Exhibit No. __(SLM-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-16_____

DOCKET NO. UG-16_____

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 Gonzaga University board of trustees, a member of Edison Electric Institute board of directors, a member of the American Gas Association, and immediate past chair 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 currently serve as chair. I also serve on the board of trustees of Greater Spokane Incorporated.

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

A. I will summarize the Company's rate request in this filing, and provide some context for why there is a continuing need for retail rate increases, not just for Avista, but for the electric and natural gas utility industry in general. I will discuss the Company's proposal for an 18-month rate plan in order to move toward the rate adjustments resulting from the conclusion of general rate cases occurring in the summer months instead of the middle of the winter. This will allow customers to be aware of any base rate changes prior to the heating season.

I will provide an overview of changes underway at Avista which are designed to meet current and future customer expectations, our communications initiatives to help customers better understand the changes in costs that are causing rates to increase, and briefly explain the Company's customer support programs in place to assist our customers. 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, and Exhibit No. _____ (SLM-3) includes a map showing Avista's electric and natural gas service areas.

II. SUMMARY OF RATE REQUESTS

Q. Would you please provide more detail regarding the Company's request for an 18 month rate plan?

A. Yes. In this filing, the Company is proposing an 18-month rate plan including the period January 1, 2017 through June 2018. In recent years the Company has filed general rate cases in the first quarter of the year, and the rate adjustments resulting from the cases have generally been implemented in January, which is the middle of the winter heating season. The 18-month proposal in this filing is intended to change the "cycle" of base rate adjustments from the middle of winter to the middle of the summer months. If the base rate adjustments occur in the summer months, then customers will be aware of these adjustments prior to entering the winter heating season, and will not experience a base rate increase in the middle of winter.

Under Avista's 18-month proposal in this case, base retail rates would increase on January 1, 2017, and a second-step base rate increase would occur on January 1, 2018. Future general rate cases would be filed in the summer months, with any rate adjustments expected to occur the next summer.

With regard to the proposed January 1, 2018 second-step electric base rate increase in this filing, Avista is proposing to offset the bill impact to customers with a rebate of

available Energy Recovery Mechanism (ERM) dollars. The ERM currently has a rebate deferral balance (due to customers) of $18 million. The Company proposes to credit a portion of these dollars back to customers from January through June 2018 to offset the bill increase to electric customers from the January 1, 2018 second-step base rate increase.

The net effect of the 18-month plan for electric customers is a proposed bill increase to customers on January 1, 2017, and no further base rate increase impact to the customers' bill prior to July 1, 2018. For natural gas service, customers would see a second-step rate increase on January 1, 2018 of approximately 1%.

Q. Please provide an overview of Avista's 2017 electric rate request in this filing.

A. Avista is proposing an overall increase in electric base revenues of $38.6 million or 7.8%. The Company's request is based on a proposed rate of return of 7.64% with a common equity ratio of 48.5% and a 9.9% return on equity. Avista is requesting an overall net electric bill increase of 7.6%. Details of the changes in costs related to the proposed revenue increase are provided by later witnesses. Company witness Mr. Ehrbar will provide details of the proposed rate spread for the increase to each electric customer class, as shown in the illustration below:

Illustration No. 1:

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	8.4%	8.2%
General Service Schedules 11/12	7.0%	6.8%
Large General Service Schedules 21/22	7.5%	7.4%
Extra Large General Service Schedule 25	6.8%	6.7%
Pumping Service Schedules 31/32	8.7%	8.5%
Street & Area Lights Schedules 41-48	10.3%	9.9%
Overall	**7.8%**	**7.6%**

Q. Please provide an overview of Avista's 2018 second-step electric rate request in this filing.

A. Avista is proposing an overall increase in electric base revenues of $10.3 million or 3.9% to become effective January 1, 2018. However, as explained earlier, the Company is proposing to offset the second-step bill impact to customers with a rebate of ERM dollars. The proposed electric base revenue increase together with the ERM offset is shown in Illustration No. 2 below. The proposed net bill change to electric customers on January 1, 2018 is zero.

Illustration No. 2:

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	4.2%	0.0%
General Service Schedules 11/12	3.5%	0.0%
Large General Service Schedules 21/22	3.8%	0.0%
Extra Large General Service Schedule 25	3.5%	0.0%
Pumping Service Schedules 31/32	4.3%	0.0%
Street & Area Lights Schedules 41-48	5.0%	0.0%
Overall	**3.9%**	**0.0%**

Q. Is the Company proposing to update power supply costs as part of the 18-month rate plan?

A. Yes. The Company proposes to update its power supply costs sixty (60) days prior to new rates going into effect on January 1, 2017, as well as for January 1, 2018. As in prior cases, this update in power supply costs, just before new base retail rates go into effect, will reflect the most recent information available for power supply costs. The updated power supply cost data will not only be reflected in the base rate adjustment, but will also

reset the base for the ERM calculations for the future rate period. Company witness Mr. Johnson provides additional details related to this power supply update.

Q. What is Avista's 2017 natural gas rate request?

A. With regard to natural gas, the Company is requesting an overall base revenue increase of $4.4 million, or 5.0% in base rates effective January 1, 2017. The proposed general increase over present billing rates, including all other rate adjustments (Purchased Gas Cost Adjustment, Demand Side Management, etc.), is 2.8%. As with the electric increase, the Company's request is based on a proposed rate of return of 7.64% with a common equity ratio of 48.5% and a 9.9% return on equity. The proposed rate spread for each natural gas customer class is shown in Illustration No. 3 below:

Illustration No. 3:

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedule 101	6.2%	3.6%
Large General Service Schedules 111/112	0.0%	0.0%
Ex. Lg. General Service Schedules 121/122	0.0%	0.0%
Interrupt. Sales Service Schedules 131/132	2.8%	1.0%
Transportation Service Schedule 146	7.9%	7.8%
Overall	**5.0%**	**2.8%**

Q. What is Avista's 2018 proposed natural gas revenue adjustment?

A. The Company is proposing a second-step natural gas revenue increase on January 1, 2018 of $0.9 million, or 1.8% in base rates. The proposed increase in billing rates, including all other rate adjustments (Purchased Gas Cost Adjustment, Demand Side Management, etc.), is 1.0%. The proposed rate spread for each natural gas customer class is shown in Illustration No. 4 below:

Illustration No. 4:

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedule 101	2.2%	1.3%
Large General Service Schedules 111/112	0.0%	0.0%
Ex. Lg. General Service Schedules 121/122	0.0%	0.0%
Interrupt. Sales Service Schedules 131/132	1.1%	0.4%
Transportation Service Schedule 146	2.8%	2.8%
Overall	**1.8%**	**1.0%**

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 commodity cost of natural gas or upstream pipeline transportation costs. Changes in the commodity cost of natural gas and transportation costs included in customers' rates are addressed in the Company's annual Purchased Gas Cost Adjustment (PGA) filing.

