Exh. KKS-1T

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EXHIBIT: KKS-1T
ADMIT ☑ W/D ☐ REJECT ☐

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-19_______

DOCKET NO. UG-19_______

DIRECT TESTIMONY OF

KAREN K. SCHUH

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

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

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

A. I graduated from Eastern Washington University in 1999 with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. After spending six years in the public accounting sector, I joined Avista in January of 2006. Since 2006, I have worked in various positions within the Company in the Finance Department (Plant Accounting and Resource Accounting) and joined the State and Federal Regulation Department as a Regulatory Analyst in 2008. Currently, as Manager of Regulatory Affairs, I am responsible for, among other things, preparing the capital adjustments in general rate cases for the Washington and Idaho jurisdictions.

Q. What is the scope of your testimony?

A. My testimony and exhibits in this proceeding will explain how the Company's capital investments in utility plant from December 31, 2018 through December 31, 2019 are incorporated into the proposed revenue requirements in this case. As discussed by Company witnesses Mr. Vermillion and Ms. Andrews, the Company is proposing a Two-Year Rate Plan for the period beginning April 1, 2020 through March 31, 2022. As a part of the Two-Year Rate Plan, I prepared the capital adjustments that are incorporated in the electric and natural gas Pro Forma Studies used in Rate Year 1 sponsored by Ms. Andrews. As explained by Ms.

Andrews, Rate Year 2 builds on the Year 1 analysis, so it is important to get the first year as a foundation.

A table of contents for my testimony is as follows:

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Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. KKS-2 and KKS-3 which were prepared by me. KKS-2 provides a summary of the capital investments included in each of the capital witnesses[1] testimony by year. KKS-3 is an illustrative example of the Company's proposed capital report showing how the level of capital completed and in-service prior to Rate Year 2 will be depicted.

[1] Company witnesses Mr. Thackston, Ms. Rosentrater and Mr. Kensok sponsor testimony explaining the Company's capital investments.

II. RATE REQUEST SUMMARY

Q. Please summarize the Company's electric and natural gas Two-Year Rate Plan proposed for April 1, 2020 through March 31, 2022?

A. The Company is proposing a Two-Year Rate Plan (Rate Plan) including the period April 1, 2020 through March 31, 2022, with proposed revenue increases effective April 1, 2020 and April 1, 2021. As Ms. Andrews discusses, the timing of this filing, together with the Rate Plan, will avoid base rate adjustments for customers in the middle of winter for the next two years.

Furthermore, the Two-Year Rate Plan will provide a degree of rate predictability for customers, and a respite from the burdens and costs of the current pattern of continuous annual rate case filings for the Company, Staff, and other participants. The Two-Year Rate Plan will also provide an incentive for Avista to manage its costs in order to earn the authorized rate of return proposed in this filing over the Rate Plan period.[2]

Q. Please provide a brief overview of the calculation of Rate Year 1 versus Rate Year 2, used by Avista to demonstrate the need for relief in this case.

A. Rate Year 1, with a proposed effective date of April 1, 2020, was prepared as a traditional Pro Forma study, including restating and pro forma adjustments beyond the historical test year (2018). Included with the electric and natural gas restating adjustments is an End-Of-Period (EOP) 2018 Net Plant adjustment, adjusting net plant from an average-of-monthly-average (AMA) 2018 historical test year balance to a 2018 EOP net plant historical test-year balance, similar to that approved by the Commission in Avista's last general rate

[2] Company witness Mr. Vermillion also discusses the decision to propose a Two-Year, rather than a Three-Year Rate Plan, in light of varying circumstances, such as timing of completion of the Company's Advanced Metering Infrastructure (AMI) project in 2021, changes on the horizon related to some current legislative and "Clean" initiatives, as well as an opportunity to allow for staggered peer utility rate-plans.

case proceeding (Docket Nos. UE-170485 and UG-170486), and discussed in further detail later in my testimony. As discussed further by Ms. Andrews, without this EOP 2018 Net Plant adjustment that includes the associated depreciation expense, to reduce the current regulatory lag experienced by the Company, the Company would have no chance of earning its authorized rate of return proposed in this case in Rate Year 1, which would be further exacerbated in Rate Year 2.[3]

The Rate Year 2 revenue increases, with a proposed effective date of April 1, 2021, were based on the Company's proposed Revenue Growth Rate Percentage. Details regarding the revenue increases and the Company's proposed Revenue Rate are discussed further by Ms. Andrews.

III. CAPITAL ADDITIONS WITNESSES

Q. Would you please provide a brief summary of the witnesses who provide testimony related to capital additions in this proceeding?

A. Yes. The following witnesses are presenting direct testimony supporting capital additions in this case:

Mr. Jason Thackston, Senior Vice President of Energy Resources, will provide an overview of Avista's resource planning and power supply operations. He will address the major generation capital projects described in this case, including Colstrip capital projects, for the periods 2017-2019.

