

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-16\_\_\_\_\_

DOCKET NO. UG-16\_\_\_\_\_

DIRECT TESTIMONY OF

JENNIFER S. SMITH

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

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

4 A. My name is Jennifer S. Smith. I am employed by Avista Corporation as a  
5 Senior Regulatory Analyst in the State and Federal Regulation Department. My business  
6 address is 1411 East Mission, Spokane, Washington.

7 **Q. Would you please describe your educational background and**  
8 **professional experience?**

9 A. I am a 2002 graduate of Washington State University with a Bachelor of  
10 Arts Degree in Business Administration, majoring in Accounting and Accounting  
11 Information Systems. After spending eight years in the public accounting sector, I was  
12 hired into the State and Federal Regulation Department as a Regulatory Analyst in  
13 January of 2010. In my current role as a Senior Regulatory Analyst, I assist in the  
14 preparation of normalized revenue requirement and pro forma studies for all jurisdictions  
15 in which the Company provides utility services. I am also responsible for, among other  
16 things, annual filings and various applications related to affiliated interest issues and  
17 subsidiary operations.

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

19 A. My testimony and exhibits in this proceeding will cover the overall  
20 methodology and results of the Company's electric and natural gas Pro Forma and Cross  
21 Check Studies in support of the Company's need for the proposed increases in rates  
22 requested in Company witness Ms. Andrews' testimony. As discussed in my testimony,  
23 the Pro Forma and Cross Check Studies present the Company's electric and natural gas

1 results for the 2017 and January to June 2018 rate periods, on an average-of-monthly-  
2 averages (AMA) basis. The Company first determines the Company's results on a Pro  
3 Forma basis, using modified historical test period results, adjusted for limited pro forma  
4 adjustments (modified test year Pro Forma), and then adjusts the modified test year Pro  
5 Forma results further, to reflect Company results on a "Cross Check" basis for the 2017  
6 and January to June 2018 rate periods. The electric and natural gas Cross Check Studies  
7 are then compared to the results produced by the Attrition Studies for the same periods,  
8 for comparison purposes only, to determine the reasonableness of the levels produced by  
9 the Attrition Studies sponsored by Ms. Andrews.<sup>1</sup> The Company's Pro Forma and Cross  
10 Check Studies incorporate the Washington share of the proposed adjustments of other  
11 witnesses in this case.

12 A table of contents for my testimony is as follows:

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<sup>1</sup> Certain adjustments are included in both the Attrition and Pro Forma studies, such as the Pro Forma Power Supply adjustments sponsored by Company witness Mr. Johnson, and certain transmission revenues, as discussed by Company witness Mr. Cox.

1

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

2           A.    Yes. I am sponsoring Exhibit Nos. \_\_\_\_ (JSS-2) and \_\_\_\_ (JSS-3). Exhibit  
3 Nos. \_\_\_\_ (JSS-2) (Electric) and \_\_\_\_ (JSS-3) (Natural Gas) present the Company’s Pro  
4 Forma and Cross Check Studies, providing information from actual historical test period  
5 operating results (twelve-months ending September 30, 2015) through June 30, 2018 for  
6 the State of Washington. These exhibits show the specific restating, pro forma and cross  
7 check adjustments used as a “Cross Check” to compare with the electric and natural gas  
8 Attrition Study analyses.

9

10                           **II.    SUMMARY OF ELECTRIC AND NATURAL GAS**  
11   **PRO FORMA AND CROSS CHECK STUDIES**

12  
13           **Q.    Before explaining each of the electric and natural gas Pro Forma and**  
14 **Cross Check Studies prepared by the Company, please explain the purpose of these**  
15 **Studies.**

16           A.    The Company’s electric and natural gas rate relief for the 2017 and  
17 January to June 2018 rate periods requested in this case are based on the Company’s  
18 electric and natural gas Attrition Study results sponsored by Ms. Andrews.<sup>2</sup> However, the  
19 Company has also provided results on a Pro Forma basis, using modified historical test  
20 period results, adjusted for limited pro forma adjustments (modified test year Pro Forma).  
21 By comparing the Pro Forma Studies with the results of the Attrition Studies, we are able  
22 to determine the “Attrition Adjustment” required, over and above the modified test year  
23 Pro Forma, for the Company to earn the authorized rate of return requested in this case.

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<sup>2</sup> Ms. Andrews discusses in her testimony the Company’s 18-month rate plan including the period January 2017 through June 2018, with proposed rate increases effective January 1, 2017 and a second-step increase effective January 1, 2018.