III. THIS CASE REFLECTS PURPOSEFUL CHANGES DESIGNED TO MEET CURRENT AND FUTURE CUSTOMER NEEDS AND EXPECTATIONS

Q. What steps is Avista taking to meet the needs and expectations of its customers, both now and into the future?

A. Avista continues to partner with its customers and other stakeholders to change and adapt its operations, and its utility infrastructure, to meet the needs and expectations of not only our customers, but all of our stakeholders. We are continuing to build on the recent advancements in products, services and changes in our operations. Many

of the recent changes were developed and implemented in partnership with the Commission Staff, Public Counsel, low income agencies, and representatives of other customer groups. [1]

Although in these and other regulatory proceedings we find ourselves on "opposite sides of the table," so to speak, in litigating or negotiating outcomes, we all share the same ultimate interests and goals; to provide Avista's customers with safe, reliable service at the lowest reasonable cost, while at the same time providing a fair rate of return on investment for shareholders.

As we progress through 2016 and into 2017 and beyond, we will continue to transition from the more traditional electric and natural gas utility selling kilowatt-hours and therms at a price, to a utility that increasingly partners with its customers and other industry stakeholders to provide more energy-related services and information.

Avista's 2015 Electric Integrated Resource Plan includes a preferred energy resource strategy of energy efficiency, upgrades to our existing generation facilities, and new natural gas-fired generation. Our future also includes increased emphasis on new renewable energy resources such as solar, and demand response.

Since 2002 we have offered customers the opportunity to purchase blocks of power from wind, solar and biomass renewable resources. Today, we have added access to information about solar installation for homes and businesses. We have developed a "solar concierge" page on our website that helps customers determine if solar is a cost-effective alternative for them. And for customers that do not want to install solar equipment at their

[1] In my testimony the Commission Staff refers to the Staff of the Washington Utilities and Transportation Commission, Public Counsel is the Public Counsel Unit of the Washington Attorney General's Office, ICNU is the Industrial Customers of Northwest Utilities, and NWIGU is the Northwest Industrial Gas Users.

premise, in 2015 Avista offered the first, and largest, community solar project among investor-owned utilities in the Pacific Northwest.

In developing our 2015 Electric IRP, Avista retained a consultant to study the near-term and long-term potential for commercial and industrial demand response through means such as direct load control, curtailment of energy by customer choice, and critical peak pricing. Our utility future will involve an increased partnership with our customers behind the meter on energy efficiency, distributed generation at the customer's premise, and demand response programs, among others.

However, to enable this future we must have the foundational tools and technology in place to facilitate it. Part of this foundation is the recently completed customer care and billing system (Project Compass) that went into service in February 2015. This new system will enable timely access to information for the Company as well as our customers, and will facilitate the offering of future products, services and pricing options for our customers, and will enable and support future utility operations that have less impact on our environment.

Another building block for the future is Avista's planned installation of Advanced Metering Infrastructure (AMI). AMI is one element of a range of new smart grid technologies,[2] and is rapidly becoming the metering standard for the utility industry. AMI involves meters capable of two-way communication and are equipped with the ability to measure the incoming and outgoing flow of electricity from a customer's premise in configurable intervals that range from 5 minutes to an hour. This communication capability means the meter can remotely transmit energy-use information to the utility and the

[2] Smart grid technologies include a range of remote sensing and automation devices, and data analysis and two-way communications systems that are being deployed across the electric grid to improve operations and reliability, optimize energy supply and demand, and enable customers to better understand and capture greater value from the energy they use.

customer, and can also receive and respond to signals sent from the utility to the meter. Company witness Ms. Rosentrater provides a detailed explanation of the many benefits associated with AMI, as well as the costs associated with the installation and operation of this technology.

Some of the recent advancements and improvements for our customers are summarized below. These are just the beginning of what is to come as we partner with our customers and our other stakeholders in developing an energy future where we use energy efficiently and minimize the impact on our environment.

Community Solar Project: Avista's community solar project was built on land the Company owns in Spokane Valley, Washington. Customers who elected to participate in the project were asked to make an upfront contribution equal to their portion of the overall project costs, including both initial costs and ongoing costs, such as operation, maintenance, administrative, etc., that will be incurred throughout the life of the program. This community solar program was open to both residential and non-residential customers in Washington and participation was voluntary. The project consists of six separate solar arrays, with 252 panels each, for a total of 1,512 panels. Each panel is rated at approximately 280 Watts, resulting in a total generating capability of the community solar array of 423 kilowatts, or a little less than one-half megawatt. Customers are receiving a credit on their monthly bills based on the actual generation from the panels. The project has provided the opportunity for Washington customers to participate directly in solar generation, without having the solar equipment at their premise.

Battery Electricity Storage at Schweitzer Engineering Laboratories: Avista's Energy Storage project builds upon the technology upgrades in Pullman, Washington, and is part of the Company's investment into research that will improve power system reliability by addressing one of the biggest challenges facing the energy industry – how to integrate power generated from intermittent renewable sources such as wind and solar into the electrical grid. The 1 MW, 3.2 MWh large-scale battery storage system uses batteries manufactured in Washington in a real-world setting at Schweitzer Engineering Laboratories in Pullman. The system went online in 2015, and is the result of a partnership between Avista and the State of Washington, with both parties contributing funding for the project. Batteries such as this one provide the capability to store power generated by renewable sources when it's abundant, for example when the wind is blowing, and distribute energy when it's needed, regardless of weather patterns.