[3] In Avista's last order No. 02, Docket Nos. UE-170485 and UG-170486, the Commission recognized the importance of capturing the annualized depreciation expense in a consistent manner for the Rate Plan Period.

Ms. Heather Rosentrater, Vice President of Energy Delivery, will explain capital additions related to electric transmission and distribution, natural gas delivery, facilities, fleet, as well as general plant for the years 2017-2019.

Mr. James Kensok, Vice President and Chief Information and Security Officer, will provide an overview of Avista's Information Service/Information Technology (IS/IT) programs and projects. This includes summaries of the Company's capital investments for a range of IS/IT systems used by the Company for the years 2017-2019.

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

A. Mr. Thackston, Ms. Rosentrater and Mr. Kensok present capital transfers-to-plant information (gross plant additions) on a calendar-year basis and on a system level, i.e., the totals include major[4] actual transfers-to-plant for electric and natural gas operations, for the Washington, Idaho and Oregon jurisdictions in 2017 and 2018, and certain planned transfers in 2019. Each witness's testimony discusses two specific sections for capital additions. The first section covers major capital additions that are included in the Company's test period from January 1, 2017 to December 31, 2018 on a system basis. The second section includes major pro forma capital additions from January 1, 2019 through December 31, 2019 on a system basis. To be clear, information is being supplied for all (not just "major" capital additions) for 2017 and 2018 (See Exhibits: JMK-2, HLR-7 and JRT-4), but the witnesses are only focusing on "major" additions for the period.

[4] References to "major" plant within this testimony refer to major plant additions excluding the Company's Advanced Metering Infrastructure ("AMI") project. Avista has excluded AMI investment from this general rate case, and has separate regulatory accounting treatment approved for AMI through an accounting petition filed May 1, 2017 in Docket Nos. UE-170327 and UG-170328.

Table No.1 below reflects the calendar year transfers to plant for major projects that are discussed in each witness' testimony, on a system basis:

Table 1:

Major Capital Projects (System) in (000's)					
Functional Area	**Wintess**	**Exhibit No.**	**2017**	**2018**	**2019**
Generation/Production	Mr. Thackston	JRT-1T	$ 17,938	$ 16,449	$ 14,047
Electric Transmission and Distribution	Ms. Rosentrater	HLR-1T	47,104	61,135	69,014
Natural Gas Distribution	Ms. Rosentrater	HLR-1T	30,676	33,673	30,023
General Plant/Facilities	Ms. Rosentrater	HLR-1T	7,754	29,500	30,800
Enterprise Technology	Mr. Kensok	JMK-1T	42,463	14,470	29,275
Total			$ 145,935	$ 155,227	$ 173,159

IV. 2017 & 2018 MAJOR CAPITAL PROJECTS INCLUDED IN TEST YEAR

Q. Please explain what the Company has included in this testimony with regard to capital projects for 2017 and 2018.

A. Mr. Thackston, Ms. Rosentrater and Mr. Kensok provides capital project information and further support for "major" capital projects completed during 2017 and 2018 (as mentioned information on all other non-major projects is set forth in Exhibits: JMK-2, HLR-7 and JRT-4). As I will discuss later, for projects included since our last general rate case[5] and through the 2018 test year, Avista's capital witnesses will describe the "major projects" completed. The determination of "major projects" for 2017 and 2018 was based on any project, on a Washington-allocated basis, that was greater than $5 million for electric, and greater than $2 million for natural gas. Please note that my testimony provides the Washington-allocated values, but Mr. Thackston, Ms. Rosentrater and Mr. Kensok testimonies discuss projects, and their costs, at a system level. Each capital witness provides

[5] Certain projects were reviewed and approved in Avista's last GRC (Docket Nos. UE-170485 and UG-170486) with balances through August 2017. As the Company describes all 2017 capital projects over $5 million for electric and $2.0 million for natural gas, there may be 2017 projects that are described in this case that had been previously approved by this Commission, but are include for ease of auditing and comparability.

testimony on capital project information and further support for major projects completed during 2017 and 2018.

Q. Are the major capital additions for 2017 and 2018, included in each witness's testimony, therefore, the only capital additions you are requesting for the 2018 test year?

A. No, the major capital listed in each of the aforementioned witnesses' testimony for 2017 and 2018 is only a portion of the total capital that is included in the Company's 2018 historical test period. The Company is requesting all capital included in the 2018 test period in this case, which includes all capital additions through December 31, 2018.[6] The Company included major capital project detail in each witness's testimony in order to provide more information and support for its test year capital additions beyond that previously approved by the Commission in Dockets UE-170485/UE-170486.