1           The Company then adjusts the modified test year Pro Forma results, recognizing  
2 additional expected increases in expenses and capital investment identified by the  
3 Company beyond the Pro Forma Study, to reflect Company results on a “Cross Check”  
4 basis for the calendar 2017 and January to June 2018 periods on an AMA basis. These  
5 balances are compared to the results produced by the same period Attrition Studies for  
6 comparison purposes only, to act as a “cross check” to the reasonableness of the electric  
7 and natural gas Attrition Study results discussed in Ms. Andrews’ testimony.

8           The Cross Check Studies produce a revenue requirement analysis based on  
9 individual restating, Pro Forma and Cross Check adjustments, providing a separate  
10 independent analysis of Avista’s need for rate relief for the calendar 2017 and January to  
11 June 2018 rate periods. The 2017 Cross Check Study revenue requirement is reconciled  
12 to the Attrition Study revenue requirement in order to establish revenue, expenses and  
13 rate base numbers that can be used as inputs to the Company’s cost-of-service studies  
14 prepared by Company witnesses Ms. Knox and Mr. Miller. The Electric Pro Forma and  
15 Cross Check Studies are provided in Exhibit No. \_\_ (JSS-2). The Natural Gas Pro Forma  
16 and Cross Check Studies are provided in Exhibit No. \_\_ (JSS-3).<sup>3</sup>

17           **Q.     Please provide a summary comparison of the electric and natural gas**  
18 **Pro Forma Studies, the Cross Check Studies and the Attrition Studies for the 2017**  
19 **rate period and January through June 2018 rate period.**

---

<sup>3</sup> See Exhibit Nos. \_\_ (JSS-2) and \_\_ (JSS-3), pages 6-10 (Pro Forma results); 11-12 (2017 Cross Check results) and pages 13-14 (June 2018 period ending results).

1 A. A summary comparison of the electric and natural gas Pro Forma Studies,  
2 the Cross Check Studies and the Attrition Studies for the 2017 rate period and January  
3 through June 2018 rate period follow.

4 **2017 Pro Forma versus Attritions Studies**

5 As shown on pages 6-10 of Exhibit Nos. \_(JSS-2) and \_(JSS-3), the revenue  
6 requirement results based on the modified historical test period Pro Forma approach,  
7 show a revenue increase of \$11,843,000 for electric and a decrease of \$1,151,000 for  
8 natural gas. Comparing these balances to the revenue requirement results of the  
9 Company's electric and natural gas Attrition Studies of \$38,568,000 and \$4,397,000,  
10 respectively, produces the 2017 Attrition Adjustment as shown in Table No. 1.

11 **Table No. 1 – 2017 Pro Forma versus Attrition**

<b>Pro Forma versus Attrition Study Results</b>			
<b>Revenue Requirement Above Current Rates (000s)</b>			
<b>Service</b>	<b>2017 Pro Forma Studies (see Exh. Nos. JSS-2 &amp; 3, page 10)</b>	<b>2017 Attrition Studies (see Exh. Nos. EMA-2 &amp; 3, page 12)</b>	<b>Difference: Resulting Attrition Adjustment*</b>
<b>WA Electric</b>	\$ 11,843	\$ 38,568	\$ 26,725
<b>WA Natural Gas</b>	\$ (1,151)	\$ 4,397	\$ 5,548

\*The amounts shown here are the resulting "Attrition Adjustments" necessary above the Pro Forma Study results required for Avista to earn its requested Rate of Return of 7.64%.

18 As noted in Table No. 1 above, the 2017 revenue requirement produced from the  
19 modified historical test period Pro Forma approach produces a significantly lower  
20 revenue increase than that produced by the Company's Attrition Studies for the same  
21 2017 period. This is a significant difference, demonstrating that without the use of an  
22 "Attrition Adjustment," Avista would not have the opportunity to earn its requested Rate  
23 of Return, and would significantly under-earn during the 2017 rate period.

1 **2017 Cross Check Studies versus Attrition Studies**

2 As shown on pages 11-12 of Exhibit Nos. \_(JSS-2) and \_(JSS-3), the revenue  
3 requirement results based on the 2017 Cross Check Studies show an increase of  
4 \$43,474,000 for electric, and \$6,386,000 for natural gas, compared to the revenue  
5 requirement results of the Company's electric and natural gas Attrition Studies of  
6 \$38,568,000 and \$4,397,000, respectively. Table No. 2, below shows the results of each  
7 2017 Study, as well as the difference between the 2017 (AMA) Cross Check and Attrition  
8 Studies.