Compressed Natural Tariff Service: Avista's compressed natural gas (CNG) initiative is designed to reduce fuel costs and reduce our carbon footprint by adding more Natural Gas Vehicles throughout our fleet. CNG is a safe, clean and efficient alternative fuel that serves Avista and a growing number of vehicles on the road. In addition, in 2015 Avista proposed, and the Washington Commission approved, a new tariff service offering for CNG fleet operators who may, from time to time, require backup and supplemental CNG services. Several CNG fleet operators in the Spokane area have, or will be installing, natural gas compression facilities at their individual premises to serve their CNG fleet.

Proposed Electric Vehicle Charging Equipment Pilot: In January 2016, Avista proposed a two-year pilot program in Washington to install AC Level 2 Electric Vehicle Supply Equipment (EVSE) as a means to better understand Electric Vehicle (EV) charging at home, at work and in public areas, i.e., what is needed, what is effective, and how it may affect the grid in the future. The pilot will help Avista better understand how to maximize the benefits of EVs for all our customers in the years ahead, as well as supporting a cleaner environment through the increased use of EVs in the Spokane area. By installing a limited number of EVSE in beneficial workplace and public areas, we will also help support greater EV adoption in our service territory and pave the way for effective long-term programs. In addition to the Level 2 EVSE installations, Avista is proposing to install DC Fast Charging EVSE at seven locations as part of the pilot program.

Proposed Payment by Bank Card Without a Per-Transaction Fee: The Company has requested approval of a program in all of its jurisdictions (Washington, Idaho, and Oregon) to allow all residential customers to pay their electric and natural gas bills with a bank card without a per-transaction fee. Currently when customers use a debit card or credit card to pay their bill, they are charged a transaction fee by the payment vendor of $3.50 for each payment. Under the proposed program, all residential customers would have the opportunity to pay their monthly bills by debit card or credit card without the individual per-transaction fee. Additional payments options such as these generally lead to fewer credit collections and fewer calls to our customer service call center for assistance. Customers that self-serve, pay on time, and are satisfied with the options they have are the least expensive to serve, which is a benefit to all customers. Giving customers options to pay by the method of their choice without incurring additional fees will lead to more satisfied customers and ultimately savings for all customers.

HVAC Filter Replacement Program: This program is designed to educate customers on the value of replacing filters, and offer choices to customers to make it more convenient for them to remember to replace their filters. In addition to extending the life of a furnace, improved operating performance results in reduced energy usage, which results in lower energy bills. This program was launched in August of 2015, and it is available to all Avista customers in Washington, Idaho and Oregon. Through the filter program, customers have three convenience options: 1)

Receiving an e-mail reminder from Avista on a periodic basis to replace their filter, 2) receiving an e-mail reminder with promotional codes from manufacturers and vendors for discounts on filter purchases, and 3) the opportunity to order filters directly from a vendor, for delivery to their home or business on a schedule chosen by the customer. In the first five months of the program, 1,447 customers have signed up for this program.[3]

Multi-Year Funding Increases for Low Income Bill Payment Assistance: Based on proposals by Avista, the UTC Commission Staff, Public Counsel, and The Energy Project (representing low income customers), the Washington Commission recently approved a five-year plan that increases electric and natural gas funding available each year in the Low Income Rate Assistance Program (LIRAP) to assist customers with the greatest need in paying their energy bills. The community action agencies in Avista's service area partner with Avista to identify customers that qualify for assistance, and work with the Company in implementing this program.

Mobile Outreach Van: Avista offers many opportunities throughout the year for customers to attend energy fairs or workshops to learn more about energy assistance, energy efficiency and the resources available to them. But some of our more vulnerable customers have a hard time getting to an event to access these resources. So to ensure that we are reaching as many customers who need our help as we can, Avista created the Energy Resource Team van. The van is fully loaded with energy efficiency items such as rope caulk, V-seals and coil cleaners, as well as informational materials about bill options, assistance and efficiency. A laptop resides with the van, so employees can demonstrate our many online tools in action. In 2015 the van expanded outreach efforts to 6,596 individuals through 69 events throughout our service territory, many of which were in conjunction with the Second Harvest Food Bank mobile food pantry.

Q. As Avista invests in new technology and develops new programs to enable new products, services and opportunities for its customers to the future, how will this affect investment in the existing utility infrastructure?

A. The Company will continue to invest in the facilities we use every day to deliver energy to our customers in order to maintain reliable service. In some instances we have what we refer to as asset management plans, which are designed to determine the

[3] To date, 733 customers have requested an email reminder without coupons, 676 customers requested email reminders with coupons and 38 customer have signed up to receive filters direct from the vendor. (733+676+38=1,447)

efficient life cycle of the assets. These asset management plans assess the useful life of the particular assets and the appropriate time to replace the assets, balanced against the operations and maintenance costs associated with maintaining assets that are toward the end of their useful life. These asset management plans allow the Company to systematically replace the assets over time in a manner that optimizes the value of the assets, while still maintaining reliable service to customers. Ms. Rosentrater describes some of these asset management plans in more detail.

We believe the current reliability of our system is satisfactory and is meeting the needs and expectations of our customers and other stakeholders. Much of our continuing investment in utility infrastructure is related to maintaining the current level of reliability, through maintaining and upgrading our existing facilities.

As we systematically replace our utility assets over time we are replacing structures and equipment that were installed many years ago (in many cases 50 to 70 years ago), when the cost of installation was very low as compared to the cost to replace them today. And these older facilities have been depreciated to a point where the costs to customers embedded in retail rates is very low.

The retail rates set by the Commission for customers are cost-based, i.e., the retail rates reflect the actual costs associated with the assets serving customers, whether they were installed last year, or 70 years ago. The new facilities replacing the old ones, in many cases, provide a continuation of the same service, such as an old wood pole and transformer being replaced with a new pole and transformer. Therefore, as utility structures and equipment are replaced, retail rates must go up to reflect today's higher costs of the new facilities.