V. 2019 PRO FORMA STUDIES

Q. Turning now to 2019, pro forma capital projects, why did you only include "major" (not all) projects for 2019?

A. The Company only wanted to address the larger projects that would be in service during the pendency of this rate case, and to limit the number of such projects for ease of auditing and review. As discussed below, we have only pro formed in $111 million (Washington electric and natural gas) of 2019 in-service capital, out of a total of $206 million of 2019 capital.

[6] Capital additions for 2017 and 2018 total approximately 250 capital projects and $859 million of (system) transfers to plant.

Q. How did the Company's most recent general rate case help you determine what projects were "major" for pro forma adjustment purposes?

A. In the Company's prior case, we included in our pro forma capital adjustment all capital additions through 2017, on an end-of-period basis. We understand Commission Staff's concerns about the ability for Staff to audit all of those projects given the large number of projects. For its part, the Commission did not support such a proposal, citing to a 2014 Pacific Power and Light order that provided "policy guidance that are relevant to the instant case".[7] As it relates to this issue, the Commission itself noted that "we do not employ bright-line policies in considering post-test year capital additions",[8] "[p]ro forma adjustments must be supported by significant, auditable data",[9] "projects should meet some reasonable definition of major",[10] and "adjustments are evaluated on a case-by-case basis, following the used and useful and known and measurable standards while exercising considerable discretion".[11] (emphasis added)

Avista does not believe that Staff's traditional 0.5% budget threshold used to segment which pro forma capital projects are allowed to be included, is appropriate. If Avista had used this threshold ($9.8M electric/$2.1M natural gas), and applied it to 2019 capital projects, only 5 out of 165 projects would meet the threshold. Neither the inclusion of only 5 projects nor, for that matter, the inclusion of all 165 projects by Avista, are reasonable. Therefore, in order to reach a sensible middle ground, Avista has employed a somewhat lower threshold than the

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[7] Dockets UE-170485 and UG-170486, Order 07, ¶196.
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] Ibid.

.05% threshold.[12] This middle ground limits the pro forma projects included for 2019 to just 20 out of 165 projects, or 12% of the Company's 2019 projects ($111M transfers-to-plant out of $206M), all of which will be in service, prior to rates going into effect. This method provides a "reasonable definition of major" and is consistent with the Commission's statement that it does not employ bright-line policies.

Table No.2 below reflects the 20 discrete projects included on a Washington electric and natural gas basis for 2019:

Table 2:

2019 Washington Electric and Natural Gas-Major Projects (in 000's)

Line	ER	ER Name	Washington Electric	Washington Natural Gas
1	1003	Distribution Line Transformers	4,125	
2	2055	Electric Distribution Minor Blanket	6,239	
3	2060	Wood Pole Mgmt	8,137	
4	2204	Substation Rebuilds	4,662	
5	2215	Substation Asset Mgmt Capital Maintenance	3,270	
6	2470	Dist Grid Modernization	5,460	
7	2556	CDA-Pine Creek 115kV Transmission Line: Rebuild	4,065	
8	2580	South Region Transmission Voltage Control	4,849	
9	2604	Lind-Warden 115kV Transmission Line Rebuild	5,751	
10	3005	Gas Distribution Non-Revenue Blanket		2,515
11	3008	Aldyl -A Pipe Replacement		12,077
12	4152	Little Falls Powerhouse Redevelopment	5,916	
13	4178	CG HED - Gantry Crane Replacement	3,270	
14	5016	Endpoint Compute and Productivity Systems	4,998	1,530
15	5020	Enterprise & Control Network Infrastructure	3,728	1,095
16	5151	Customer Facing Technology	5,492	1,682
17	7000	Transportation Equip	4,155	1,272
18	7131	COF Long Term Restructuring Plan Phase 2	7,771	2,380
19	7132	Dollar Rd Service Center Addition and Remodel		3,053
20	7135	Deer Park Service Center	2,985	914
Total 2019 Major Projects for Electric and Natural Gas			**$ 84,872**	**$ 26,518**

Q. Why did you use a "system level" (vs. jurisdictional) of capital for determining the major projects in the 2019 Pro Forma Studies, than what you used for the historical test years 2017 and 2018?

[12] The "threshold" of .05% of revenues was wrenched out of context from WAC 480-140-040, meant only to address a threshold for budget reporting purposes. This was never intended to define what is appropriate for defining a "pro forma adjustment" for rate-making purposes. It is not appropriate to continue to use a "bright line", instead, a threshold should be arrived at that takes into account the ability of Staff and Parties to conduct reasonable audits.

