correct certain pro forma and
15 restating adjustments from the original filing. I will explain further each of these adjustments
16 and the Company's revised revenue requirement below.

17 **Revenue Requirement**

18 **Q. Would you please explain what is shown in Exhibit No. ____ (EMA-5)?**

19 A. Yes. Exhibit No. ____ (EMA-5) shows the actual and revised pro forma electric
20 operating results and rate base for the test period for the State of Washington. Column (b) of
21 page 1 of Exhibit No. ____ (EMA-5) shows 2007 operating results and components of the
22 average-of-monthly-average rate base as recorded; column (c) is the total of all adjustments to
23 net operating income and rate base; and column (d) is the revised pro forma results of operations,

1 all under existing rates. Column (e) shows the revenue increase required which would allow the
2 Company to earn a 8.43% rate of return.

3 **Q. Would you please explain page 2 of Exhibit No. ____ (EMA-5)?**

4 A. Yes. Page 2 shows the calculation of the \$47,364,000 revised revenue
5 requirement at the requested 8.43% rate of return.

6 **Q. Would you now please explain page 3 of Exhibit No. ____ (EMA-5)?**

7 A. Yes. Page 3 shows the derivation of the net operating income to gross revenue
8 conversion factor. The conversion factor takes into account uncollectible accounts receivable,
9 Commission fees and Washington State excise taxes. Federal income taxes are reflected at 35%,
10 which has not changed from the Company's original filing.

11 **Q. Now turning to pages 4 through 10 of your Exhibit No. ____ (EMA-5), would
12 you please explain what those pages show?**

13 A. Yes. Page 4 begins with actual operating results and rate base for the 2007 test
14 period in column (b). Individual normalizing adjustments that are standard components of our
15 annual reporting to the Commission begin in column (c) on page 4 and continue through column
16 (x) on page 7. Individual pro forma and additional normalizing adjustments begin in column
17 (PF1) on page 7 and continue through column (PF15) on page 10. The final column on page 10
18 is the total pro forma operating results and rate base for the test period.

19 **Standard Commission Basis Adjustments**

20 **Q. Has there been any changes included in this testimony related to Standard
21 Commission Basis Adjustments (c) through (x)?**

1 A. Yes, there are two Standard Commission Basis Adjustments that have changed,
2 which have been included in this supplemental filing; adjustment (p) **FIT**, shown on page 6, and
3 adjustment (x) **Restate Debt Interest**, shown on page 7 of Exhibit No.__(EMA-5). All
4 remaining restating adjustments included on pages 4 through 7 were not revised and are shown
5 as originally filed.

6 **Q. Please explain the revision to the FIT and Restate Debt Interest Commission**
7 **Basis Adjustments.**

8 A. Adjustment (p) on page 6, **FIT**, adjusts the FIT calculated at 35% within Results
9 of Operations by removing the effect of certain Schedule M items, matching the jurisdictional
10 allocation of other Schedule M items to related Results of Operations allocations and to adjust
11 the production tax credits for pro forma qualified generation. The originally filed FIT
12 adjustment decreased Washington net operating income by \$83,000. The FIT portion of the
13 adjustment has not changed; however, this adjustment also reflects the proper level of deferred
14 tax expense (DFIT). During a later review of this adjustment, the Company discovered an error
15 within an allocation percentage used to calculate allocated DFIT for the test period, resulting in
16 an overstatement of WA Electric DFIT in the amount of approximately \$57,000. The net effect
17 of the originally filed decrease to DFIT of \$66,000, plus the above noted correction or decrease
18 in DFIT of an additional \$57,000, produces a net decrease to DFIT of \$123,000. The net impact
19 of the separate FIT and DFIT adjustments described above, based upon a Federal tax rate of
20 35%, results in a net increase to Washington net operating income of \$206,000.

21 Adjustment (x) on page 7, **Restate Debt Interest**, restates debt interest using the
22 Company's pro forma weighted average cost of debt, as outlined in the Company's direct filed

1 testimony and exhibits of Company witness Mr. Malquist, and applied to the revised
2 Washington's pro forma level of rate base, producing a pro forma level of tax deductible interest
3 expense. This adjustment incorporates the revisions in rate base explained below related to the
4 Production Property adjustment and the Noxon generation upgrade. The revised Federal income
5 tax effect of the restated level of interest for the test period decreases Washington net operating
6 income by \$2,453,000. (This is a \$159,000 change from the original filed decrease to
7 Washington net operating income of \$2,612,000.)

