

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION) DOCKETS UE-190334, UG-190335, and
) UE-190222 (*Consolidated*)
)
Complainant,)
)
v.)
)
AVISTA CORPORATION)
)
Respondent.)
)
)
)
_____)

**RESPONSE TESTIMONY OF BRADLEY G. MULLINS
ON BEHALF OF
THE ALLIANCE OF WESTERN ENERGY CONSUMERS**

October 3, 2019

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EXHIBIT LIST

Exh. No. BGM-2:	Regulatory Appearances of Bradley G. Mullins
Exh. No. BGM-3:	Electric Service Revenue Requirement Calculations
Exh. No. BGM-4:	Gas Service Revenue Requirement Calculations
Exh. No. BGM-5C (Conf):	WNP-3 Expiration Benefit
Exh. No. BGM-6:	GTN Pipeline Stipulation (Excerpt)
Exh. No. BGM-7C (Conf):	Pipeline Optimization Calculations
Exh. No. BGM-8:	Pro Forma Revenue Adjustment
Exh. No. BGM-9:	Electric Revenue Growth Study
Exh. No. BGM-10:	Gas Revenue Growth Study
Exh. No. BGM-11:	Responses to Data Requests

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is 1750 SW Harbor Way, Ste
4 450, Portland, Oregon 97201.

5 **Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**
6 **TESTIFYING.**

7 A. I am an independent energy and utilities consultant representing energy consumers before
8 state regulatory commissions, primarily in the Western United States. I am appearing in
9 this docket on behalf of the Alliance of Western Energy Consumers (“AWEC”). AWEC
10 is a non-profit trade association whose members are large energy users served by electric
11 and gas utilities located throughout the West, including customers of Avista Corporation
12 (“Avista”). AWEC was formed as a result of the merger of the Northwest Industrial Gas
13 Users (“NWIGU”) into the Industrial Customers of Northwest Utilities (“ICNU”) on
14 April 1, 2018.

15 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

16 A. I have a Master of Accounting degree from the University of Utah. After obtaining my
17 master’s degree, I worked at Deloitte in San Jose, California, where I specialized in
18 performing research and development tax credit studies. I later worked at PacifiCorp as
19 an analyst involved in power cost forecasting. I have been performing independent
20 energy and utilities consulting services for approximately six years, and provide services
21 to utility customers on matters such as revenue requirement, power cost forecasting, and
22 rate development. I have sponsored testimony in several regulatory jurisdictions around
23 the United States, including before the Washington Utilities and Transportation

1 Commission (the “Commission”). A list of cases where I have submitted testimony can
2 be found in Mullins, Exh. No. BGM-2.

3 **Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?**

4 A. In Opening Testimony, Avista has proposed April 1, 2020 revenue requirement increases
5 of \$45,755,488, or 9.12%, for electric services and \$12,930,000, or 13.8%, for gas
6 services. In addition to the test period rate increase discussed above, Avista has
7 requested additional second-year rate increases, effective April 1, 2021, of \$18,926,827
8 or 3.46% for electric services and \$6,456,633 or 6.05% for gas services.

9 The purpose of this Response Testimony is to provide AWEC’s overall revenue
10 requirement recommendation, and discuss several adjustments to Avista’s proposed
11 revenue requirements. I also discuss Avista’s request for a rate plan and present an
12 alternative revenue growth study.

13 **Q. ARE OTHER WITNESSES FILING TESTIMONY ON BEHALF OF AWEC IN**
14 **THIS MATTER?**

15 A. Yes. AWEC witness Kaufman is also filing testimony on revenue requirement issues and
16 rate spread/rate design issues. AWEC witness Gorman is filing testimony on cost of
17 capital and capital structure. The revenue impacts of the recommendations of AWEC
18 witnesses Gorman and Kaufman have been incorporated into my overall revenue
19 requirement recommendation below.

20 **Q. PLEASE SUMMARIZE AWEC’S TEST PERIOD REVENUE REQUIREMENT**
21 **RECOMMENDATION.**

22 A. Based on AWEC’s review and analysis, AWEC is recommending an overall test period
23 revenue requirement reduction of (-)\$2,654,931, or -0.52%, for electric services and an

1 increase of \$2,902,296 for gas services. The specific adjustments AWEC is proposing
 2 relative to Avista's initial filing may be found in Mullins, Exh. No. BGM-3 for electric
 3 services and Mullins, Exh. No. BGM-4 for gas services. I have also summarized
 4 AWEC's adjustments in Table 1, below:

TABLE 1
AWEC Test Period Revenue Requirement Recommendations (\$000)

			<u>Electric</u>		<u>Gas</u>	
			<u>Adj. #</u>	<u>(\$000)</u>	<u>Adj. #</u>	<u>(\$000)</u>
1	Avista Initial Filing			45,775		12,935
	Adjustments/ Witness					
2	Cost of Capital	Gorman		(14,506)		(3,386)
3	Hydro One	Kaufman	2.12E.A1	(590)	2.12G.A1	(147)
4	Director Fees	Mullins	2.12E.A2	(104)	2.12G.A2	(32)
5	IT Allocation	Kaufman	2.12E.A3	(1,039)	2.12G.A3	(321)
6	WNP-3 Settlement	Mullins	2.18E.A4	(4,052)		
7	GTN Pipeline	Mullins	2.18E.A5	(662)		
8	Gas Optimization	Mullins	2.18E.A6	(12,856)		
9	Production Factor	Mullins	3.01E.A7	(8,772)	3.01G.A7	(4,339)
10	Pole Attachment Revs.	Kaufman	3.01E.A8	(21)		
11	AWEC Labor Esc.	Kaufman	3.04E.A9	(99)	3.04G.A9	(33)
12	AWEC P.F. Benefits	Kaufman	3.05E.A10	(2,270)	3.05G.A10	(689)
13	AvistaUtilities.com	Kaufman	3.10E.A11	(918)	3.10G.A11	(595)
14	Retirements	Mullins	3.10E.A12	(2,167)	3.10G.A12	(377)
15	Corporate Aircraft	Mullins	3.10E.A13	(110)	3.10G.A13	(32)
16	Customer Advances	Mullins	3.10E.A14	(266)	3.10G.A14	(82)
17	Total Adjustments			(48,430)		(10,033)
18	AWEC Adjusted			<u>(2,655)</u>		<u>2,902</u>
19	<i>Percentage Increase / (Reduction)</i>			<i>-0.52%</i>		<i>2.96%</i>

1 As can be seen, Table 1 details the adjustment number and the AWEC witness
2 supporting each adjustment, along with the corresponding revenue requirement impact of
3 each adjustment.

4 **Q. WHAT IS AWEC'S RECOMMENDATION ON THE RATE PLAN AVISTA HAS**
5 **PROPOSED?**

6 A. As discussed more thoroughly later in my testimony, AWEC is generally opposed to the
7 adoption of a rate plan in this case on the basis that Avista has failed to adequately
8 support its revenue growth studies that form the basis for its requested second-year
9 increases. Notwithstanding, if the Commission is to approve a rate plan, AWEC
10 recommends second-year revenue requirement increase of \$6,829,132 or 1.34% for
11 electric services and \$1,182,365 or 1.17% for gas services. These percentages are based
12 on alternative revenue growth models presented in Mullins, Exh. No. BGM-9 for electric
13 services and Mullins, Exh. No. BGM-10 for gas service. Relative to the revenue growth
14 models in Avista witness Andrews' testimony, AWEC's analysis includes a more
15 detailed review of each of the categories of costs included in revenue growth rates and
16 makes adjustments to the growth rates based on analysis of available historical data over
17 the period 2000 through 2018. Further, AWEC's analysis uses linear interpolation, rather
18 than a compound growth rate when calculating the rates.