9 **Table No. 2 – 2017 Cross Check versus Attrition**

<b>Comparison of 2017 Cross Check and Attrition Studies (000s) Revenue Requirement Above Current Rates (2017 (AMA))</b>			
<b>Service</b>	<b>2017 Cross Check Studies</b>  (see Exh. Nos. JSS-2 & 3, page 12) <sup>1</sup>	<b>2017 Attrition Studies</b>  (see Exh. Nos. EMA-2 & 3, page 1)	<b>2017 Difference:  Difference between Cross Check and Attrition<sup>2</sup></b>
<b>WA Electric</b>	\$ 43,474	\$ 38,568	\$ (4,906)
<b>WA Natural Gas</b>	\$ 6,386	\$ 4,397	\$ (1,990)
<sup>1</sup> Prior to adjustment to reconcile to the 2017 Attrition Study, included in the electric and natural gas 2017 Cross Check Studies as Adjustment No. 4.07 "Reconcile 2017 Cross Check to Attrition."			
<sup>2</sup> Difference in revenue requirement amount included in Cross Check Study versus Attrition Study, i.e. reduction to Cross Check to reconcile to Attrition Studies.			

18  
19 **January to June 2018 Cross Check Studies versus Attrition Studies**

20 With regard to January to June 2018, as shown on pages 13-14 of Exhibit Nos.  
21 \_(JSS-2) and \_(JSS-3), the 6-month incremental revenue requirement from these Cross  
22 Check Studies, above the 2017 Cross Check Study results noted above, show an increase  
23 of \$11,535,000 for electric, and \$2,194,000 for natural gas, compared to the revenue



1 requirement results of the Company's electric and natural gas Attrition Studies of  
 2 \$10,301,000 and \$941,000, respectively. Table No. 3 below reconciles the January to  
 3 June 2018 (AMA) Cross Check and Attrition Studies as follows:

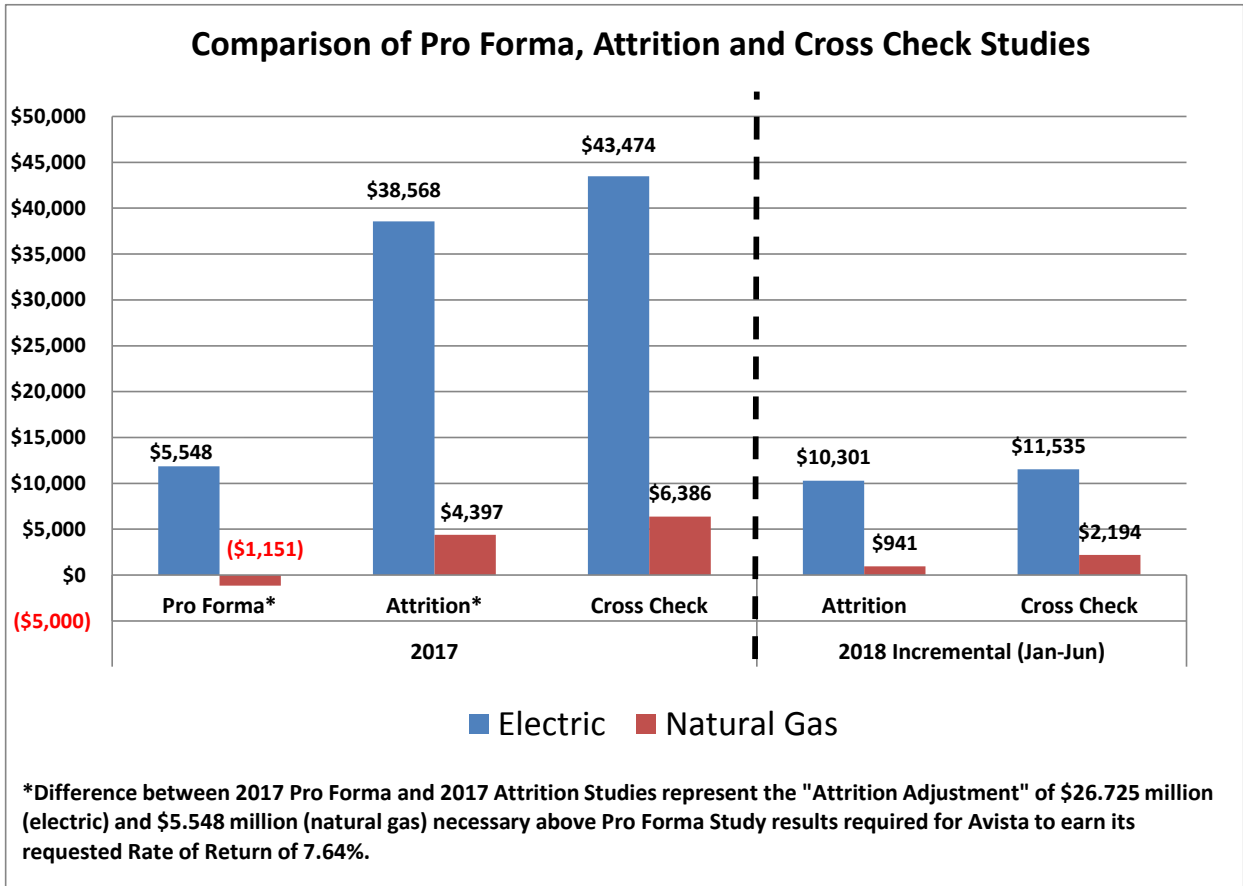
4 **Table No. 3 – January to June 2018 Cross Check versus Attrition**