At the same time that our costs of facilities are increasing, our sales of electricity and natural gas year-over-year are growing at a relatively slow pace. This low load growth is due, at least in part, to continuing advancements in the efficiency of end-use equipment, appliances and other devices, which results in lower energy usage by customers. In addition, Avista continues to run its successful energy efficiency programs, which encourage and assist our customers to 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.

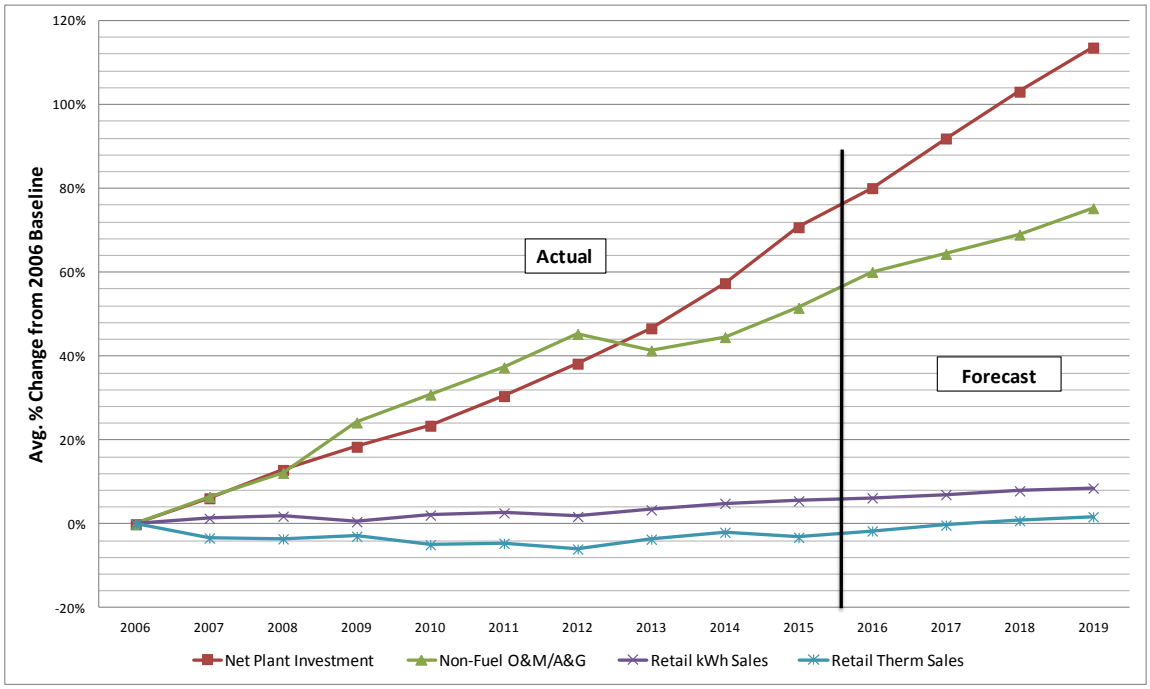
In the long-term, this investment in energy efficiency is absolutely the right thing to do and will allow us to avoid building or acquiring new, higher-cost generating resources in the future. However, it also contributes to lower revenue growth to cover the investments necessary to maintain a safe,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

Avista's annual customer growth, and total sales growth, is currently approximately 1%, and it is expected to continue at or near this level for the foreseeable future. Net plant investment and operating expenses, however, are growing at a faster pace. Avista's obligation to serve all customers with safe, reliable service, and maintain a high level of customer satisfaction, demands continued investment in facilities, as well as utility operating expenses necessary to accomplish these objectives.

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

A. The graph in Illustration No. 5 below shows actual information for the period 2006 to 2015, and forecast information for 2016 to 2019.

Illustration No. 5



The red line on the graph shows the actual growth in net utility plant investment (electric and natural gas combined) through 2015, and the expected growth for 2016 through 2019. 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 shows that net plant investment is growing at a much faster pace than sales. 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.

Because annual costs are growing at a faster pace than sales, it is necessary to increase retail rates each year so that total revenues are sufficient to cover operating costs and provide a fair rate of return on investment for investors. These are the circumstances

facing not just Avista, but many investor-owned and consumer-owned utilities across the country, and it is the primary reason Avista has requested electric and natural gas revenue increases through this filing.

Q. Does the Company critically evaluate the need for new plant investment to ensure that the investments are necessary?

A. Yes. Each year the departments across the Company assess the near-term needs to maintain and upgrade the utility infrastructure and technology necessary to continue to provide safe, reliable service to customers, as well as maintain a high level of customer satisfaction. The departments develop business cases for specific projects and programs that explain and support the need for the capital investment. These business cases are submitted to a Capital Planning Group that meets on a regular basis to review and prioritize all proposed utility capital investment projects.

After taking into consideration a number of factors, senior management of Avista establishes a proposed capital budget amount for each year of the next five years, which is presented to the Finance Committee of the Board of Directors[4]. These factors include, but are not limited to, the total capital investment requests of the departments submitted to the Capital Planning Group, the urgency of the projects, the opportunities and risks associated with delaying the projects to a later date, and the overall bill impact to customers associated with the annual capital budgets ultimately approved. These five-year capital budget amounts are revisited each year to ensure that capital dollars are dedicated to the highest priority projects.

[4] The Finance Committee is presented with a five-year plan, but approves the plan for only the next operating year.

In recent years Avista has chosen to not fund all of the capital investment projects proposed by the various departments in the Company, driven, in part, by the Company's desire to mitigate the retail rate impacts to customers. The decision to delay funding certain projects is made only in cases where the Company believes the amount of risk associated with the delay is reasonable and prudent.

As a result of this constrained capital spend level, capital projects must be prioritized so that the dollars flow where they are most needed. As unexpected, high-priority capital projects arise, the capital projects for the year must be reprioritized to limit the total spend to the amount established by the Company and approved by the Finance Committee of the Board. This can cause some projects to be delayed so that higher-priority projects can be completed.