19 **II. REVENUE REQUIREMENT**

20 **Q. PLEASE PROVIDE AN OVERVIEW OF THIS SECTION OF TESTIMONY.**

21 A. In this section of testimony, I discuss revenue requirement adjustments related to net
22 power costs, revenues, rate base, and directors fees. I have identified the specific pro

1 forma adjustment by the numbers Avista used in Opening Testimony. I have also added
2 an “E” for electric or “G” gas depending on whether the adjustment applies to electric
3 services or gas services.

4 **a. Net Power Supply Expense (2.18E)**

5 **Q. WHAT HAS AVISTA PROPOSED WITH RESPECT TO POWER COSTS IN**
6 **THIS DOCKET?**

7 A. A key issue with Avista’s overall revenue requirement is the baseline level of net power
8 costs embedded in rates. In Direct Testimony, however, Avista recommends making no
9 change to the level of power costs embedded in rates in Docket UE-170485.^{1/}

10 **Q. WHY HAS AVISTA PROPOSED NOT TO UPDATE POWER COSTS?**

11 A. Mr. Kalich cites to the Commission decision in Order 07, paragraph 160, where the
12 Commission stated that “[g]oing forward, the Commission will consider carefully any
13 adjustments to the power cost baseline and change it only in extraordinary
14 circumstances...”

15 **Q. DID YOU REQUEST AVISTA PROVIDE A POWER COST FORECAST FOR**
16 **THE RATE PERIOD?**

17 A. Yes. In AWEC Data Request (“DR”) 13, AWEC requested Avista to provide its latest
18 power cost forecast for 2020 in a format similar to Exhibit WGJ-2 in Docket UE-170485.
19 In response, Avista stated that it had “not performed any such analysis.”

^{1/} Kalich, Exh. No. CGK-1T at 2:19-22.

1 **Q. DO YOU AGREE WITH AVISTA’S DECISION NOT TO UPDATE THE POWER**
2 **COST BASELINE AND ITS INTERPRETATION OF THE COMMISSION’S**
3 **ORDER IN UE-170485?**

4 A. No. Given recent ERM activity and the language in the Commission’s Order 07 in UE-
5 170485, I recommend making certain changes to baseline net power costs. Specifically, I
6 discuss the effects of the following three changes to Avista’s power costs since the
7 Commission last considered power costs in Docket UE-170485:

- 8 • WNP-3 Contract Expiration (Adj. 2.18E.A4): This legacy
9 settlement agreement expired on June 30, 2019.
- 10 • GTN Pipeline Rates (Adj. 2.18E.A5): As a result of a tax reform
11 settlement, GTN Pipeline rates will be reduced by approximately
12 17.5% from UE-170485 levels.
- 13 • Pipeline Optimization (Adj. 2.18E.A6): Increased congestion value
14 on Avista’s pipeline rights into Canada has resulted in increased
15 profits for Avista.

16 Other than these three known and measurable changes, I am not contesting or
17 addressing any other aspect of Avista’s proposed power costs.

18 **Q. WHAT DID THE COMMISSION DECIDE IN DOCKET UE-170485 FOR**
19 **POWER COSTS?**

20 A. The current level of baseline net power costs was established in Docket No UE-170485.
21 In that docket, Avista filed to increase net power costs by \$16,004,000.^{2/} Due to parties’
22 concerns over the modeling methodology Avista employed in Aurora, the Commission
23 did not accept or reject Avista’s Aurora power cost modeling, and ordered parties to
24 engage in stakeholder discussions about how power cost modeling may be simplified and

^{2/} Docket UE-170485, Johnson Exh. No. WGJ-1T at 3:18.

1 improved.^{3/} Notwithstanding, the Commission authorized Avista to increase baseline
2 power costs by \$14,500,00, to address specific increased costs associated with 1) the
3 Portland General Electric Contract expiration, and 2) reduced transmission revenues from
4 expiring agreements.^{4/} In accepting these adjustments, the Commission stated “we find
5 that the end of the PGE contract is a significant change to Avista’s power costs that
6 justifies a change in the baseline, and Avista’s representation of how the revenue loss
7 impacts the baseline is the only representation we have in the record.”^{5/} With respect to
8 the PGE contract in particular, the Commission found that the “expiration of the PGE
9 contract is a finite, known event with a measurable impact, and adjusting the ERM
10 baseline based on how that event would impact power costs during a normalized year is
11 appropriate.”^{6/}

12 **Q. BASED ON THE COMMISSION’S FINAL ORDER IN UE-170485, DO YOU**
13 **BELIEVE IT IS APPROPRIATE TO CHANGE AVISTA’S POWER COST**
14 **BASELINE IN THIS DOCKET?**

15 A. Yes. I have identified three adjustments that I believe meet the Commission’s
16 requirements for changing Avista’s baseline. I discuss each of those adjustments in the
17 following subsections.

^{3/} Docket UE-170485, Order 07 ¶ 161 (Apr. 26, 2018).

^{4/} Id. at ¶ 159.

^{5/} Id. at ¶ 162.

^{6/} Id. at ¶ 158.

1 i. Washington Nuclear Project 3 Settlement Expiration (2.18E.A4)

2 **Q. PLEASE PROVIDE SOME BACKGROUND ON THE WASHINGTON**
3 **NUCLEAR PROJECT 3 (“WNP-3”) CONTRACT?**

4 A. The WNP-3 Contract is a legacy agreement between Avista and the Bonneville Power
5 Administration (“BPA”), related to the abandonment of the WNP-3 power plant, to be
6 located near Aberdeen Washington. In May of 1983, BPA announced its
7 recommendation to indefinitely delay construction activities at WNP-3. Through its net
8 billing relationship with Energy Northwest, BPA had control over 70% of the partially
9 developed nuclear project. The remaining 30% of the WNP-3 development was owned
10 by Portland General Electric (10%), Pacific Power (10%), Avista Corporation (5%), and
11 Puget Sound Energy (5%). Dramatic cost overruns, and Energy Northwest’s eventual
12 default—at the time the largest municipal default in history—were among the reasons
13 BPA decided to temporarily cease development of the project.

14 **Q. HOW DID THE MINORITY OWNERS RESPOND TO BPA’S DECISION TO**
15 **CEASE CONSTRUCTION?**

16 A. The minority group of investor-owned utilities were not supportive of BPA’s 1983
17 decision to cease construction of WNP-3. The group had collectively invested significant
18 sums with respect to the project and wished to keep investing, even though the cost was
19 expected to be several multiples of the original projection. Accordingly, BPA was
20 subsequently sued by the four minority WNP-3 owners, including Avista, with respect to
21 BPA’s decision to cease construction.

1 **Q. HOW WAS THE SUIT AGAINST BPA RESOLVED?**

2 A. In 1985, a settlement was reached between BPA and the minority owners, including
3 Avista, that provided replacement power at cost-based rates through June 2019.^{7/}

4 **Q. WHEN DID THE WNP-3 SETTLEMENT AGREEMENT WITH BPA EXPIRE?**

5 A. The WNP-3 Settlement with BPA expired on June 30, 2019.^{8/}

6 **Q. HOW WAS AVISTA'S UNRECOVERED INVESTMENT IN WNP-3**
7 **RESOLVED?**

8 A. Avista was authorized to amortize its share of unrecovered WNP-3 investment through
9 the June 2019 term of the power purchase agreement. While this amortization expense
10 has been included in past cases, I confirmed that Avista did remove this amortization
11 expense as a pro forma adjustment in Adjustment 3.02.

12 **Q. HOW IS THE WNP-3 CONTRACT STRUCTURED?**

13 A. As described in BPA's 1985 Annual Report: "the private utilities [] purchase about the
14 same amount of power from BPA that they would have received from their share of the
15 investment in WNP-3. And they [] pay to BPA about the same amount of money for the
16 power that they would have paid for WNP-3 power."^{9/}

^{7/} A discussion of the WNP-3 settlement may be noted on page 25 of BPA's 1985 Annual Report (Bonneville Power Administration, 1985 Annual Report, 25, accessible at: <https://www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/Prior-Fiscal-Years.aspx> (Feb. 1986)._(accessed September 2019)).