<b>Comparison of January to June 2018 Cross Check and Attrition Studies (000s) Incremental Revenue Requirement Above 2017 Rates (Jan to Jun 2018 (AMA))</b>			
<b>Service</b>	<b>Jan - Jun 2018 Cross Check Studies</b>  (see Exh. Nos. JSS-2 & 3, page 14) <sup>1</sup>	<b>Jan - Jun 2018 Attrition Studies</b>  (see Exh. Nos. EMA-4 & 5, page 1)	<b>Jan - Jun 2018 Difference: Difference between Cross Check and Attrition<sup>2</sup></b>
<b>WA Electric</b>	<b>\$ 11,535</b>	<b>\$ 10,301</b>	<b>\$ (1,234)</b>
<b>WA Natural Gas</b>	<b>\$ 2,194</b>	<b>\$ 941</b>	<b>\$ (1,253)</b>
<sup>1</sup> Prior to adjustment to reconcile to the Jan-Jun 2018 Attrition Study, included in the electric and natural gas Jan-Jun 2018 Cross Check Studies as Adjustment Nos. 18.08 & 18.07, respectively, "Reconcile 2018 Cross Check to Attrition."			
<sup>2</sup> Difference in revenue requirement amount included in Cross Check Study versus Attrition Study, i.e. reduction to Cross Check to reconcile to Attrition Studies.			

13 As noted in Tables No. 2 and No. 3 above, the 2017 and January to June 2018  
 14 Cross Check Studies produce a higher revenue requirement than that produced by the  
 15 Company's Attrition Studies for the same periods.

16 Illustration No. 1 below, summarizes the results of the electric and natural gas Pro  
 17 Forma Studies, the Cross Check Studies and the Attrition Studies for the 2017 rate period  
 18 and January through June 2018 rate period compared and discussed above in Table Nos.  
 19 1 through 3:

1 **Illustration No. 1**



13

14

15 **III. ELECTRIC REVENUE REQUIREMENT**

16 **Q. Moving now to the electric Pro Forma and Cross Check Studies,**  
 17 **please explain what is shown on pages 1 and 2 of Exhibit No. \_\_\_\_ (JSS-2)?**

18 A. Exhibit No. \_\_ (JSS-2), pages 1 and 2, shows actual and Cross Check  
 19 (2017 and January to June 2018 (AMA)) electric operating results and rate base for the  
 20 test period for the State of Washington. Column (b) of page 1 of Exhibit No. \_\_\_\_ (JSS-  
 21 2) shows twelve-months ending September 30, 2015 actual operating results and

1 components of the average-of-monthly-average rate base as recorded<sup>4</sup>; column (c) is the  
2 total of all adjustments to net operating income and rate base to reflect 2017 Cross Check  
3 results; and column (d) is the 2017 Cross Check adjusted results of operations, all under  
4 existing rates. Column (e) shows the revenue increase required to allow the Company to  
5 earn a 7.64% rate of return for the 2017 rate year. Column (f) reflects total 2017 electric  
6 operating results with the requested increase of \$38,568,000

7 Page 2 of Exhibit No. \_\_ (JSS-2), shows similar columns starting with 2017 Cross  
8 Check results (equal to column (d) on page 1 of Exhibit No. \_\_ (JSS-2)), reflecting  
9 operating results and components of the average-of-monthly-average rate base for 2017,  
10 in column (b). Column (c), of page 2, is the total of all adjustments to net operating  
11 income and rate base to reflect January to June 2018 results; and column (d) is the June  
12 30, 2018 ending results of operations (on an AMA basis), all under existing rates.  
13 Columns (e) and (f) show the revenue increases required in 2017 and January to June  
14 2018, to allow the Company to earn a 7.64% rate of return for the 18-month period  
15 January 2017 through June 2018. Column (g) reflects June 2018 Cross Check operating  
16 results with the requested increases of \$10,301,000 for electric, above that requested in  
17 2017.

18 **Q. Would you please explain page 3 of Exhibit No. \_\_\_\_ (JSS-2)?**

19 A. Yes. Page 3 shows, at line 7, the calculation of the \$38,568,000 for 2017,  
20 and the incremental \$10,301,000 for the 6-months ending June 2018, revenue  
21 requirement at the requested 7.64% rate of return based on the electric Cross Check

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<sup>4</sup> Actual plant rate base (cost, accumulated depreciation (A/D) and associated accumulated deferred federal income taxes (ADFIT) uses the 12ME September 30, 2015 AMA balances. Plant rate base is adjusted to a 2017 and January to June 2018 AMA basis with restating, pro forma and cross check adjustments.