A. For the 2017 and 2018 historical test years, the Company analyzed the capital additions in order to simply highlight large projects for both electric and natural gas for an ease of auditability. As I discussed previously in my testimony, the Company is requesting all capital additions be included in the 2018 test years, and therefore, is providing these projects for auditing purposes. For the 2019 Pro Forma Studies, the Company analyzed what number of projects would cover a wide range of representative capital investment while still keeping the number of projects to a minimum to allow for audit. After the analysis of the expected projects using several different cutoff levels, the Company believes that $5 million on a "system" level reasonably accomplishes that audit objectives of all plant.

Q. How can the Parties review these 20 projects for 2019, given that some will not transfer until later in the Procedural Schedule?

A. We can understand the difficulties faced by Staff and other parties to review projects that are still underway during their audit period (i.e., prior to filing their responsive testimony). It should be remembered, however, that (1) these projects will be in-service by the end of 2019, three months before April 1, 2020 rates take effect; (2) as discussed elsewhere, for any of those 20 projects that have not transferred to service, or are not complete by the time Staff and other parties testimony is due in this case, Avista will supplement the record by providing an updated transfers-to-plant listing prior to the effective date of Year 1 rates. If that is not consistent with earlier audit information on particular projects, any plant wrongfully characterized as "in service" at year end can be removed before April 1 rates go into effect. That said, we have provided "significant auditable data" at the outset for Parties to review during the pendency of this case, which is included in each of the capital witnesses testimony as mentioned earlier. Further, many of the 20 projects for 2019 are what we call "programs" which have been included as "major projects" described in the Capital witnesses testimonies. In short, many of these projects are merely a continuation of earlier projects for 2017 and 2018 and have been previously examined.

Q. What additional assurances of the "in-service" nature of these projects is the Company providing?

A. In the Capital Reporting section of my testimony, I will discuss how the Company can provide some additional assurances surrounding the pro forma projects included for 2019, as well as the level of net plant for Rate Year 2.

Q. Why does Avista believe this is a reasonable course of action?

A. I believe this is reasonable for a number of reasons. First, as Company witness Mr. Thies explains in his testimony, we have and will continue to be investing $405 million in our utility system on an annual basis. At the same time, we are not seeking to include all capital investment in 2019, just 20 of 165 projects. As such we are, in effect, limiting our rate recovery and accepting a level of regulatory lag on capital investment, which, in and of itself, as some will agree, will impose further discipline around capital spending.

In the end, however, in order to make a Two-Year Rate Plan feasible in the State of Washington, it is critical that Year 1 is set correctly. If Year 1 levels of capital investment are set too low, then Year 2 levels will also be too low. In my estimation that would cause Avista, if not other utilities, to turn away from multi-year rate plans.

Q. Given the above history, how were the capital additions developed for the Pro Forma Studies?

A. As discussed by Ms. Andrews, the electric and natural gas 2019 Pro Forma Studies include traditional restating and pro forma adjustments beyond the historical test year

(2018), Avista started with net plant for the historical test year ending December 31, 2018 on an AMA basis. An adjustment was made to restate plant-in-service at December 31, 2018 to an end-of-period ("EOP) basis at December 31, 2018.

Post-2018, the Company identified pro forma projects that are greater than $5 million for electric and natural gas, on a system level. This major capital distinction yielded seventeen electric projects and nine natural gas projects to be included within Avista's Pro Forma Studies, for a total of 20 discrete projects as shown in Table 2 (six projects are "common" to both electric and natural gas services).

These pro forma projects were included on a 2019 EOP basis together with the associated accumulated depreciation ("AD") and accumulated deferred federal income taxes ("ADFIT")[13]. These adjustments also include associated depreciation expense for each capital addition at the newly approved depreciation rates discussed later in my testimony. These adjustments are included by Ms. Andrews as Pro Forma Adjustment 3.10 in her electric and natural gas Pro Forma Studies. The pro forma adjustments are reflected in Table Nos. 3 and 4, and the specific projects are identified in Exh. KKS-2 on a calendar year basis, as well as in my workpapers.

The results of the Pro Forma Study reflect only a portion of the net plant that will be in service serving customers during the rate year beginning April 1, 2020. The table below reflects each of the adjustments made to the plant accounts:

[13] The associated ADFIT includes the repairs deduction expected through 2019 on an EOP basis.

Table 3:

Washington Electric Adjustments in $(000's)					
	Adj #	**Plant in Service**	**Accumulated Depreciation**	**Deferred Taxes**	**Rate Base**
Pro Forma Study					
2018 AMA	**Results**	2,941,241	(978,732)	(410,938)	**1,551,571**
Deferred FIT Rate Base	**1.01**			(1,946)	**(1,946)**
Remove AMI Rate Base	**1.04**	(22,464)	1,415	1,883	**(19,166)**
Pro Forma Colstrip Amortization	**3.13**	(9,188)			**(9,188)**
2018 AMA to EOP Adj	**2.19**	91,465	(30,474)	901	**61,892**
2019 Pro Forma Adjustment	**3.10**	84,872	(1,576)	(2,053)	**81,243**
Pro Forma Study Total		3,085,926	(1,009,367)	(412,153)	**1,664,406**

Turning to Natural Gas, the following table shows the adjustments made to the natural gas plant accounts.