In addition, some scheduled capital projects will encounter unexpected delays due to such things as permitting issues, delays in receipt of materials and equipment, etc. A delay in one project may allow another project to be accelerated in time as part of managing the availability of our workforce and to continue to make progress on projects next in the "queue" that need to be done. This reprioritization occurs within the Capital Planning Group, which is charged with ensuring that the total capital spend for the year stays within the limit approved by the Finance Committee of the Board.[5]

Q. Is Avista continuing to take steps to manage the growth in its operating costs?

[5] If circumstances indicate the capital spend for a year will exceed the level previously approved by the Finance Committee of the Board, the additional capital spend is presented to the Finance Committee for approval.

A. Yes. Avista is continuing to identify and implement measures to control its costs. With regard to utility operating expenses, following the elimination of the defined benefit pension plan for non-union new hires beginning in 2014, and the transition away from providing medical coverage for non-union retirees,[6] the Company continues to monitor its compensation and benefits practices to ensure that they are competitive with those offered by other similar utilities. Avista continues to design a portion of all employees' compensation as pay-at-risk, which is dependent on achieving cost-saving targets each year for O&M and A&G. In addition, Avista's asset management programs, that I mentioned earlier, are designed, in part, to focus on capital projects that will decrease O&M costs.

As Avista continues to work to control costs, it is also experiencing a continuing increase in various compliance and reporting requirements. These requirements involve, among other things, monitoring, inspecting, testing, reporting, adding redundancy, and increasing security – both physical security and cyber security. The requirements are driven by, among other things, NERC requirements related to electric reliability, FERC requirements related to assuring the existence of competitive wholesale markets, environmental requirements to ensure we are being good stewards of the environment, and financial requirements to ensure full and fair disclosure of information. Compliance with these important requirements involve people and systems, which is putting upward pressure on our O&M costs.

Q. Is Avista mindful of the impact on retail rates for customers as it maintains its existing utility infrastructure, manages its operating costs, and moves

[6] These changes for the bargaining unit will be subject to future negotiations.

forward to provide more energy-related services and information to meet the future needs and expectations of its customers?

A. Yes. As Avista operates our utility business we are mindful of how increasing costs affect our retail rates, and the effects that can have on our retail customers. As I mentioned earlier, all of the stakeholders in our utility business, whether it be customers, investors, regulators and other stakeholders, hold the same core interests in common, which include the provision of safe, reliable energy service at the lowest reasonable cost, while providing a fair rate of return on investment for shareholders. Our decision-making incorporates a balancing of the competing interests of maintaining a reliable system, preparing for the future, and limiting price increases to customers.

Unlike other businesses, Avista has a legal obligation to provide safe and reliable service to every customer that requests 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.

Without the obligation to serve, we could consider refusing to hook up new customers in order to avoid increased costs to our existing customers, or no longer serve 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. As an example, on January 14, 2016 Walmart announced plans to close 269

underperforming retail stores of which 154 stores are in the United States. In their news release they explained that:

> Closing stores is never an easy decision, but it is necessary to keep the company strong and positioned for the future, Doug McMillon, Walmart's president and chief executive, said in a statement.
>
> It's important to remember that we'll open well more than 300 stores around the world next year, he said. So we are committed to growing, but we are being disciplined about it.

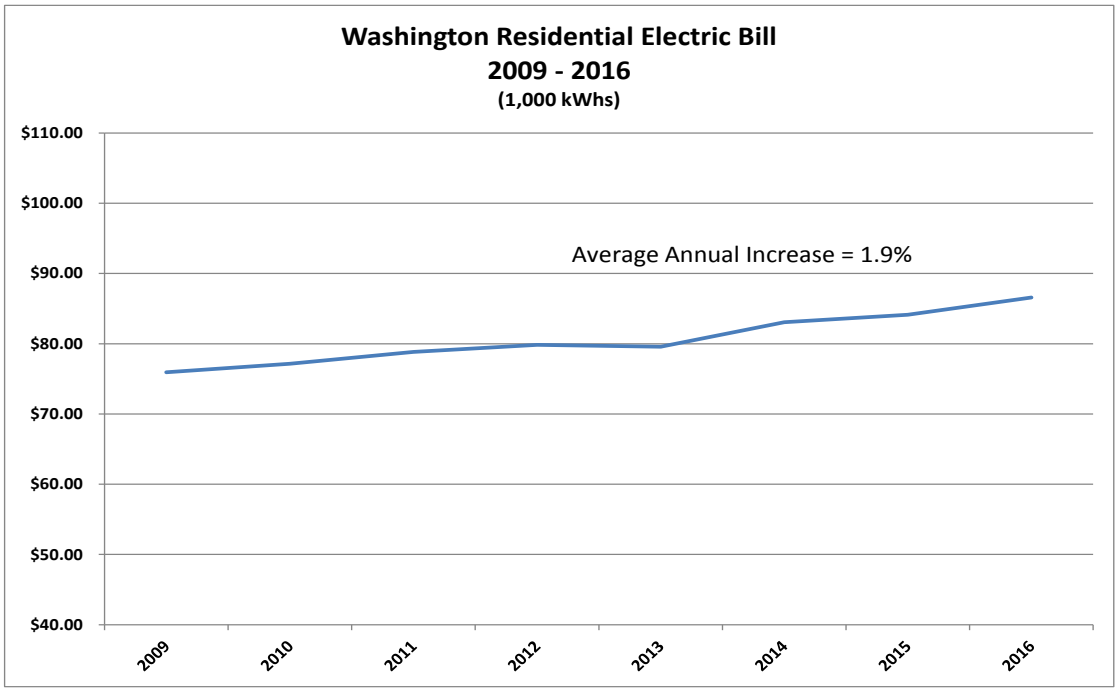
On January 6, 2016, Macy's Department store announced the closure of its downtown Spokane Washington store. The historic Macy's store in Spokane, the largest retailer in downtown, is closing in March this year. The Cincinnati-based Macy's announced plans in September to close 35 to 40 underperforming stores.

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.