1 Studies. This page also shows, at lines 12-17, the values of the electric modified  
2 historical test period Pro Forma (\$11,843,000) compared to the revenue requirement  
3 increases noted above, providing the 2017 (\$26,725,000) and incremental January to June  
4 2018 (\$10,301,000) Attrition Adjustments, necessary above the Pro Forma level.

5 **Q. What does page 4 of Exhibit No. \_\_\_\_ (JSS-2) show?**

6 A. Page 4 shows the proposed Cost of Capital and Capital Structure utilized  
7 by the Company in this case, and the weighted average cost of capital of 7.64%.  
8 Company witness Mr. Thies discusses the Company's proposed rate of return and the  
9 capital structure utilized in this case, while Company witness Mr. McKenzie provides  
10 additional testimony related to the appropriate return on equity for Avista.

11 **Q. Please explain page 5 of Exhibit No. \_\_\_\_ (JSS-2).**

12 A. Page 5 shows the derivation of the electric net-operating-income-to-gross-  
13 revenue conversion factor. The conversion factor takes into account uncollectible  
14 accounts receivable, Commission fees and Washington State excise taxes. Federal  
15 income taxes are reflected at 35%.

16 **Q. Now turning to pages 6 through 10 of your Exhibit No. \_\_\_\_ (JSS-2),**  
17 **would you please explain what those pages show?**

18 A. Page 6 begins with actual operating results and rate base for the twelve-  
19 months-ending September 30, 2015 test period on an AMA basis in column (1.00).  
20 Individual normalizing and restating adjustments that are standard components of our  
21 annual reporting to the Commission begin in column (1.01) on page 6 and continue  
22 through column (2.16) on page 8. Individual Pro Forma adjustments are shown on pages  
23 9 and 10 in columns (3.00) through (3.12). The last column on page 10, labeled "Pro

1 Forma Sub-total” is the subtotal of the previous columns (1.00) through (3.12), and  
2 produce the Pro Forma Study results discussed above totaling \$11,843,000.

3 **Q. Continuing after page 10 (Pro Forma Study results), what is included**  
4 **on pages 11 and 12 of your Exhibit No. \_\_\_\_ (JSS-2)?**

5 A. Columns (4.00) through (4.05), on page 11, and 4.06 on page 12, of  
6 Exhibit No. \_\_\_\_ (JSS-2), represent additional Cross Check adjustments related to  
7 expenses and capital additions expected through the 2017 rate period. The column on  
8 page 12, labeled “2017 Cross Check Total,” reflects the total electric revenue requirement  
9 for 2017 of \$43,474,000 based on the use of all adjustments to this point (restating, pro  
10 forma and cross check), from the historical test period to the 2017 rate year.

11 Column (4.07) on page 12 represents the difference of \$4,906,000 (revenue  
12 requirement) between the 2017 electric Cross Check Study and the 2017 electric Attrition  
13 Study.

14 The 2017 Cross Check revenue requirement is reconciled to the Attrition Study  
15 revenue requirement in order to establish revenue, expenses and rate base numbers that  
16 can be used as inputs to the Company’s cost of service study prepared by Ms. Knox.  
17 These balances are shown in the final column on page 12, “2017 Final Attrition  
18 Adjusted/Cross Check Total.”

19 **Q. Lastly, continuing after page 12 (2017 Cross Check results), what is**  
20 **included on pages 13 and 14 of your Exhibit No. \_\_\_\_ (JSS-2)?**

21 A. Columns (18.01) through (18.05) on page 13, and (18.06) through (18.07)  
22 on page 14, of Exhibit No. \_\_\_\_ (JSS-2), represent incremental cross check adjustments  
23 related to expenses and capital additions expected through the January to June 2018 rate

1 period. The column on page 14, labeled “2018 Cross Check Total,” reflects the total  
2 electric revenue requirement for the 18-month period ending June 2018 of \$50,103,000  
3 based on the use of all adjustments to this point (restating, Pro Forma and Cross Check).

4 Column (18.08) on page 14 represents the difference of \$1,234,000 between the  
5 January to June 2018 electric Cross Check Study and the January to June 2018 electric  
6 Attrition Study.

7 The June 2018 18-month period Cross Check revenue requirement is reconciled to  
8 the Attrition Study revenue requirement in the final column on page 14, “2018 Final  
9 Attrition Adjusted/Cross Check Total.” The last column “INCREMENTAL 2018 (I)  
10 Attrition Adjusted / Cross Check Total” represents the incremental results for the 6-  
11 month period January to June 2018, beyond the 2017 rate period.