^{8/} Mullins, Exh. No. BGM-11 at 13 (Avista Resp. to AWEC Data Request ("DR") 130).

^{9/} Bonneville Power Administration, 1985 Annual Report, 25, accessible at: <https://www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/Prior-Fiscal-Years.aspx> (Feb. 1986).

1 **Q. WHAT WAS THE RATE FOR WNP-3 PURCHASES IN THE UE-170485?**

2 A. A cost of \$44.325/MWh for WNP-3 power purchases is currently embedded in rates
3 based on Docket UE-170485. In response to AWEC Data Request 130, Avista described
4 this rate as being “the average of the floor and ceiling price in the contract.”

5 Based on Avista’s public workpapers in the Docket UE-170485, baseline power
6 costs include 396,914 MWhs of WNP-3 power, shaped seasonally, for a total cost of
7 \$17,593,213.

8 **Q. HOW WILL THE EXPIRATION OF THE WNP-3 CONTRACT IMPACT**
9 **AVISTA’S POWER SUPPLY COSTS?**

10 A. Given the high price of the settlement contract, its expiration will benefit Avista. Based
11 on a comparison to current forward market prices at the mid-Columbia market hub, I
12 calculate ratepayers will save \$5,921,986 on a system basis as a result of the WNP-3
13 expiration. On a Washington-allocated basis, the savings equates to \$3,872,387. I have
14 detailed these calculations in Mullins, Exh. No. BGM-5. In developing this estimate, I
15 relied on the forward market prices Avista provided in response to AWEC Data Request
16 14.^{10/}

17 **Q. IS YOUR ADJUSTMENT CONSISTENT WITH THE COMMISSION’S FINAL**
18 **ORDER IN UE-170485?**

19 A. Yes. Just like the effects of the PGE contract expiration the Commission authorized
20 Avista to include in the power cost baseline, the expiration of the WNP-3 Settlement “is a
21 finite, known event with a measurable impact.”^{11/} Further, the expiration of the WNP-3

^{10/} Mullins Exh. No. BGM-11 at 2 (Avista’s Resp. to AWEC DR 14).
^{11/} Docket UE-170485, Order 07 ¶ 158 (Apr. 26, 2018).

1 Settlement will result in a material reduction to Avista's power costs and is, therefore, "a
2 significant change that justifies a baseline adjustment."^{12/} As Avista testified with respect
3 to the PGE contract, "[i]t is important that retail rates reflect the reality that Avista is no
4 longer receiving the net benefits from this expired contract."^{13/} The same reasoning
5 applies to the expiration of the WNP-3 Settlement contract. Ratepayers have been
6 waiting for the WNP-3 settlement agreement to expire for a long time, and accordingly,
7 should not have to wait any longer to recognize the benefits from its expiration.

8 ii. GTN Pipeline (2.18E.A5)

9 **Q. PLEASE PROVIDE SOME BACKGROUND ON THE GAS TRANSMISSION**
10 **NORTHWEST PIPELINE.**

11 A. The GTN Pipeline delivers gas from Kingsgate on the Canada-Idaho border to Malin on
12 the California-Oregon border. It crosses the Williams pipeline at Stanfield, near Carty
13 and Coyote Springs. Avista reserves approximately 69,338 dth/day on the GTN
14 Pipeline, which Avista uses to fuel its Lancaster and Coyote Springs 2 facilities. Avista's
15 GTN Pipeline rights are also interconnected with Avista's rights on pipelines into
16 Canada, including the Foothills pipeline and the TransCanada pipeline system. With
17 these rights, Avista can access relatively inexpensive gas from Alberta, on the NOVA
18 system, or the AECO market hub, and deliver it as far south as Malin for use in its power
19 plants, or for sale at the Malin market hub.

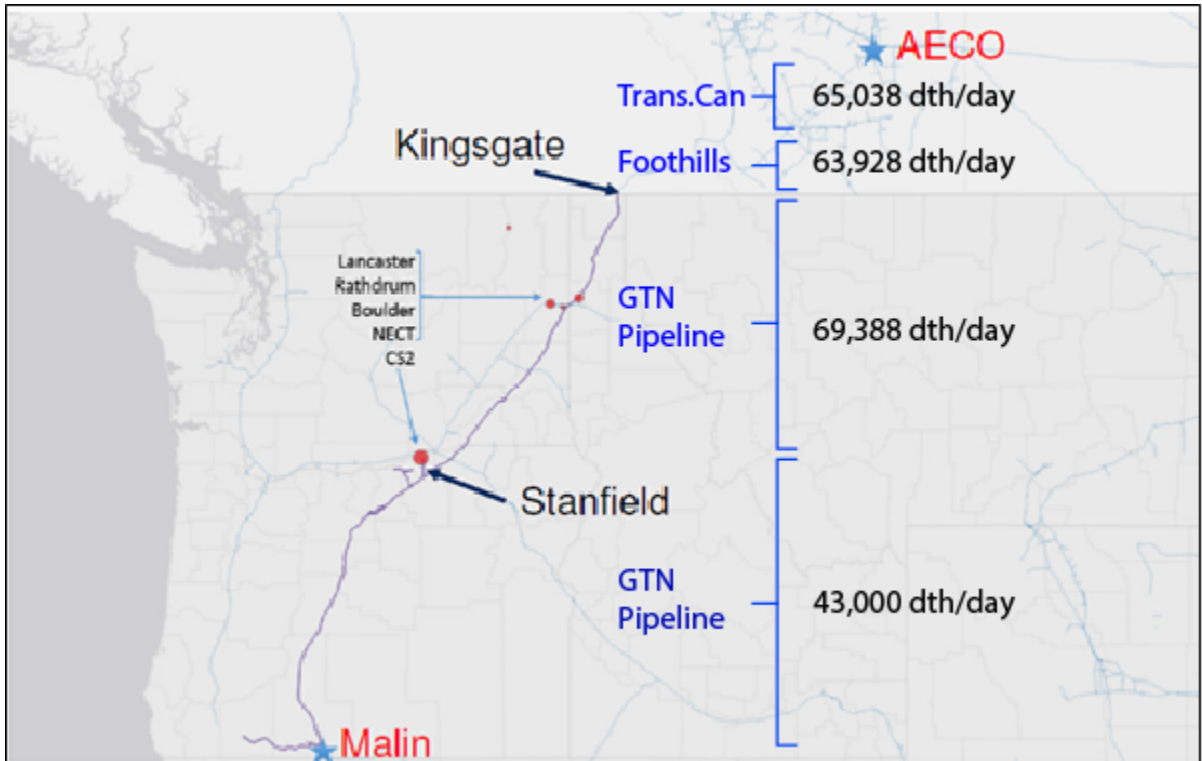
^{12/} Id. at ¶ 159.

^{13/} Docket UE-170485, Exh. No. WGJ-1T at 5:21-6:1.

1 **Q. WHAT IS THE EXTENT OF AVISTA’S PIPELINE RIGHTS?**

2 A. Avista maintains extensive pipeline rights throughout the Northwest and into Canada. I
3 have detailed these pipeline rights in Figure 1, below.