Table 4:

Washington Natural Gas Adjustments in $(000's)					
	Adj #	**Plant in Service**	**Accumulated Depreciation**	**Deferred Taxes**	**Rate Base**
Pro Forma Study					
2018 AMA	**Results**	605,131	(188,807)	(88,908)	**327,416**
Deferred FIT Rate Base	**1.01**			(1,247)	**(1,247)**
Remove AMI Rate Base	**1.04**	(7,041)	433	570	**(6,038)**
2018 AMA to EOP Adj	**2.15**	37,944	(5,977)	304	**32,271**
2019 Pro Forma Adjustment	**3.10**	26,518	(653)	(607)	**25,258**
Pro Forma Study Total		662,552	(195,004)	(89,888)	**377,660**

Q. Please summarize the level of electric and natural gas additions under the Pro Forma Studies and the expected additions for 2019.

A. Illustration No. 1 below provides a comparison of the pro forma capital additions adjustment and the total additions expected to transfer to plant in 2019, prior to the rate year beginning April 1, 2020.

Illustration No. 1:

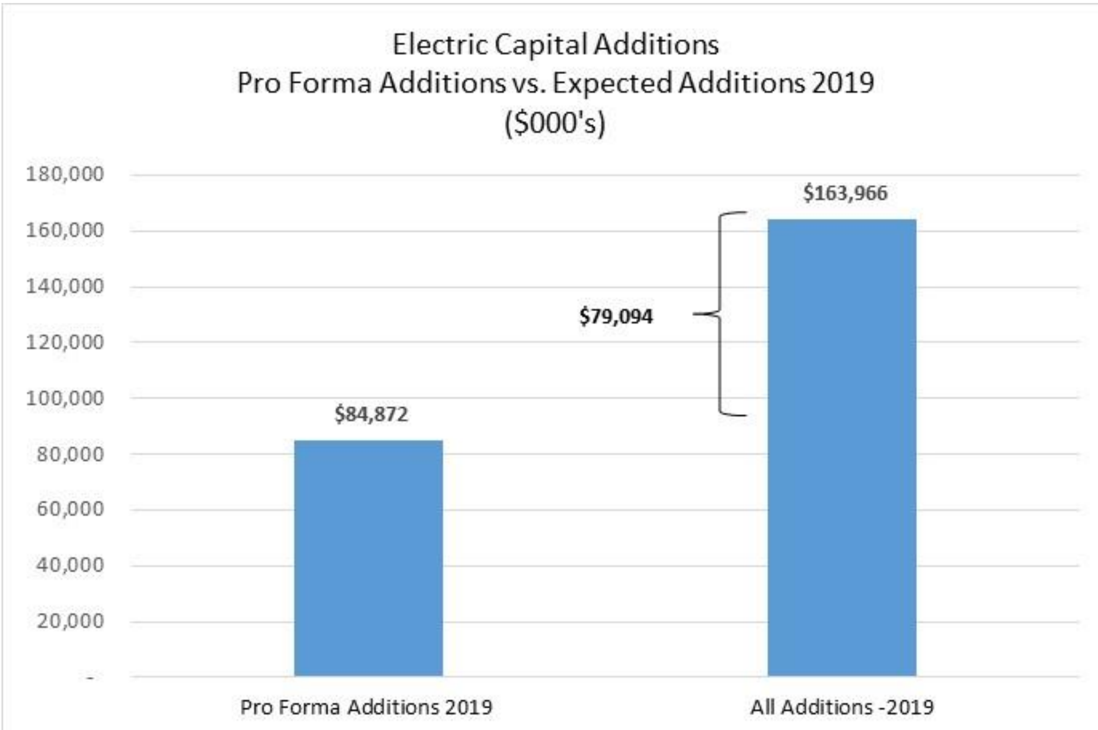


Illustration No. 1 demonstrates that the electric Pro Forma Study including only major 2019 additions, when compared to the expected level of including all capital additions for 2019, significantly understates the level of capital, for the first Rate Year, beginning April 1, 2020 by approximately $79 million. This does not reflect the understated capital associated with the period January 1, 2020 to March 31, 2020.