Q. How have Avista customers' electric and natural gas utility bills changed in recent years?

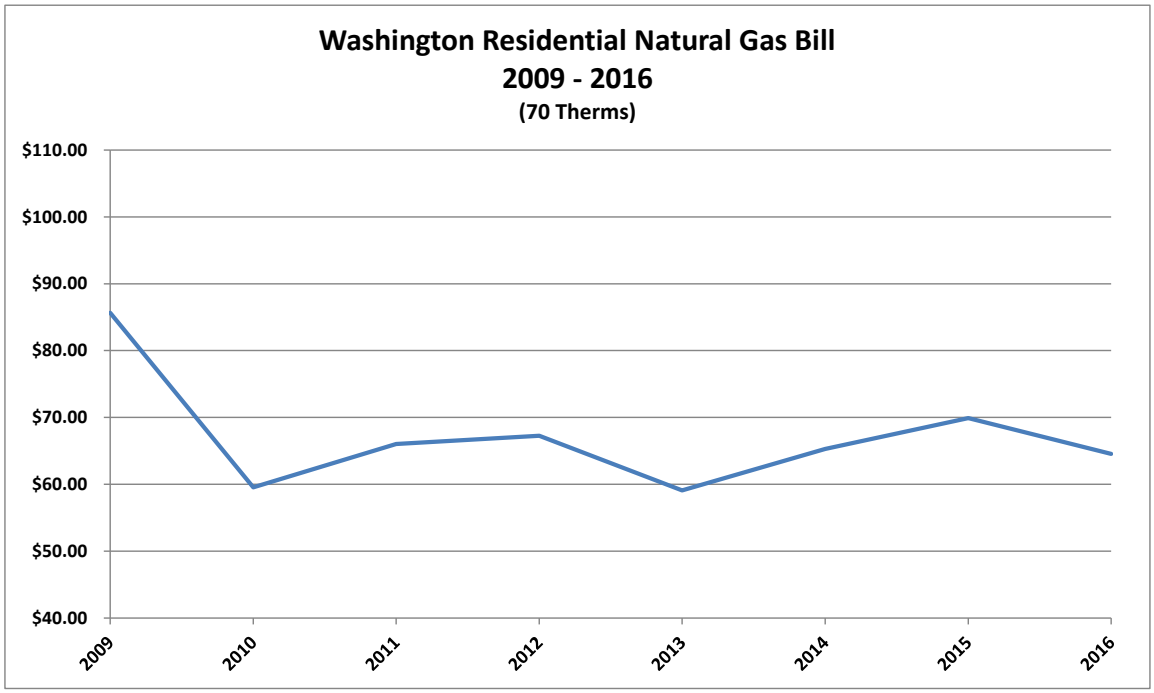
A. The line graph in Illustration No. 6 below shows the change in the monthly bill, from 2009 to 2016, for a Washington residential electric customer using an average of 1,000 kilowatt-hours per month. The graph shows that the average increase over time has been 1.9% per year. By comparison, annual inflation, as measured by the Consumer Price Index (CPI), has averaged 1.4% per year.

Illustration No. 6



With regard to natural gas, the line graph in Illustration No. 7 below shows the change in the monthly bill, from 2009 to 2016, for a Washington residential natural gas customer using an average of 70 therms per month. The graph shows that customer bills have dropped from approximately $85 per month in 2009, to approximately $65 per month in 2016. The graph shows that bills have decreased significantly for this time period, even as Avista has continued to make the necessary investments to maintain its delivery system.

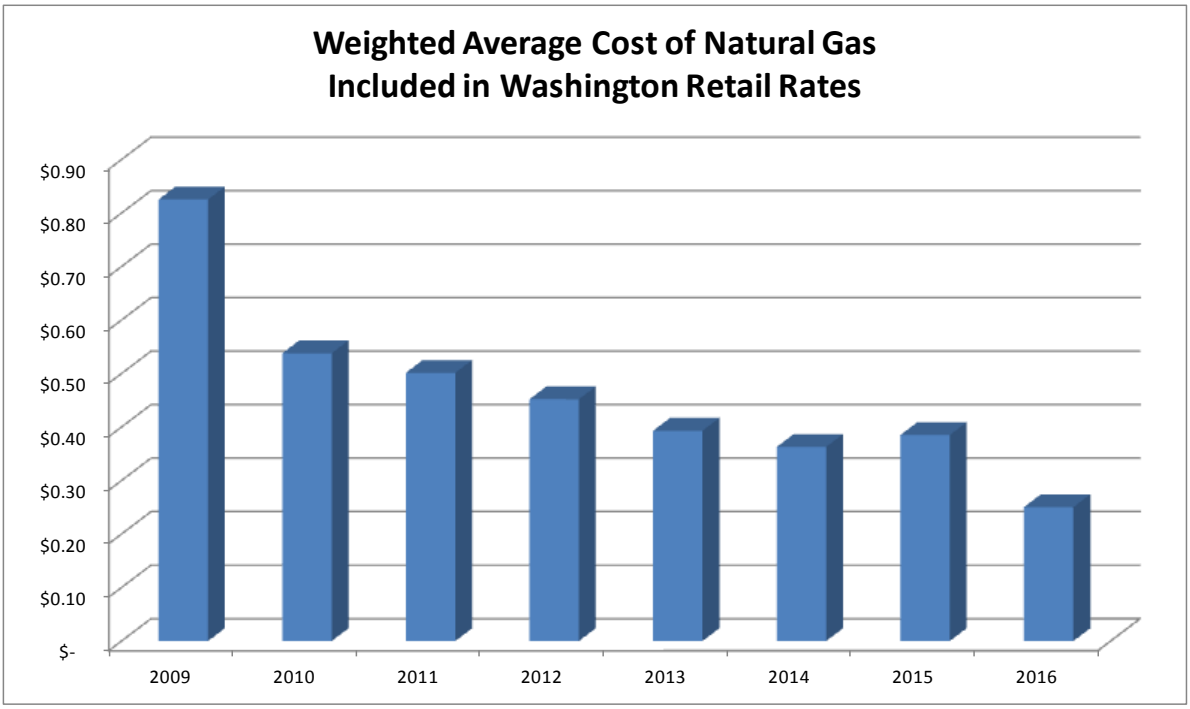
Illustration No. 7



Q. What are the primary factors causing the decrease in natural gas bills?

A. The first, and most obvious, is the decrease in wholesale natural gas prices in recent years. The strong supply of natural gas resulting from horizontal drilling has continued to put downward pressure on the wholesale price of natural gas. The bar chart in Illustration No. 8 below shows the weighted average cost of natural gas embedded in our Washington customers' retail rates from 2009 through 2016. The full benefits of the decrease in costs during this period are passed through to natural gas customers in our annual Purchased Gas Adjustment (PGA) filings, with new rates effective November 1st of each year. The November 1, 2015 rate adjustment resulted in an approximate 15% decrease to customers' bills.