FIGURE 1
Avista Electric System Pipeline Right
Dth/day (Source: AWEC DR 128)



4 **Q. HAVE THE RATES FOR THE GTN PIPELINE CHANGED SINCE UE-170485?**

5 A. Yes. On October 16, 2018, a settlement between shippers and the GTN Pipeline was
6 filed with the Federal Energy Regulatory Commission (“GTN Stipulation”). Avista and
7 AWEC were both parties to the GTN Stipulation. The settlement resulted in material
8 reductions to the GTN Pipeline rates due to the effects of tax reform. I have attached the
9 relevant parts of the GTN Stipulation in Mullins, Exh. No. BGM-6. As can be noted in

1 this exhibit, relative to the rates assumed in Avista’s power cost baseline, GTN Pipeline
2 rates will decline materially based on the terms of the GTN Stipulation. These reductions
3 are detailed in Table 2, below:

TABLE 2
GTN Pipeline Rate Reductions

	Mileage		Non-Mileage	
	Rate	% Δ	Rate	% Δ
January 1, 2018	0.000434		0.034393	
January 1, 2019	0.000391	-9.9%	0.030954	-10.0%
January 1, 2020	0.000362	-7.4%	0.028612	-7.6%

4 As can be seen, the settlement resulted in GTN Pipeline’s rates declining on
5 January 1, 2019 by approximately 10%. In addition, rates are set to decline further by an
6 additional 7.5% on January 1, 2020. Thus, collectively, GTN pipeline rates will decline
7 by approximately 17% as a result of the GTN Stipulation.^{14/}

8 **A. WHAT WERE AVISTA’S GTN PIPELINE COSTS BEFORE THE**
9 **SETTLEMENT REDUCTIONS?**

10 A. Based on Avista’s response to AWEC Data Request 128, Avista includes \$8,563,745 in
11 GTN Pipeline costs in UE-170485 on a total system basis. The workpapers Avista
12 provided in response to AWEC Data Request 128, however, only appeared to include
13 \$6,026,080 in expenses.

^{14/} Further, the GTN Stipulation also provided a one-time \$10,000,000 credit to shippers in connection with interim period tax savings. This interim period credit was provided on shippers’ November 2018 bills, received in December 2018. Based on Avista’s response to AWEC DR 126, I confirmed that Avista received this credit on its November 2018 Bill.

1 **Q. HOW WILL AVISTA’S GTN PIPELINE COSTS CHANGE AFTER THE GTN**
2 **SETTLEMENT?**

3 A. Applying the reduced rates from the GTN Stipulation to the billing determinants used in
4 response to AWEC Data Request 128 results in an expected GTN Pipeline cost of
5 \$5,058,945 on a total system basis. These calculations may be found in my workpapers.
6 Relative to the amount included in rates, this is a reduction to Avista’s costs of \$967,134
7 on a total system basis or \$632,409 on a Washington-allocated basis.

8 **Q. IS YOUR ADJUSTMENT CONSISTENT WITH THE COMMISSION’S**
9 **REQUIREMENTS IN ITS FINAL ORDER IN UE-170485?**

10 A. Yes. Again, like the expiration of the WNP-3 Settlement contract described above, and
11 the expired PGE contract the Commission reflected in the baseline in UE-170485, the
12 reduction to the GTN Pipeline rates from the settlement is clear and definite. It is a
13 “known event with a measurable impact” and adjusting the ERM baseline to reflect this
14 impact, therefore, “is appropriate.”^{15/}

15 iii. Pipeline Optimization (2.18E.A6)

16 **Q. WHAT ARE YOU RECOMMENDING WITH RESPECT TO GAS**
17 **TRANSPORTATION OPTIMIZATION REVENUES?**

18 A. In UE-170485, Order 07, paragraph 156, the Commission stated that what was “clear in
19 the record is that Avista’s power cost forecasts have been consistently unbalanced in the
20 Company’s favor over recent years.” A key source of Avista’s power cost variances in
21 recent years relates to increasing basis spreads between the AECO and Malin market
22 hubs. For the purpose of serving its Coyote Springs 2 and Lancaster power plants, Avista

^{15/} Docket UE-170485, Order 07, ¶ 158.

1 contracts for firm transportation capacity on the GTN Pipeline, the Foothills pipeline and
2 the TransCanada pipeline, giving Avista access in the north to the AECO market hub and
3 in the south to the Malin market hub. These rights were noted in Figure 1, above.

4 Having access to both markets provides material financial benefits to Avista and its
5 ratepayers. In recognition of these financial benefits, Avista's power costs in UE-170485
6 included a \$9,000,000 credit in recognition of the spreads between AECO and Malin
7 market prices.

8 Since UE-170485, however, the value of Avista's transmission rights and the
9 associated spreads between AECO and Malin, have appreciated materially.

10 **Q. WHAT ARE GAS TRANSPORTATION OPTIMIZATION REVENUES?**

11 A. Similar to electricity prices, natural gas prices differ depending on the location of a
12 transaction. Accordingly, if an entity owns gas transportation rights between two
13 locations, it can buy at one location and sell at the other, earning a margin, or basis, equal
14 to the difference in price between the two locations. These trading activities optimize
15 the cost associated with fueling Avista's thermal power plants.

16 **Q. DOES AVISTA MAINTAIN SEPARATE PIPELINE RIGHTS FOR ITS GAS**
17 **CUSTOMERS?**

18 A. Yes. Avista maintains separate accounting and enters into separate pipeline contracts for
19 its electric and gas business lines. The optimization revenues on the gas side flow
20 through to gas sales customers through the Purchased Gas Adjustment mechanism, and
21 thus, are not impacted by this adjustment. Note that while Avista has no electric power
22 plant as far south as Malin, it is able to sell gas between its business lines and use the

1 pipeline rights it reserves for its electric service to serve its gas customers in the Klamath
2 Falls and Medford regions. Thus, establishing proper pricing for gas optimization
3 revenues is necessary for ensuring intercompany gas transfers are valued properly.

4 **Q. ARE OPTIMIZATION REVENUES CAPTURED IN AVISTA'S POWER COST**
5 **MODELING?**

6 A. Yes. In Avista's power cost modeling, the fuel supply costs are based on the location of
7 each individual plant. For example, the costs for the Coyote Springs 2 plant is calculated
8 at Stanfield prices, even though Avista has the ability to import gas from the AECO
9 market. This is consistent with Avista's actual practice of dispatching its gas plants at
10 local, Stanfield, gas prices, not the AECO market hub. Notwithstanding, Avista's ability
11 to use AECO to serve its power plants—or, in the alternate, to earn margins by
12 remarketing the gas—presents a material benefits to ratepayers that does not get captured
13 in the dispatch cost. Thus, absent the out-of-model adjustment Avista performs, the
14 beneficial aspects of the pipeline system would not get captured in Avista's power cost
15 modeling. In Docket UE-170485, Avista calculated this out-of-model adjustment to be
16 \$9,000,000 on a system basis.

17 **Q. HOW DID AVISTA CALCULATE THE OUT-OF-MODEL ADJUSTMENT IN**
18 **UE-170485?**

19 A. It is not entirely clear. In Public Counsel Data Request 107, Avista was asked to provide
20 its calculation of the gas transportation values used in UE 170485. In a Supplemental
21 Response, Avista stated that it had actually calculated a gas optimization credit in the pro
22 forma period of \$13,000,000 in UE-170485.^{16/} Notwithstanding, Avista stated that it

^{16/} Mullins, Exh. No. BGM-11 at 16-17 (Avista Supplemental Response to PC Data Request 107)

1 “was not convinced that the spreads would remain wide enough to support a \$13 million
2 gas transport value in the pro forma period,” and accordingly made a judgement-
3 informed adjustment to reduce the calculation to \$9,000,000, although this change in
4 methodology was not discussed in the docket.

5 **Q. HAVE AVISTA’S GAS OPTIMIZATION REVENUE LEVELS CHANGED**
6 **SINCE UE-170485?**

7 A. Yes. Given volatile energy prices, the value of basis spreads in the West has increased
8 materially over the past two years. In Mullins, Exh. No. BGM-7 (Conf.), I provide
9 calculations of the optimization revenues under two different scenarios: 1) using 2018
10 actual monthly market prices; and 2) using current forward market prices over the 12-
11 month period ending March 2021.

12 **Q. WHAT LEVEL OF PIPELINE OPTIMIZATION REVENUES DID AVISTA**
13 **RECOGNIZE IN 2018?**

14 A. From Mullins, Exh. No. BGM-7 (Conf.) it can be noted that in 2018 Avista’s total system
15 pipeline benefits were \$38,917,804, compared to the \$9,000,000 that had been modeled
16 in baseline net power costs. That is a difference of \$29,917,804. On a Washington
17 allocated basis, the difference equates to a benefit of \$19,532,652 that had not been
18 considered in Avista’s UE-170485 rates.