Illustration No. 2 shows a similar comparison for natural gas pro forma capital additions:

Illustration No. 2:

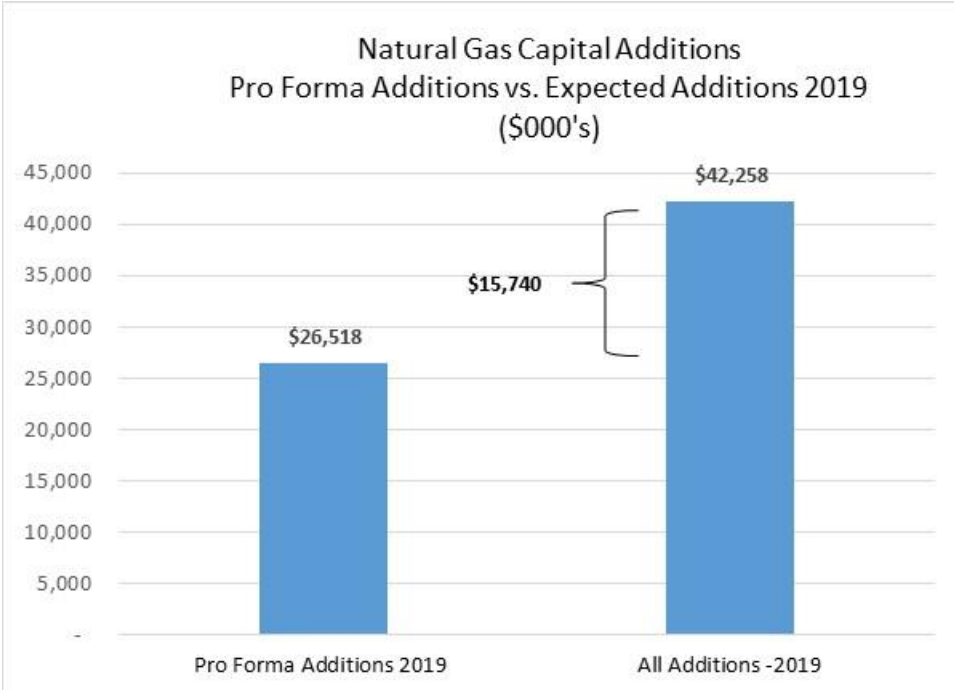


Illustration No. 2 similarly demonstrates that the natural gas Pro Forma Study, including only major 2019 capital additions, when compared to the expected levels of all capital additions for 2019, significantly understates the level of capital for the first rate year, beginning April 1, 2020. by approximately $16 million; and this does not reflect the understated capital associated with the period January 1, 2020 to March 31, 2020, after the end of the 2019 pro forma period.

Q. How were the offsets determined for January 2019 through December 31, 2019 plant investment?

A. Each Pro Forma capital addition was analyzed to determine any offsets (e.g., reduced O&M costs, reduced load losses, etc.). Maintenance records were reviewed to determine whether any specific maintenance costs were incurred in the test period that would be reduced or eliminated by the investment at the facility. Those costs were quantified and included as a reduction to O&M costs in the O&M Savings Pro Forma adjustment 3.11 included by Ms. Andrews in the revenue requirement as a part of her Pro Forma Studies for electric and natural gas. The overall impact of this adjustment is a decrease to expense of approximately $151,000 and $14,000, for electric and natural gas, respectively.

The following projects were incorporated into the offsets adjustment:

- Little Falls
- Wood Pole Management
- Distribution Grid Modernization
- Dollar Road Service Center
- Central Office Facility Restructuring Phase 2

Q. What conclusions have you drawn regarding the increased capital investment included in this case?

A. The Company is making substantial levels of capital investment in its electric and natural gas system infrastructure to address customer growth, replacement and maintenance of Avista's aging system, and to sustain reliability and safety. As soon as this new plant is placed in service, the Company must start depreciating the new plant and incur other costs related to the investment. Unless this new investment is reflected in retail rates in a timely manner, it has a negative impact on Avista's earnings, particularly because the new plant is typically far more costly to install than the cost of similar plant that was embedded in rates decades earlier. As plant is completed and is providing service to customers, it is appropriate for the Company to receive timely recovery of the costs associated with that plant.

VI. REPORTING FOR CAPITAL ADDITIONS

Q. Is the Company proposing to report to the Commission on completed capital additions as part of its proposed Two-Year Rate Plan?

A. Yes, the Company is proposing to provide additional information for plant-in-service for the electric and natural gas Pro Forma Study projects included in this case that will not transfer to plant by the time Staff and the Parties complete their review. It will also provide a report for year-end 2020 capital projects that are in service prior to Rate Year 2.

Q. Please explain what the Company is proposing to provide in support of the Pro Forma Study projects to the Commission that will transfer in 2019.

A. For any of those 20 projects that have not transferred to service, or are not complete by the time Staff and other parties testimony is due in this case, Avista will supplement the record by providing an updated transfers-to-plant listing prior to the effective date of Year 1 rates. This will serve to validate that such plant is, in fact, in-service. The Company does not believe that audit issues will arise that were not "flagged" by the parties during their prior audit work on these projects, relating to need, cost or timing of any project. In that regard, several of these projects are the same projects previously included in the Company's 2017 and 2018 test years.