8 **Pro Forma Adjustments**

9 **Q. Have there been any changes related to the originally filed Pro Forma**
10 **Adjustments PF1 through PF13, and is the Company proposing any new pro forma**
11 **adjustments?**

12 A. Yes, there are three Pro Forma adjustments: PF1 Pro Forma Power Supply; PF2
13 Pro Forma Production Property Adj.; and PF12 Pro Forma Colstrip Mercury Emission O&M, all
14 of which are being updated with this filing. In addition to these revised pro forma changes, the
15 Company is also proposing two new pro forma adjustments, PF14 Pro Forma 2009 Noxon
16 Upgrade and PF15 Pro Forma Miscellaneous Adjustment. All other previously-filed pro forma
17 adjustments remain unchanged as a part of this update.

18 **Q. Please explain these Pro Forma revisions.**

19 A. Certainly. The first revised pro forma adjustment, (PF1), **Pro Forma Power**
20 **Supply**, shown on page 7 of Exhibit No. ____ (EMA-5), was made under the direction of Mr.
21 Johnson and is explained in detail in his testimony. This adjustment includes pro forma power
22 supply related revenues and expenses to reflect the twelve-month period January 1, 2009 through

1 December 31, 2009. Mr. Johnson's testimony outlines the system level of pro forma power
2 supply details that are included in this adjustment. This adjustment calculates the Washington
3 jurisdictional share of those figures. The revised net effect of the power supply adjustment
4 decreases Washington net operating income by \$11,536,000 (compared to the originally filed
5 decrease to Washington net operating income of \$6,408,000, or a change of \$5,128,000).

6 Adjustment (PF2), **Pro Forma Production Property Adjustment**, adjusts production
7 and transmission revenues, expenses, and rate base by a factor that is the ratio of 2007
8 Washington test year retail load divided by 2009 Washington pro forma rate year retail load.
9 The adjustment is made to avoid the over-recovery of production and transmission costs, since
10 the revenue requirement associated with those costs is being spread to 2007 test year retail load.
11 Ms. Knox sponsors this adjustment, which is directly linked to all other adjustments in this
12 supplemental filing that affect production and transmission related revenues, expenses, and rate
13 base. The net change is an increase of net operating income of \$108,000 and a decrease to rate
14 base of \$191,000.

15 In addition, Ms. Knox explains that the original production property adjustment
16 contained an erroneous value in its calculation that has been corrected with this filing. The
17 effect of correcting this error on Washington net operating income decreases net operating
18 income \$1,017,000 and increases rate base by \$4,714,000.

19 The revised net adjustment, shown on page 7 of Exhibit No. ____ (EMA-5), is an increase
20 to Washington net operating income of \$2,868,000, and a decrease to rate base of \$12,981,000
21 (compared to the originally filed increase to Washington net operating income of \$3,776,000 and
22 decrease to rate base of \$17,504,000).

1 Adjustment (PF12), **Pro Forma Colstrip Mercury Emission O&M**, includes 2009
2 O&M costs associated with the mercury control abatement project at Colstrip, as further
3 described by Company witness Mr. Vermillion in his direct prefiled testimony at Exhibit No.
4 (DPV-1T), page 15 lines 1 through 16. The expense amount of the mercury control O&M costs
5 is estimated to be approximately \$3 million annually or \$250,000 monthly, and this process had
6 been anticipated to start in July of 2009. The current plan is to start this mercury abatement
7 process in November 2009, for a total cost of approximately \$465,000 for two months. This
8 reduces Washington's share of these costs to approximately \$300,000 for the rate period. The
9 net affect of this revision, as shown on page 9 of Exhibit No. ____ (EMA-5), decreases Washington
10 net operating income by \$195,000 (compared to the originally filed decrease to Washington net
11 operating income of \$630,000, or a change of \$435,000).

12 **Q. Please continue with the explanation of the two new Pro forma adjustments**
13 **added to this update filing.**

14 A. Adjustment (PF14), **Pro Forma 2009 Noxon Upgrade**, pro forms in the capital
15 cost and expenses associated with the completion of the 2009 Noxon Rapids capital project
16 (Noxon), planned for completion in March 2009.

17 The net effect of this adjustment, shown on page 9 of Exhibit No. ____ (EMA-5), to
18 Washington net operating income is a decrease of \$252,000, and an increase to rate base of
19 \$8,714,000.