19 **Q. WHAT LEVEL OF GAS OPTIMIZATION REVENUES ARE INDICATED BY**
20 **CURRENT FORWARD PRICES?**

21 A. In response to AWEC Data Request 14, Avista provided its forward curves for all gas and
22 power markets as of August 13, 2018. Based on those forward curves and Avista’s gas
23 pipeline rights, I calculate gas optimization revenues of \$16,753,101 on a total system
24 basis for the rate period. This value is \$7,753,101 larger on a total system basis the

1 \$9,000,000 of pipeline optimization benefits currently included in rates. On a
2 Washington allocated basis, this variance amounts to \$5,039,153.

3 **Q. WHAT DO YOU RECOMMEND?**

4 A. The level of spreads between AECO and Malin continue to be significantly higher in
5 daily and short-term markets than in long-term forward markets. For example, on
6 September 19, 2019, gas was trading at AECO for \$0.25/Dth, compared to \$2.34/Dth at
7 Malin.^{17/} Given the continuation of these wide market spreads, even following the
8 aftermath of the Enbridge incident,^{18/} there is reason to believe that Avista's actual
9 optimization revenues in the rate period will be more in line with the results Avista
10 experienced in 2018 than the spread noted in the forward prices. Accordingly, I
11 recommend applying an adjustment equal to the midpoint between actual 2018
12 optimization revenues and rate period optimization revenues, using current forward
13 curves. As noted on Page 1 of Mullins, Exh. No. BGM-7, this recommendation produces
14 a \$12,285,902 reduction to net power costs relative to UE-170485.

15 **Q. IS THE DIFFERENCE BETWEEN THE LEVEL OF OPTIMIZATION**
16 **REVENUES INCLUDED IN THE BASELINE AND THE LEVEL AVISTA**
17 **EXPERIENCES IN ACTUAL OPERATIONS A SIGNIFICANT DRIVER OF THE**
18 **DIRECTIONAL BIAS THE COMMISSION FOUND IN UE-170485?**

19 A. Yes. As I detail in Table 3, below, the historical ERM deferrals and the associated power
20 cost variances indicate that Avista's baseline net power costs continue to be unbalanced.

^{17/} Source: Enerfax; Clearing Up, Issue 1921 at 5 (Sep. 27, 2019)

^{18/} In October 2018, the primary pipeline carrying gas from Canada to the Williams Northwest Pipeline that serves much of the Pacific Northwest ruptured, causing both gas and electric market prices to spike over the several months following the rupture.

TABLE 3
Historical ERM Power Cost Variances

	2016	2017	2018
Total System			
Actual NPC (w/o Gas Opt.)	136,611,634	137,235,359	134,722,818
Gas Opt. Revenues	(13,416,561)	(6,059,188)	(12,165,500)
Actual Net Power Cost	123,195,073	131,176,171	122,557,318
Authorized Net Power Cost	138,670,410	136,830,730	148,453,951
Variance	15,475,337	5,654,559	25,896,633
Variance %	11.16%	4.13%	17.44%
Wa. Variance (incl. load adj.)	8,426,688	6,219,740	15,544,268
ERM Deferral	3,320,016	1,664,805	9,489,841
ERM Ending Balance	17,947,670	22,048,815	31,273,344
Company Benefit	5,106,672	4,554,935	6,054,427

1 As can be seen from Table 3, notwithstanding the Commission’s decision to increase
2 power costs by \$14,500,000 in UE-170485, power costs actually declined by \$8,618,853
3 between 2017 and 2018. Further, the power cost variance in 2018 increased to 17.4%.

4 As Mr. Kalich discusses, the ongoing power cost workshops have been instructive
5 in identifying the source of historical power cost variances. As a part of the workshops,
6 Avista performed several back casts and it was apparent that the model itself can be
7 configured to simulate actuals reasonably well, provided that it is populated with actual
8 inputs for prices and contract deliveries.

9 As can be seen in Chart 1 on page 7 of Avista Witness Kalich’s Direct Testimony,
10 prices and contracts have been a key source of variance that has been driving the
11 historical power cost variances. This is consistent with the findings of Avista’s back cast.

1 That is, the prices and contracts input in the model, particularly related to gas
2 optimization, have not accurately predicted actual market prices and contract deliveries.

3 **Q. IS YOUR ADJUSTMENT TO REFLECT ADDITIONAL PIPELINE**
4 **OPTIMIZATION REVENUES CONSISTENT WITH THE COMMISSION'S**
5 **ORDER IN UE-170485?**

6 A. Yes. The difference between the level of optimization revenues Avista has received and
7 the amount included in the baseline forecast represents an “extraordinary circumstance”
8 that warrants a change to the baseline. Additionally, given the results of Avista’s back
9 cast analysis and the analysis I present above, the receipt of optimization revenues
10 significantly above what is included in the baseline is sufficiently certain to warrant an
11 adjustment. Setting an accurate baseline “is necessary for the ERM to function as
12 intended,”^{19/} and the level of expected gas optimization revenues in the rate period
13 relative to what is reflected in the baseline demonstrates that this baseline will not be
14 accurate.

15 **Q. ARE ANY OF YOUR ADJUSTMENTS DISCUSSED ABOVE RELATED TO THE**
16 **POWER COST BASELINE PROPERLY CONSIDERED IN AVISTA'S**
17 **CURRENTLY CONSOLIDATED ERM FILING, DOCKET UE-190222?**

18 A. No. All of my adjustments discussed above relate to baseline power costs included in
19 base rates established in a general rate case. Pursuant to the Commission’s Order 04,
20 issued in this proceeding on October 2, 2019, the filing deadline for testimony in Docket
21 UE-190222 has been suspended, and parties have been directed to file a list of contested
22 issues by October 3, 2019, with testimony on these issues to be rescheduled at later date.
23 I will address any issues AWEC has with Avista’s calculation of its owed refund to

^{19/} Docket UE-170485, Order 07, ¶ 160.

1 customers in this rescheduled testimony. I also understand that AWEC will be filing its
2 list of contested issues in Docket UE-190222 by the October 3 deadline, as set forth in
3 Order 04.

4 **b. Revenue Growth and EOP Rate Base (3.01E.A7; 3.01G.A7)**

5 **Q. WHAT RATE BASE CONVENTION HAS AVISTA PROPOSED IN THIS**
6 **DOCKET?**

7 A. In its results of operations, Avista's test period results are measured on an Average-of-
8 Monthly-Average ("AMA") basis over the period January 1, 2018 through December 31,
9 2018. In adjustments 2.19E and 2.15G, Avista restates its rate base at the End of Period
10 ("EOP"), December 31, 2018. Further, Avista also includes additional pro forma
11 adjustments in 3.10E and 3.10G to restate its rate base at EOP, December 31, 2019 levels.

12 **Q. IS AVISTA'S PROPOSAL TO USE EOP RATE BASE AND PRO FORMA**
13 **ADJUSTMENTS THROUGH THE END OF 2019 SYMMETRICAL AND FAIR**
14 **TO CUSTOMERS?**

15 A. No. If the Commission is to accept Avista's proposal for end-of-period rate base, I
16 believe is important for there to be consistency between the measurement of rate base and
17 the measurement of revenues in any revenue requirement calculation.

18 Thus, if rate base is measured December 2019 levels, I recommend revenues be
19 measured consistently, at the same point in time as the rate base. Like Avista's rate base,
20 revenues are growing over time and the economic conditions in Avista's service territory
21 have improved. Dr. Kaufman's testimony supports this conclusion.^{20/} Accordingly, it is
22 inconsistent to compare plant balances measured statically as of December 31, 2019 to

^{20/} Exh. No. LDK-1T, Section VII.