12 Each of the electric Commission Basis, restating, Pro Forma and Cross Check  
13 adjustments are discussed in the testimony that follows. The Company has also provided  
14 workpapers, both in hard copy and electronic formats, which include additional details  
15 related to each of these adjustments.

16 **Electric Standard Commission Basis and Restating Adjustments**

17 **Q. Would you please explain each of these adjustments, the reason for**  
18 **the adjustment and its effect on the State of Washington net operating income**  
19 **and/or rate base for the historical test period?**

20 A. Yes. The **Results of Operations** column (1.00), reflects the Company’s  
21 actual operating results and total net rate base experienced by the Company for the  
22 twelve-month period ending September 30, 2015 on an AMA basis. Columns following  
23 the Results of Operations column (1.00), (columns (1.01) – (2.16)) mainly reflect

1 normalizing and restating adjustments necessary to restate the actual results based on  
2 prior Commission orders, reflect appropriate annualized expenses, correct for errors, or  
3 remove prior period amounts reflected in the actual September 30, 2015 results.

4 **Q. Please continue with your explanation of each adjustment and its**  
5 **effect on test period net operating income and/or rate base.**

6 A. The first adjustment, column (1.01) on page 6, entitled **Deferred FIT**  
7 **Rate Base**, adjusts the accumulated deferred federal income tax (ADFIT) rate base  
8 balance included in the Results of Operations column (1.00) to the adjusted ADFIT  
9 balance reflected on an AMA basis, as shown within my workpapers provided with the  
10 Company's filing.

11 ADFIT reflects the deferred tax balances arising from accelerated tax depreciation  
12 (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery,  
13 or MACRS, repairs deduction<sup>5</sup> and bonus depreciation<sup>6</sup>), bond refinancing premiums, and  
14 contributions in aid of construction.

15 The increase in ADFIT (which is a reduction of rate base) included in this  
16 adjustment is primarily due to the annualizing of tax depreciation adjustments for the  
17 repairs deduction and bonus depreciation related to the 2015 federal tax return. Results  
18 of operations at September 30, 2015 did not reflect ADFIT for repairs deduction or bonus

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<sup>5</sup> In 2015 Avista filed for a "Change of Accounting" with the IRS to implement certain IRS Tangible Property Regulations associated with revised rules on property capitalization versus repair requirements. The repair regulations resolve some of the controversies that have arisen over the years between the IRS and taxpayers over how to classify certain costs for repairs or supplies that are deductible in a current tax year versus fixed assets that have to be capitalized and depreciated over a number of years.

<sup>6</sup> This special "bonus depreciation" allowance is available to all businesses and applies to most types of tangible personal property and computer software acquired and placed in service during the tax year. It allows taxpayers to deduct 50% of the cost of qualifying property in addition to the regular depreciation allowance that is normally available.

1 depreciation<sup>7</sup>. This adjustment restates ADFIT to reflect the impact of both tax  
2 deductions as if they had been recorded beginning in January 2015.

3 The effect on Washington rate base for this adjustment is a decrease of  
4 \$6,556,000. A decrease to Washington net operating income of \$65,000 is due to the  
5 Federal income tax (FIT) expense on the restated level of interest on the change in rate  
6 base<sup>8</sup>.

7 The adjustment in column (1.02), **Deferred Debits and Credits**, is a  
8 consolidation of previous Commission Basis or other restating rate base adjustments and  
9 their net operating income (NOI) impact. The net impact on a consolidated basis of this  
10 adjustment decreases Washington rate base by \$6,302,000, and increases net operating  
11 income (NOI) by a total of \$1,055,000.

12 Adjustments included in the Deferred Debits and Credits consolidated adjustment  
13 are those necessary to reflect restatements from actual results based on prior Commission  
14 orders, and are explained below. For consistency with prior rate case filings, a  
15 description of each adjustment is included below.

16 The following items are included in the consolidated adjustment:

17 • **Colstrip 3 AFUDC Elimination** reflects the reallocation of rate base and  
18 depreciation expense between jurisdictions. In Cause Nos. U-81-15 and U-82-10,  
19 the UTC allowed the Company a return on a portion of Colstrip Unit 3  
20 construction work in progress (“CWIP”). A much smaller amount of Colstrip  
21 Unit 3 CWIP was allowed in rate base in Case U-1008-144 by the Idaho Public  
22 Utilities Commission (“IPUC”). The Company eliminated the AFUDC associated  
23 with the portion of CWIP allowed in rate base in each jurisdiction. Since  
24 production facilities are allocated on the Production/Transmission formula, the

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<sup>7</sup> Bonus depreciation for 2015 was not approved by the IRS until December 2015, therefore, the Company did not record the tax benefit until December 2015.

<sup>8</sup> The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within each individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on line 28 of Exhibit No. \_\_ (JSS-2).