20 **Q. In regards to the pro forma Noxon project, has the Company already**
21 **provided the description and information regarding this project upgrade?**

1 A. Yes. Company witnesses Mr. Vermillion and Mr. Kalich both discuss this project
2 in their direct testimony. Mr. Vermillion, at Exhibit No.__(DPV-1T), starting at page 6 line 21
3 through page 8 line 17, discusses the Company's plans for the multi-unit Noxon hydro project
4 upgrades over the next 4 years. Specifically, on page 7 line 6, Table 2 lays out the Noxon multi-
5 unit upgrades between 2009 and 2012, and shows that the 2009 Noxon upgrade is scheduled to
6 be completed March 2009, increasing that unit's efficiency 5%, and providing additional
7 capacity of 7.5 MW.

8 Mr. Kalich, at Exhibit No.__(CGK-1T), page 13 line 19 through page 14 line 5, explains
9 that the additional generation expected from the upgrade of the Noxon unit (2.33 average
10 megawatts of additional energy in an average water year) has been included within the
11 Company's Dispatch Model for the rate year.

12 **Q. Why is the Company including the capital investment associated with the**
13 **upgrade of this project in this testimony?**

14 A. The Company had not realized until after the original filing that it had
15 inadvertently excluded the capital investment for this project from its revenue requirement.
16 However, as explained above, since the Company has included the additional generation within
17 its Dispatch Model, ultimately reducing power supply expenses for its customers in the 2009 rate
18 year, it is necessary to include this project in rate base for the rate period in order to match
19 revenues with expenses for this project.

20 **Q. Please continue with the explanation of the pro forma adjustments.**

21 A. The final adjustment, (PF15), **Pro Forma Miscellaneous**, shown on page 10 of
22 Exhibit No.__(EMA-5), removes some non-utility expenses that should have been excluded
23 from utility results within the Company's test period, in its original filing. These expenses are

1 related to costs expended by the Company for sponsorship agreements (sporting events) in
2 support of community affairs. The impact of this adjustment on Washington net operating
3 income is an increase of \$68,000.

4 **Q. Referring back to page 1, line 42, of Exhibit No. ____ (EMA-5), what was the**
5 **actual and pro forma electric rate of return realized by the Company during the test**
6 **period?**

7 A. For the State of Washington, the actual test period rate of return was 6.32%. The
8 revised pro forma rate of return is 5.37% under present rates. Thus, the Company does not, on a
9 pro forma basis for the test period, realize the 8.43% rate of return requested by the Company in
10 this case.

11 **Q. How much additional net operating income would be required for the State**
12 **of Washington electric operations to allow the Company an opportunity to earn its**
13 **proposed 8.43% rate of return on a pro forma basis?**

14 A. The net operating income deficiency amounts to \$29,456,000, as shown on line 5,
15 page 2 of Exhibit No. ____ (EMA-5). The resulting revenue requirement is shown on line 7 and
16 amounts to \$47,364,000, or an increase of 13.3% over pro forma general business revenues.

17 **Q. Could you please describe and explain the purpose of Exhibit**
18 **No. ____ (EMA-6)?**

19 A. Yes. Exhibit No. ____ (EMA-6), Summary of Revised Electric Revenue
20 Requirement Adjustments, has been provided in order to show a reconciliation, or difference
21 between, the originally filed case adjustments filed on March 4, 2008, compared to the revised
22 case adjustments filed with this supplemental testimony, and the impact on the revenue

1 requirement of each adjustment. As shown in this exhibit, the net change resulting from the
2 revised adjustments is approximately \$10.8 million in additional revenue requirement from the
3 Company's originally prefiled direct case.

4 **Q. Is the Company proposing to increase its rate increase request (by \$10.8**
5 **million) from \$36.6 million to the revised \$47.4 million?**

6 A. No. The Company is providing supplemental testimony and exhibits in support of
7 the revenue deficiency described above; however, the Company has not revised its tariff filing to
8 reflect these changes. Avista simply seeks to add to the record supplemental evidence that will
9 more accurately reflect Avista's projected power costs and electric revenue deficiency. Avista
10 has sought to prepare and present its supplemental evidence in a manner that makes it easy for
11 other parties to understand the changes from Avista's prefiled direct evidence. Submission of
12 the supplemental testimony at this time provides the other parties the opportunity to address the
13 updated information in their response testimonies, which would not be possible if Avista first
14 provided this information in Avista's rebuttal testimony.

15 **Q. Does that conclude your prefiled supplemental direct testimony?**

16 A. Yes, it does.

17

18