1 revenues received ratably over the 12 months January 2018 through December 2018.

2 Under Avista's method there is an approximate 1.5 year lag between the historical billing

3 determinants Avista uses and the rate base valuation date.^{21/}

4 **Q. HOW DO YOU RECOMMEND ADDRESSING THE TIMING DIFFERENCE**
5 **BETWEEN AVISTA'S RATE BASE AND ITS PROPOSED REVENUES?**

6 A. I recommend adjusting revenues to reflect the additional 1.5 years of revenue growth that
7 will occur between the revenue measurement period and the rate base measurement
8 period. One way to do this is to recalculate Avista's rates using forecast billing
9 determinants over the period July 2019 through June 2020. Note that the midpoint of
10 such a period corresponds to the rate base valuation date of December 31, 2019. Given
11 that Avista performed its cost of service study and designed its rates using historical
12 billing determinants, updating the billing determinants in this case would represent a
13 material change to Avista's filing.

14 An alternative way to address the issue, however, is to apply a production
15 adjustment against revenue requirement, which is intended to account for revenue
16 growth. This approach is simpler and does not require a billing determinant change.
17 While either approach is acceptable, I have used a production adjustment to account for
18 revenue growth over the approximate 1.5-year lag period between revenues and rate base.

^{21/} Calculated from the mid-point of the revenue measurement period June 30, 2018 to December 31, 2019.

1 **Q. HOW MUCH ARE AVISTA'S REVENUES EXPECTED TO GROW?**

2 A. In response to AWEC Data Request 104, Avista provided its load and revenue forecast
3 through the rate period for both gas services and electric services. I have summarized
4 that forecast for both gas services and electric services in Mullins, Exh. No. BGM-8

5 **Q. HOW MUCH ARE ELECTRIC SERVICE REVENUES EXPECTED TO GROW**
6 **IN THE PRO FORMA PERIOD.**

7 A. Page 2 of Mullins, Exh. No. BGM-8 shows the amount of electric service revenues
8 Avista reported for the 12 months ending December 31, 2019. As can be seen, Avista
9 reported an increase of kWh sales of 1.8% relative to the test period loads used in
10 Adjustment 3.01E. Further, over the 12 months ending December 31, 2019, electric
11 service revenues are expected to be 1.4% higher than the revenue amount Avista
12 incorporated into Adjustment 3.01E. That equates to additional revenues of \$7,137,894.

13 Page 3 of Mullins, Exh. No. BGM-8 shows the amount of revenues Avista
14 expects over the 12 months ending June 30, 2020. I view this period to be the equivalent
15 to Avista's December 2019 EOP rate base assumption. Relative to Adjustment 3.01,
16 Avista reports an increase in kWh sales of 2.2%, and corresponding revenue growth of
17 1.7%, over the 1.5-year period. That equates to additional revenues of \$8,771,993.

18 **Q. HOW MUCH ARE GAS SERVICE REVENUES EXPECTED TO GROW IN THE**
19 **PRO FORMA PERIOD?**

20 A. As can be seen on Page 2 of Mullins, Exh. No. BGM-8, Avista actually reported an
21 expected reduction of therm sales of (-)0.6% in the 12 months ending December 31,
22 2019. Notwithstanding, Avista reported gas service revenues were expected to increase
23 by 3.5% relative to the revenue amount Avista incorporated into Adjustment 3.01E. That

1 equates to additional revenues of \$3,282,269. This revenue growth appears to be driven
2 by growth in the number of large customers.

3 Finally, Page 3 of Mullins Exh. No. BGM-8 shows the amount of gas revenues
4 Avista reported over the 12 months ending June 30, 2020. Relative to Adjustment 3.01,
5 Avista reported a 0.4% increase in therm sales. Thus, sales declined slightly in 2019, but
6 are expected to subsequently increase again in 2020. The corresponding revenue growth
7 Avista reported was 4.8%, over the 1.5-year period. That equates to additional revenues
8 of \$4,339,223.

9 **Q. WHAT DO YOU RECOMMEND?**

10 A. I recommend applying a production adjustment equal to the revenue growth Avista has
11 calculated in AWEC Data Request 104. Specifically, I recommend using the revenue
12 levels expected over the 12 months ending June 30, 2020 as the basis for this adjustment.
13 Those values can be noted on Page 3 of Mullins, Exh. No. BGM-8. In calculating the
14 revenue requirement impact of this adjustment, I have also reduced operating expenses
15 for the additional revenue sensitive costs associated with the incremental revenues. This
16 produces a revenue requirement reduction of \$8,771,993 for electric services and
17 \$4,339,223 for gas services.

18 **c. Pro Forma Rate Base (3.10E; 3.10G)**

19 **Q. PLEASE SUMMARIZE YOUR REVIEW OF AVISTA'S RATE BASE**
20 **CALCULATIONS.**

21 A. As noted above, Avista's test period results are measured on an Average-of-Monthly-
22 Average ("AMA") basis over the period January 1, 2018 through December 31, 2018. In

1 adjustments 2.19E and 2.15G, Avista restates its rate base at the End of Period (“EOP”),
2 December 31, 2018. Further, Avista proposes pro forma rate base adjustments in 3.10E
3 and 3.10G to restate its rate base at EOP, December 31, 2019 levels. With respect to
4 Avista’s pro forma rate base, I have the following recommendations with respect to
5 Avista’s rate base:

- 6 • Retirements (3.10E.A12; 3.10G.A12); I recommend accounting for
7 retirements in the pro forma period.
- 8 • Corporate Jet (3.10E.A13; 3.10G.A13): I recommend removing
9 historical lease expenses and cost of the corporate jet hangar.
- 10 • Customer Advances (3.10E.A14; 3.10G.A14): Customer Advances:
11 I recommend considering additional customer advances capitalized
12 in the pro forma period.

13 In addition to these adjustments, AWEC witness Kaufman will discuss pro forma
14 capital issues related to Avista’s investment in the AvistaUtilities.com Redesign project.

15 i. Plant Retirements (3.10E.A12; 3.10G.A12)

16 **Q. WHAT ISSUE HAVE YOU IDENTIFIED WITH RESPECT TO RETIREMENTS?**

17 A. In response to AWEC Data Request 111, Avista noted that it did not consider the effects
18 of retirements when calculating its Pro Forma Capital Adjustment 3.10.

19 **Q. WHAT DO YOU RECOMMEND?**

20 A. I recommend including an amount in Adjustments 3.10E and 3.10G that considers the
21 retirement activity expected over the pro forma period. Note that in response to AWEC
22 Data Request 112, Avista confirmed that it also did not consider retirements when
23 calculating its EOP adjustment for 2018, adjustments 2.19E and 2.15G

1 **Q. HOW DO RETIREMENTS AFFECT REVENUE REQUIREMENT?**

2 A. While retirements do not affect the level of rate base, since retirement accounting is a
 3 credit to gross plant and a debit to accumulated reserves, retirements do result in a
 4 reduction to gross plant balances. The gross plant balances are used to determine
 5 depreciation expenses. Accordingly, a reduction due to retirements results in a
 6 corresponding reduction to depreciation expenses.

7 **Q. WHAT AMOUNT OF RETIREMENT HAS AVISTA HISTORICALLY**
 8 **EXPERIENCED?**

9 A. In AWEC Data Request 109, Avista was requested to provide plant retirements by FERC
 10 account for both gas and electric services over the annual periods 2016, 2017, and 2018.
 11 Avista’s response is summarized in Table 4, below. Table 4 details the historical level of
 12 plant retirements Avista has experienced. Table 4 also details the corresponding impact
 13 of the historical retirements on depreciation expenses, based on current depreciation
 14 rates.