In addition, before the rate-effective date of April 1, 2020, the Company will provide a signed affidavit of the three capital witnesses in this case, under the penalty of perjury, attesting to the fact that each of the projects have transferred to plant-in-service, and are used and useful for customers. This additional support will provide the Commission yet additional assurance that the pro forma level of capital is, in fact, serving customers in the rate year.

Q. Please explain what the Company is proposing to report on for Rate Year 2 to the Commission.

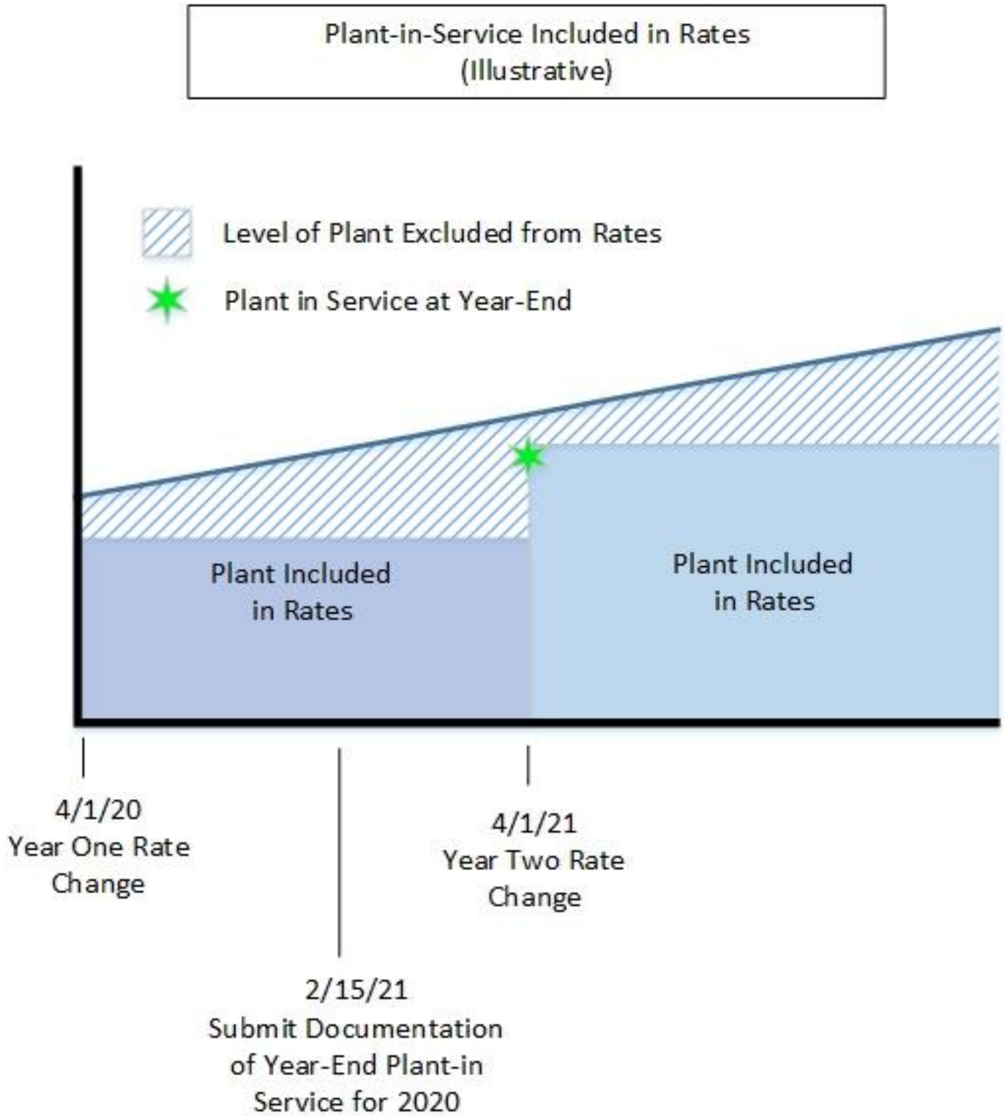
A. For Rate Year 2, beginning April 1, 2021, the Company is proposing to file with this Commission an Electric and Natural Gas Capital Report by February 15, 2021,[14] which will include the following information:

> 1. A summary report of actual capital additions (i.e. transfers-to-plant-in-service) and actual year-end (end of period) net plant balances as of December 31, 2020.
> 2. A final results of operations report, (normally filed with the Commission), showing the net plant level for Washington electric and natural gas at December 31, 2020.
> 3. A signed affidavit from the three capital witnesses in this case (Mr. Thackston, Ms. Rosentrater, and Mr. Kensok), attesting to the fact that these projects have transferred to plant-in-service, and are used and useful to customers.