1 allocation of AFUDC is reversed and a direct assignment is made. The rate base  
2 adjustment reflects the average-of-monthly-averages amount for the test period.  
3 No adjustment from that recorded within results of operations is necessary.  
4

5 • **Colstrip Common AFUDC** is associated with the Colstrip plants in  
6 Montana, and impacts rate base. Differing amounts of Colstrip common facilities  
7 were excluded from rate base by this Commission and the IPUC until Colstrip  
8 Unit 4 was placed in service. The Company was allowed to accrue AFUDC on  
9 the Colstrip common facilities during the time that they were excluded from rate  
10 base. It is necessary to directly assign the AFUDC because of the differing  
11 amounts of common facilities excluded from rate base by this Commission and  
12 the IPUC. In September 1988, an entry was made to comply with a Federal  
13 Energy Regulatory Commission (“FERC”) Audit Exception, which transferred  
14 Colstrip common AFUDC from the plant accounts to Account 186. These  
15 amounts reflect a direct assignment of rate base for the appropriate average-of-  
16 monthly-averages amounts of Colstrip common AFUDC to the Washington and  
17 Idaho jurisdictions. Amortization expense associated with the Colstrip common  
18 AFUDC is charged directly to the Washington and Idaho jurisdictions through  
19 Account 406 and is a component of the actual results of operations. The rate base  
20 amount is also included in the results of operations accurately reflecting the  
21 average-of-monthly-averages amount for the test period. No adjustment from that  
22 recorded within results of operations is necessary.  
23

24 • **Kettle Falls Disallowance** reflects the Kettle Falls generating plant  
25 disallowance ordered by this Commission in Cause No. U-83-26. The disallowed  
26 investment and related depreciation, FIT expense, accumulated depreciation and  
27 accumulated deferred FIT on an AMA basis are accurately reflected in the results  
28 of operations column, removing these amounts from actual results of operations.  
29 No adjustment from that recorded within results of operations is necessary.  
30

31 • **Settlement Exchange Power** reflects the rate base associated with the  
32 recovery of 64.1% of the Company’s investment in Settlement Exchange Power.  
33 The 64.1% recovery level was approved by the Commission’s Second  
34 Supplemental Order in Cause No. U-86-99 dated February 24, 1987.  
35 Amortization expense and deferred FIT expense recorded during the test period  
36 are accurately reflected in results of operations. However, the production rate  
37 base and accumulated deferred FIT amounts within results of operations are  
38 reflected on a twelve-month ending September 30, 2015 test period AMA basis.  
39 The use of AMA for the rate period was ordered in Order No. 01 in Docket No.  
40 U-071805. To adjust the production rate base and accumulated deferred FIT  
41 amounts to reflect an AMA 2017 rate period basis, the effect on Washington rate  
42 base is a decrease of \$4,522,000.  
43

44 • **Restating CDA Settlement Deferral** adjusts the net assets and DFIT  
45 balances reflected in results of operations associated with the 2008/2009 past

1 storage and §10(e) charges deferred for future recovery to a 2017 AMA basis. A  
2 ten-year amortization expense, as approved in Docket No. UE-100467, of the  
3 CDA Settlement Deferral is accurately reflected in results of operations. The  
4 effect on Washington rate base is a decrease of \$222,000.  
5

6 • **Restating CDA/SRR (Spokane River Relicensing) CDR Deferral**  
7 adjusts the net assets reflected in results of operations associated with the CDA  
8 Tribe settlement 4(e) Spokane River relicensing conditions deferred for future  
9 recovery to the proper 2017 AMA basis. A ten-year amortization expense of the  
10 CDA/SRR CDR Deferral, as approved in Docket No. UE-100467 is accurately  
11 reflected in results of operations. The effect on Washington rate base is a  
12 decrease of \$25,000.  
13

14 • **Restating Spokane River Deferral** adjusts the net asset and DFIT  
15 balances reflected in results of operations related to the Spokane River deferred  
16 relicensing costs deferred for future recovery to a 2017 AMA basis. A ten-year  
17 amortization expense of the Spokane River Deferral, as approved in Docket No.  
18 UE-100467, is accurately reflected in results of operations. The effect on  
19 Washington rate base is a decrease of \$107,000.  
20

21 • **Restating Spokane River PM&E Deferral** adjusts the net asset and  
22 DFIT balances reflected in results of operations related to the Spokane River  
23 deferred PM&E costs deferred for future recovery to a 2017 AMA basis. A ten-  
24 year amortization expense of the Spokane River PM&E Deferral, as approved in  
25 Docket No. UE-100467, is accurately reflected in results of operations. The effect  
26 on Washington rate base is a decrease of \$68,000.  
27