TABLE 4
Historical Impact of Retirements on Depreciation Expense
Washington Allocated (\$000)

	Electric				Gas			
	2016	2017	2018	3-yr Avg.	2016	2017	2018	3-yr Avg.
Retirements								
Elect./Gas Plant	(35,110)	(21,880)	(18,037)	(25,009)	(2,768)	(2,372)	(2,879)	(2,673)
Common Plant	(10,133)	(11,511)	(15,925)	(12,523)	(3,124)	(3,551)	(4,906)	(3,860)
Total	(45,243)	(33,391)	(33,962)	(37,532)	(5,892)	(5,923)	(7,784)	(6,533)
Wtd. Depr. Rate								
Elect./Gas Plant	0.0495	0.0407	0.0428	0.0453	0.0267	0.0281	0.0259	0.0268
Common Plant	0.0740	0.0748	0.0754	0.0749	0.0740	0.0748	0.0755	0.0749
Impact on Depr. Exp.								
Elect./Gas Plant	(1,739)	(890)	(773)	(1,134)	(74)	(67)	(74)	(72)
Common Plant	(750)	(861)	(1,202)	(937)	(231)	(266)	(370)	(289)
Total	(2,488)	(1,751)	(1,974)	(2,071)	(305)	(333)	(445)	(361)

1 As can be noted, the level of retirements Avista experiences each year are
2 material, and produces a material downward impact on Avista's depreciation expenses.
3 Note that the depreciation expenses are calculated based on the depreciation rates using
4 the specific property that was retired in the respective years.

5 **Q. HOW DO YOU RECOMMEND RETIREMENTS BE CONSIDERED OVER THE**
6 **PRO FORMA PERIOD?**

7 A. I recommend using a 3-year average amount for the retirements expected over the 2019
8 pro forma period. Based on the information detailed in Table 4, above, this
9 recommendation results in a \$2,071,142 reduction to depreciation expenses for electric
10 services and a \$360,781 reduction to depreciation expenses for gas services.

11 ii. Corporate Aircraft and Hangar (3.10E.A15; 3.10G.A15)

12 **Q. PLEASE IDENTIFY YOUR ADJUSTMENT RELATED TO AVISTA'S**
13 **CORPORATE AIRCRAFT COSTS.**

14 A. In 2018, Avista decided to purchase the corporate aircraft, which it had historically
15 leased. Accordingly, Avista is now recovering the cost of the corporate aircraft through
16 rate base, rather than lease expense. In response to AWEC Data Request 115, however,
17 Avista confirmed that it had incorrectly included certain amounts related to the historical
18 aircraft lease expense, and that Avista had intended to remove the lease expenses as a pro
19 forma adjustment.

20 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT AVISTA IDENTIFIED IN**
21 **AWEC DR 115?**

22 A. Avista identified revenue requirement adjustments of \$105,283 for electric services and
23 \$30,114 for gas services in connection with removing the historical aircraft lease

1 expenses. I have accepted Avista's response and applied those amounts as adjustments
2 in my revenue requirement models.

3 iii. Customer Advances (3.10E.A16; 3.10G.A16)

4 **Q. WHAT ARE CUSTOMER ADVANCES?**

5 A. In responses to AWEC Rata Requests 16 and 134, it can be noted that Avista receives
6 material amounts of customer advances that get capitalized to plant each year, reducing
7 rate base and depreciation expenses. Customer advances are funds received from
8 customers for line extensions and other contributions in aid of construction. In 2018,
9 Avista received \$9,441,045 in customer advances. Of that amount, \$787,070 was
10 refunded, while the remaining \$8,096,088 was capitalized as a reduction to plant.

11 **Q. DO CAPITALIZED CUSTOMER ADVANCES GET CAPTURED IN AVISTA'S**
12 **REVENUE REQUIREMENT CALCULATIONS?**

13 A. No. Avista adjustments 3.10E and 3.10G do not capture the incremental impact of new
14 customer advances that get capitalized in the pro forma period.

15 **Q. WHAT DO YOU RECOMMEND?**

16 A. In adjustments 3.10E and 3.10G, I recommend including a provision for the pro forma
17 amount of customer advances expected to be capitalized in the 2019 pro forma period.

18 **Q. WHAT AMOUNT OF CAPITALIZED CUSTOMER ADVANCES DO YOU**
19 **RECOMMEND FOR THE PRO FORMA PERIOD?**

20 A. I propose to calculate the amount based on the historical average of capitalized amounts
21 between 2016 and 2018. Given the upward for trend of these funds, it should be noted
22 this proposal may understate the actual customer advances capitalized in the period.

23 Other reasonable approaches would be to simply assume the 2018 level of capitalizations,

1 or to estimate test year revenues from customer advances based on the three-year trend,
 2 which has increased by approximately 20% each year. Table 5 below details the 3-year
 3 average amount of capitalized customer advances, separated by gas and electric services.

TABLE 5
Capitalized Customer Advances
 (Whole Dollars)

	2016	2017	2018	Average
	-----	-----	-----	-----
Capitalized Per				
AWEC DR 16	(5,060,838)	(6,586,280)	(8,096,088)	
<i>Elect. %</i>	70.14%	70.14%	70.14%	
<i>Wa. %</i>	68.60%	68.60%	68.60%	
Wa. Electric	(2,434,724)	(3,168,600)	(3,894,955)	(3,166,093)
<i>Gas N.%</i>	20.55%	20.55%	20.55%	
<i>Wa. %</i>	72.27%	72.27%	72.27%	
Wa. Gas	(751,594)	(978,140)	(1,202,364)	(977,366)

4 Thus, using the three-year average produces a Washington-allocated rate base
 5 reduction equal to \$3,116,093 for electric services and \$977,366 for gas services.

6 **Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR**
 7 **RECOMMENDATION?**

8 A. This recommendation produces a revenue requirement reduction of \$265,857 for electric
 9 services and \$82,051 for gas services.

10 **d. Director Fees (2.12E.A2; 2.12G.A2)**

11 **Q. HOW DID AVISTA HANDLE DIRECTOR FEES IN ITS INITIAL FILING?**

12 A. In the 2015 GRC, the Commission noted that its “practice is to allow the Company
 13 recovery of 50 percent of director fees from ratepayers.”^{22/} In this Adjustment 2.12E and

^{22/} 2015 GRC, Order 05 at ¶ 220.

1 2.12G, Avista removed 50% of the director fees, resulting in an reduction to operating
2 expenses of \$365,000 for electric services and \$113,000 for gas services.

3 Notwithstanding, Avista only included the fee portion of the directors' compensation, and
4 did not consider reimbursed directors' expenses when figuring the adjustment.

5 **Q. WHAT AMOUNT OF EXPENSES WERE EXCLUDED FROM THE OFFICERS**
6 **ADJUSTMENT?**

7 A. In AWEC Data Request 135, Avista was requested to provide detail with respect to the
8 adjustment amounts described above. In response, Avista provided its workpapers along
9 with transaction detail supporting all reimbursed officer expenses. Based on that detail,
10 it appeared there were \$539,863 and \$166,655 of reimbursed director expenses that did
11 not get captured in Avista's adjustments 2.12E and 2.12G, respectively.

12 **Q. WHAT DO THESE EXPENSES REPRESENT?**

13 A. Based on Avista's response to AWEC Data Request 135, it can be noted that these
14 amounts represent typical reimbursement expenditures, such as mileage reimbursement,
15 airfare, hotel accommodations, and in one case \$820 spent on ski passes at Lookout Pass
16 ski resort. Some entries appear to be personal expenses, although most of those were
17 charged to non-utility.

18 **Q. DO YOU RECOMMEND THAT THESE REIMBURSED EXPENDITURES BE**
19 **CONSIDERED IN THE 50% ADJUSTMENT FOR DIRECTORS FEES?**

20 A. Yes. Based on the nature of expenses detailed in response to AWEC Data Request 135, I
21 believe the additional reimbursed expenditures are appropriately considered in the 50%
22 adjustment for directors fees.

1 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

2 A. Including the additional reimbursed expenses in the 50% adjustment for directors fees
3 results in reductions to operating expenses of approximately \$103,572 for electric
4 services and \$31,966 for gas services.