Illustration No. 3 below is simply meant to convey the concept of how capital additions will be handled for Year Two of the Two-Year Rate Plan.

[14] The Company is requesting a reporting date of February 15, 2021, which is six weeks after December 31, 2020, in order to allow time for the year-end closing process and generation of the Washington Electric and Natural Gas Results of Operations reports to occur.

<u>Illustration No. 3 – Plant-in-Service Included in Rates</u>



This report will provide an opportunity for review of the level of net plant prior to new rates going into effect on April 1, 2021 (as discussed elsewhere, any prudency review would be conducted in the next general rate case, to be effective no sooner than April 1, 2022). This would provide assurance to the Commission that the rate increases approved effective April 1, 2021, would include a level of utility plant that is actually in-service serving customers prior to new rates going into effect. [15] Please see Exhibit KKS-3 which shows for illustrative purposes, what the Company is proposing for the report discussed above.

Q. If the Company's actual plant balances are below the level approved for the rate year beginning April 1, 2021, will the Company adjust the Rate Year 2 increase?

A. Yes. If the reports show that actual net plant-in-service prior to rates going into effect on April 1, 2021 were to be below what would support the approved revenue increases of Rate Year 2, the Commission would have an opportunity to make modifications prior to rates going into effect, and reduce the revenue requirement accordingly.[16]

VII. 2018 DEPRECIATION STUDY

Q. Would you please provide an overview of the Company's most recent depreciation study Order 04 in Docket UE-180167/UG-180168 Consolidated?

A. Yes, on February 22, 2018, Avista filed an application requesting authority to revise its book depreciation rates and to defer the effects of the change in depreciation rates once those rates are approved by the Commission (Docket Nos. UE-180167 and UG-180168).

The Parties in that proceeding ultimately reached agreement on revisions to the Company's book depreciation rates following additional negotiations and recalculations of

[15] The Two-Year Rate Plan would not preclude tariff filings authorized by or contemplated by the terms of the Energy Recovery Mechanism (ERM), Purchased Gas Adjustment (PGA), Public Purpose Rider Adjustment (DSM/LIRAP) or similar adjustments. The Company is proposing that the Two-Year Rate Plan also not preclude the Company from filing for rate relief or accounting treatment for major changes in costs not reflected in this filing, such as new safety or reliability requirements imposed by regulatory agencies, or the recovery of unanticipated expenses beyond the Company's control – e.g., fire, wind, and snowstorms.

[16] As discussed by Ms. Andrews, the level of net plant approved for Rate Year 2 would be based on the final net plant after ADFIT balance approved for Rate Year 1, multiplied by the "Net Plant After ADFIT" Revenue Growth Rate Category approved by the Commission, to arrive at a level of net plant after ADFIT balance.

depreciation rates for select accounts. The Settlement Agreement also included agreements by the Parties related to Colstrip depreciation issues.

On April 3, 2019, the Commission issued Order 04. The Commission ultimately approved the Stipulation proposed by the parties subject to conditions specific to Colstrip. In accordance with the Stipulation, such depreciation rates (excluding those associated with Colstrip) would constitute revised depreciation rates, which would become effective for accounting purposes on April 1, 2019, for both Washington direct and common plant. Customer rates, however, would not change to reflect the revised depreciation rates until inclusion in the Company's next general rate case.

The Commission did <u>not</u> approve, however, the proposed revised depreciation rates for Colstrip[17] or the method proposed to recover the undepreciated balance for Colstrip Units 3 and 4. The Commission stated that the recovery of the undepreciated balance should not be approved outside of a general rate case. Ms. Andrews will discuss further the Company's proposal for how to recover the undepreciated balance for Colstrip Units 3 and 4 in her testimony, which is the same solution that was previously agreed to by all Parties in the depreciation study proceeding, but with updated amounts.

Q. Have you prepared an adjustment to reflect the impact of the new depreciation rates in this case?

A. Yes, there are two adjustments which incorporate the Company's recently-approved depreciation rates. Adjustments 3.09 for electric and for natural gas in Ms. Andrews pro forma adjustments reflects the impact of the 2018 level of depreciation expense updated

[17] The Parties had proposed depreciation rates reflecting a depreciable life for Colstrip Units 3 and 4 of 2027, rather than the current depreciation rates using 2034/2036 as the depreciable life of these assets.

for the new depreciation rates effective April 1, 2020. The effect of this adjustment increases NOI by $1,691,000 for electric and by $1,199,000 for natural gas.

Also, the capital pro forma adjustments for electric and natural gas incorporate the new depreciation rates for those pro forma additions being added in 2019. These amounts are embedded within the adjustments included in Ms. Andrews Pro Forma Studies at adjustment number 3.10 for electric and natural gas.

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

A. Yes, it does.