Illustration No. 8



This decrease in the wholesale price of natural gas also results in decreased costs for our electric customers. Avista now has a significant amount of natural gas-fired generation, including the base load generation at Coyote Springs 2, and the Lancaster Plant; as well as natural gas peaking generation at Rathdrum, Northeast, Kettle Falls and Boulder Park. The decrease in natural gas prices reduces our overall power supply costs, and these benefits are flowed through to our customers through a general rate case and through the Energy Recovery Mechanism (ERM). In fact, as mentioned earlier, we are proposing in this case to flow through to customers a portion of the benefits in the ERM balance to offset the second step of the proposed revenue increase for January – June 2018.

Q. Are there other changes that have reduced utility costs?

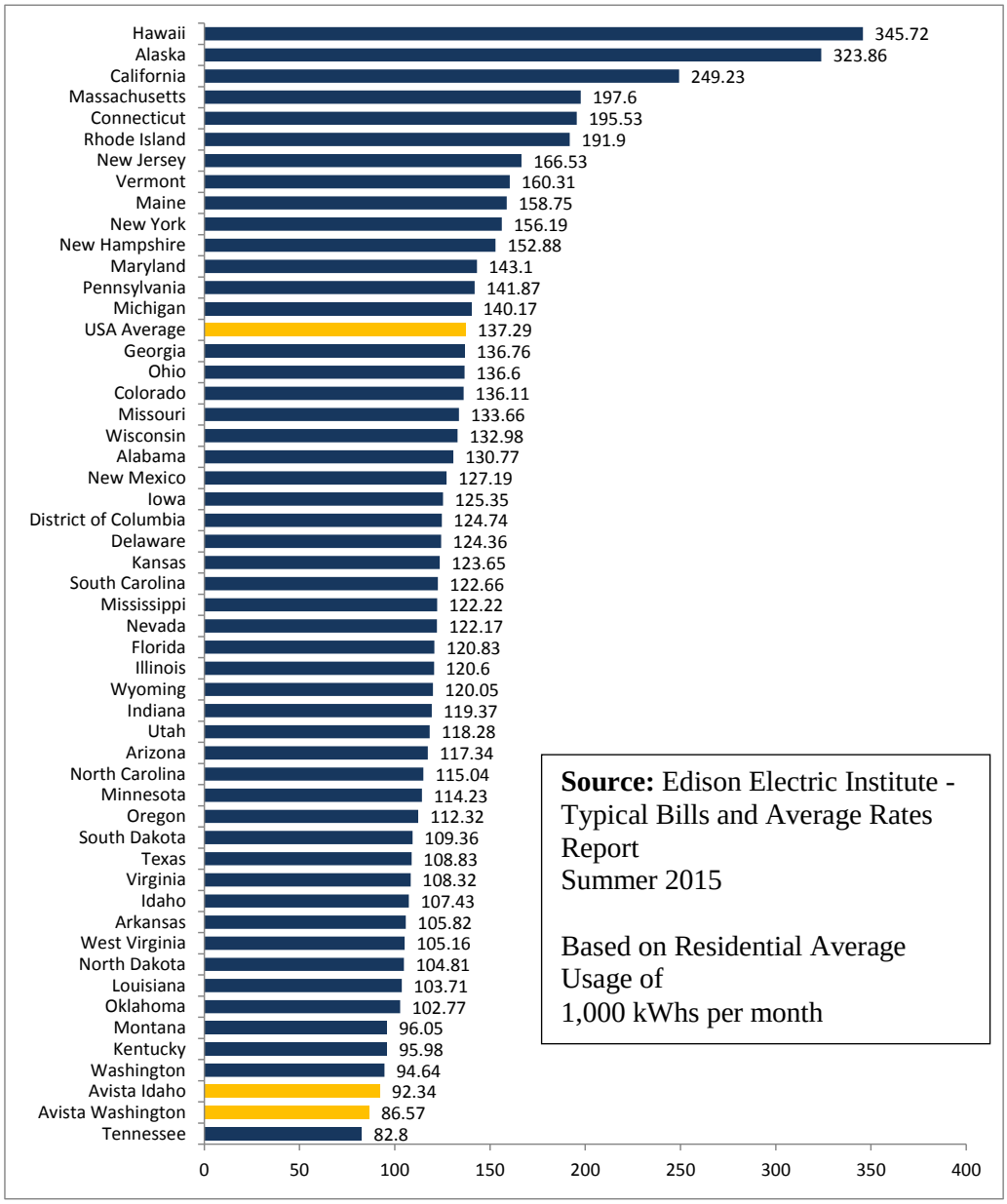
A. Yes. A second major factor reducing costs is the decrease in interest expense for the Company. The bar chart in Illustration No. 9 below shows the cost of debt embedded in Avista's Washington retail rates for the period 2009 through 2016. The average interest rate decreases from approximately 6.5% in 2009 to 5.2% in 2016. During this time period as Avista has refinanced its maturing debt and issued new debt, it has taken advantage of lower interest rates, as well as using a variety of terms and conditions, such as varying terms of maturity, in order to lower the overall cost of debt. The full benefit of the reduction in interest expense is passed on to both electric and natural gas customers through general rate cases.

Illustration No. 9

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

A. Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 10 below provides a comparison of an Avista residential customer's monthly bill in Washington and Idaho with utility bills in other states. The chart shows that Avista's residential customers' rates are among the lowest in the Country.