5 **III. RATE PLAN**

6 **Q. WHAT HAS AVISTA PROPOSED WITH RESPECT TO A RATE PLAN?**

7 A. In addition to the pro forma revenue requirement discussed above, Avista has requested
8 additional second-year rate increases, effective April 1, 2021, of \$18,926,827 or 3.46%
9 for electric services and \$6,456,633 or 6.05% for gas services. Avista attempts to justify
10 these rate increases based on revenue growth studies conducted by Avista witness
11 Andrews. Functionally, the revenue growth studies Avista performed are similar to the
12 attrition revenue requirement studies that Avista has presented in the past, by comparing
13 historical trends in the Company's costs to forecast revenue growth. In contrast, in
14 Mullins, Exh. BGM-9 and Mullins, Exh. BGM-10, I provide alternative revenue growth
15 studies that justifies a second-year revenue requirement increases of \$6,829,132 or 1.34%
16 for electric services and a second-year margin revenue requirement increase of
17 \$1,182,365 or 1.17% for gas services.

18 **Q. WHAT IS YOUR OVERALL RECOMMENDATION WITH RESPECT TO**
19 **AVISTA'S REQUESTED RATE PLAN?**

20 A. I recommend the Commission reject the rate plan. This recommendation is not based on
21 a blanket opposition to rate plans, but on the basis that the revenue growth studies Avista
22 relies on to establish second-year revenue requirement are an inappropriate basis on
23 which to estimate just and reasonable rates, and are insufficiently detailed to demonstrate

1 Avista's need for the second-year rate relief it requests. As the party with the burden of
2 proof in this case, Avista has failed to meet this burden, so I recommend the requested
3 rate plan be rejected.

4 **Q. WHY DO YOU DISAGREE WITH AVISTA'S USE OF A REVENUE GROWTH**
5 **STUDY TO ESTABLISH A SECOND-YEAR REVENUE FORECAST?**

6 A. There are several reasons why the Revenue Growth Study is not an appropriate form of
7 rate relief to approve for Avista, given the current circumstances. First, the Revenue
8 Growth Study is the equivalent of the attrition analysis that Avista proposed in prior
9 proceedings, albeit at a less precise level.^{23/} Second, the revenue growth model relies on
10 historical trends that are not reliable estimates of future results, and that Avista has not
11 adequately explained. Third, any expectation about the future plant levels, based on
12 historical experience, is not accurate because Avista has new depreciation rates in place.
13 As a result of all of these reasons, I recommend that the Commission not approve the
14 revenue growth study.

15 Notwithstanding, if the revenue growth studies are to be used, I recommend
16 several refinements to the approach Avista used. In Mullins, Exh. BGM-9 and Mullins,
17 Exh. BGM-10, I have prepared alternative revenue growth studies that justify
18 significantly lower revenue growth rates, than Avista has proposed.

19 **Q. HOW IS THE REVENUE GROWTH STUDY SIMILAR TO THE ATTRITION**
20 **ANALYSES THAT THE COMPANY HAS PERFORMED IN THE PAST?**

21 A. The analysis Avista performs in the Revenue Growth Study, formerly called a K-Factor
22 Study in docket UE-170485 (Cons.), functions in the same manner as the attrition study

^{23/} Dockets UE-160228 and UG-160229 (Consolidated), Order 06 at ¶ 59.

1 that Avista has presented to the Commission in past proceedings, except that the Revenue
2 Growth Study is performed at a higher level. Rather than detailing the historical trends
3 by major cost categories, the Company aggregates the historical trending data into four
4 categories: Depreciation, Operations and Maintenance (O&M) Expenses, Taxes Other
5 than Income Taxes, and Net Plant. The historical trends are relied upon to develop an
6 estimate of the rate of growth in these categories over the rate period. The rate of growth
7 of these items is then compared to the rate of growth of sales, to develop an estimate of
8 the percentage change in revenue deficiency in future periods.

9 **Q. WHAT IS DRIVING THE REVENUE INCREASE IN THE REVENUE GROWTH**
10 **ANALYSIS?**

11 A. Since it was done at a less granular level than the former attrition study, the driving
12 factors behind the results of the revenue growth study are even more difficult to ascertain.
13 When approving the Company's attrition analysis in the 2015 GRC, the Commission
14 established that claims of attrition should be based on factors beyond the control of the
15 utility.^{24/} Notwithstanding, it is not possible to ascertain from the revenue growth study
16 whether the resultant rate increases are due to factors beyond Avista's control, since the
17 analysis was performed at such a high level. As noted above, improving economic
18 conditions in Avista's service territory are evidence that Avista is not experiencing
19 attrition.

^{24/} Dockets UE-150204 and UG-150205 (Cons.), Order 05, ¶136.

1 **Q. WHAT ANALYSIS HAVE YOU PERFORMED?**

2 A. I have performed a more granular revenue growth analysis in Mullins, Exh. BGM-9 and
3 Mullins, Exh. BGM-10 for electric services and gas services respectively. The analysis
4 reviews the historical growth in each category of cost in Avista's results of operations,
5 and adopts a specific growth factor based on the historical characteristics of the particular
6 cost category.

7 Further, in calculating the growth rate, I relied on linear interpolation, rather the
8 fixed growth rates that Avista calculated between 2014 and 2018. The fixed growth rates
9 imply compounding, or growth in growth, which I viewed to be not appropriately
10 considered in a revenue growth formula. In addition, the growth factors are specific only
11 to the respective years of 2014 and 2018, and do not consider the pattern of expenditures
12 in the interim years of 2015, 2016, 2017. Linear interpolation is preferred because it
13 considers all years in the historical period.

14 **Q. WHAT GROWTH FACTORS DO YOU PROPOSE?**

15 A. Tables 6 and 7, below, detailed the growth factors that I have calculated for electric
16 services and gas services, respectively .

TABLE 6
AWEC Proposed Electric Service Revenue Growth Factors

Electric Revenue Growth Rate Calculation - Rate Year 2:	(a)	(b)	(c)
Category	Growth Rate	Revenue Portion of Category	Growth Rate % (a) x (b)
Operating Expenses ⁽¹⁾	1.69%	35.55%	0.60%
Depreciation/Amortization	4.30%	21.94%	0.94%
Taxes Other than Income	3.23%	10.05%	0.32%
Net Plant After ADFIT	2.11%	<u>32.46%</u>	0.69%
Annual Growth In Sales Revenue		100.00%	-0.88%
Total Revenue Growth Rate %			1.67%
⁽¹⁾ Reflects a 30 basis points efficiency adjustment in O&M expenses.			

TABLE 7
AWEC Proposed Gas Service Revenue Growth Factors

Natural Gas Revenue Growth Rate Calculation - Rate Year 2:	(a)	(b)	(c)
Category	Growth Rate	Revenue Portion of Category	Growth Rate % (a) x (b)
Operating Expenses ⁽¹⁾	2.14%	39.53%	0.85%
Depreciation/Amortization	3.77%	22.38%	0.84%
Taxes Other than Income	2.81%	7.97%	0.22%
Net Plant After ADFIT	2.20%	<u>30.13%</u>	0.66%
Annual Growth In Sales Revenue		100.00%	-1.34%
Total Revenue Growth Rate %			1.24%
⁽¹⁾ Reflects a 30 basis points efficiency adjustment in O&M expenses.			

- 1 **Q. WHAT IS THE IMPACT OF APPLYING THESE GROWTH FACTORS IN THE**
2 **REVENUE REQUIREMENT MODEL?**
- 3 A. The revenue requirement impacts of applying these growth factors may be found on
4 Page 5 of Mullins, Exh. No. BGM-3 for electric services and Page 5 of Mullins, Exh. No.

1 BGM-4 for gas services. As noted, applying these growth factors produces a revenue
2 increase of \$6,829,132 or 1.34% for electric services and \$1,182,365 or 1.17% for gas
3 services.

4 **Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?**

5 A. Yes.