Illustration No. 10 - Average Residential Monthly Electric Bill



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 efforts to control its costs in order to keep retail rates as low as reasonably possible.

IV. 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 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.

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 communicate with friends, family and customers. We are finding that

once a customer talks with our employees, and voices their concerns and receives answers to their questions, their satisfaction level increases.

We are also 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.

V. CUSTOMER SATISFACTION

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

A. Our customer service surveys indicate that customer satisfaction remains high. Our overall customer satisfaction from our voice-of-the-customer (VOC) surveys in the fourth quarter of 2015 was 96% in our Washington, Idaho, and Oregon operating divisions. The purpose of the VOC Survey is to measure and track customer satisfaction for Avista Utilities' "contact" customers – i.e., customers who have contact with Avista through the Contact Center and/or work performed through an Avista construction office. This rating reflects a positive experience for customers who have contacted Avista related to the customer service or field service they received. These results can be achieved only with very committed and competent employees.

VI. CUSTOMER SUPPORT PROGRAMS

Q. Please summarize briefly 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 2014/2015 heating season nearly 29,000 Washington customers received approximately $8.2 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 $6.7 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 2014/2015 heating period, for example, the LIRAP funds supplied close to 12,500 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 2015, the Company's customers donated $319,189 on a system-wide basis, of which $181,829 was distributed by Washington Community Action Agencies. In addition, the Company contributed $137,360 to Project Share for the benefit of Washington customers in 2015.

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. Company witness Ms. Rosentrater provides additional detail in her testimony related to these and other programs designed to assist customers.

VII. 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. Mark Thies, Senior Vice President, Chief Financial Officer and Treasurer, 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.

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 16 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 the DCF, ECAPM, CAPM and risk premium methods to estimate a fair ROE for Avista, as well as referencing the expected earnings approach;
- Based on the results of these analyses, he concluded that the cost of equity for the proxy group of utilities is in the 9.8 percent to 10.8 percent range, or 9.93 percent to 10.93 percent after incorporating an adjustment to account for the impact of common equity flotation costs; and,
- As reflected in the testimony of Mark T. Thies, Avista is requesting a fair ROE of 9.9 percent, which falls below the 10.43 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 9.9 percent represents a conservative ROE for Avista.

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will cover the need for the additional rate relief requested in the Company's filing. She will first summarize the Company's 18-month rate plan for January 2017 through June 2018. The Company's electric and natural gas revenue requirement requests included in the 18-month rate plan are based on the Company's electric and natural gas Attrition Studies for the 2017 and January to June 2018 rate periods.

Ms. Heather Rosentrater, Vice President of Energy Delivery and Customer Service, will provide an overview of the Company's electric and natural gas energy delivery facilities, the Company's response to the November windstorm, the planned installation of Advanced Metering Infrastructure, distribution and asset management, and finally, she will summarize Avista's customer support programs in Washington.

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 Avista's 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 October 2014 through September 2015 test period power supply revenues and expenses, and 2) describe the proposed level of expense and Retail Revenue Adjustment for ERM purposes, using the pro forma costs proposed by the Company in this filing.

Ms. Jody Morehouse, Director of Gas Supply, will describe Avista's natural gas procurement planning process, provide an overview of the Jackson Prairie natural gas storage facility, and provide an overview of the Company's 2014 Natural Gas Integrated Resource Plan.

Mr. Bryan Cox, Director, Operations West, describes Avista's transmission revenues and expenses for 2017 and January through June 2018. He will also discuss Avista's Transmission and Distribution capital expenditures for the period January 2016 through June 2018.

Ms. Karen Schuh, Senior Regulatory Analyst, will cover Avista's capital investments in utility plant from September 30, 2015 through June 30, 2018, which includes the Company's proposal for an 18-month rate plan. She will also present a detailed explanation of the capital budget process as well as provide explanation and documentation supporting general plant, enterprise technology plant, natural gas distribution plant and other plant additions.

Ms. Jennifer Smith, Senior Regulatory Analyst, will cover the overall methodology and results of the Company's electric and natural gas Pro Forma and Cross Check studies for the 2017 and January to June 2018 rate periods. These studies incorporate the Washington share of the proposed adjustments of other witnesses in this case.

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.

Mr. Joseph Miller, Senior Regulatory Analyst, will cover the Company's natural gas cost of service study performed for this proceeding. Additionally, he is sponsoring the natural gas revenue normalization adjustments to the test year results of operations.

Mr. Patrick Ehrbar, Manager of Rates and Tariffs, discusses the spread of the proposed 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 January 1, 2017 increase in electric base revenues is 7.8% or an increase in electric base retail revenues of $38.6 million. The proposed general increase over present billing revenues, including all other rate adjustments (DSM, LIRAP and Residential Exchange), is 7.6%.

- The proposed January 1, 2018 increase in electric base revenues is 3.9% or an increase in electric base retail revenues of $10.3 million. After including the effects of the proposed ERM rebate, the proposed general increase over present billing revenues, including all other rate adjustments (DSM, LIRAP and Residential Exchange), is 0.0%.

- Effective January 1, 2017, the monthly bill for a residential customer using an average of 957 kWhs per month would increase from $82.79 to $89.62 per month, an increase of $6.83 or 8.2%. This includes the proposed increase in the monthly basic or customer charge from $8.50 to $9.50. There would be no monthly bill change effective January 1, 2018.

- The proposed January 1, 2017 natural gas annual revenue increase in base rates is $4.4 million, or 5.0%. The overall revenue increase on a billing basis is 2.8%.

- The proposed January 1, 2018 natural gas annual revenue increase in base rates is $0.9 million, or 1.8%. The overall revenue increase on a billing basis is 1.0%.

- Effective January 1, 2017, the monthly bill for a residential customer using 66 therms per month would increase from $61.37 to $63.50 per month, an increase of $2.13 or 3.5%. This includes the proposed increase in the monthly basic or customer charge from $9.00 to $9.50.

- Effective January 1, 2018, the monthly bill for a residential customer using 66 therms per month would increase from $63.50 to $64.29 per month, an increase of $0.79 or 1.2%. There would be no further increase in the monthly basic charge.

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

A. Yes.