28 • **Restating Montana Riverbed Lease** adjusts the net asset and DFIT  
29 balances reflected in results of operations related to the costs associated with the  
30 Montana Riverbed lease settlement deferred for future recovery to a 2017 AMA  
31 basis. In the Montana Riverbed lease settlement, the Company agreed to pay the  
32 State of Montana \$4.0 million annually beginning in 2007, with annual inflation  
33 adjustments, for a 10-year period for leasing the riverbed under the Noxon Rapids  
34 Project and the Montana portion of the Cabinet Gorge Project. The first two  
35 annual payments were deferred by Avista as approved in Docket No. UE-072131.  
36 In Docket No. UE-080416 (see Order No. 08), the Commission approved the  
37 Company's accounting treatment of the deferred payments, including accrued  
38 interest, to be amortized over the remaining eight years of the agreement starting  
39 on January 1, 2009. The 10-year amortization of the first two annual payment  
40 deferral expires on December 31, 2016. Therefore, the adjusted rate base balance  
41 during 2017 is \$0. This restating adjustment removes the rate base amount  
42 included in the test period, reducing rate base by \$770,000. The Company has  
43 included lease expense, increased for annual inflation, as previously required.  
44 The net effect of the expiration of the deferral amortization, offset in part, by the

1 increase in inflation on the lease expense, decreases Washington expense by  
2 \$363,000.

3  
4 • **Restating Lancaster Amortization** adjusts the net asset and DFIT  
5 balances reflected in results of operations related to the 2010 (\$6.8 million  
6 Washington) deferred Lancaster plant Power Purchase Agreement (PPA), to a  
7 2017 AMA basis. The five-year amortization expense of the Lancaster deferral  
8 ends in November 2015. Therefore, this adjustment removes the rate base and  
9 expense for the pro forma period from that reflected in results of operations,  
10 reducing rate base by \$589,000 and amortization expense by \$1,360,000.

11  
12 • **Customer Advances** decreases rate base for money advanced by  
13 customers for line extensions, as they will be recorded as contributions in aid of  
14 construction at some future time. The reduction to rate base per results of  
15 operations is accurately reflected at approximately \$460,000. No adjustment from  
16 that recorded within results of operations is necessary.

17  
18 • **Customer Deposits** reduces electric rate base by the average-of-monthly-  
19 averages of customer deposits held by the Company, as ordered by this  
20 Commission in Docket UE-090134. The reduction to rate base per results of  
21 operations is reflected at \$1,843,000. Therefore no adjustment is necessary to rate  
22 base. The corresponding interest paid on customer deposits is reclassified to  
23 utility operating expense, at the current UTC interest rate of 0.16%. The effect on  
24 Washington is an increase in expense of \$3,000.

25  
26 In summary, as noted above, the net impact on a consolidated basis of the  
27 adjustments described above increases Washington net operating income by \$1,055,000,  
28 and decreases Washington rate base by \$6,302,000.

29 **Q. Please continue describing the remaining adjustments on page 6.**

30 A. The adjustment in column (1.03), **Working Capital**, restates the working  
31 capital balance reflected in the Company's Results of Operations column (1.00), to the  
32 adjusted working capital balance. The Company uses the Investor Supplied Working  
33 Capital (ISWC) methodology to calculate the amount of working capital reflected in its  
34 actual results of operations. This method is consistent with that incorporated in the  
35 Company's most recent electric general rate case, Docket No. UE-150204. In addition,

1 ISWC was revised to reflect the tax depreciation impact (related to repairs and bonus  
2 deprecation) on ADFIT, impacting current taxes payable through December 31, 2015.  
3 The net effect of adjustments to ISWC from that recorded per results of operations at  
4 September 30, 2015, increases net rate base by \$4,352,000. An increase to Washington  
5 net operating income of \$43,000 is due to the FIT expense of the restated level of interest  
6 on the change in rate base.

7 **Q. Please continue describing the remaining adjustments on page 6,**  
8 **starting at column (1.04).**

9 A. The next adjustment, column (1.04), **Plant Held for Future Use,**  
10 **(PHFFU)**, adds certain property to rate base that the Company owned at the time of this  
11 filing that has been recorded as held for future use. Prior to 2015, the Company's  
12 investment in PHFFU has been relatively small. The Company is proposing to include in  
13 rate base property that meets certain requirements, as described below.

14 **Q. Do any other utilities in Washington include PHFFU in rate base?**

15 A. Yes. Puget Sound Energy (PSE) currently includes certain PHFFU  
16 property that meets certain requirements in rate base. In Docket Nos. UE-920433, UE-  
17 920499 and UE-921262 at pages 89 through 91, the Order described these requirements  
18 or guidelines. Generally, for the plant to meet the guidelines established by the  
19 Commission, the Company should have specific plans for how the property will be used.  
20 To ensure the Company has a definite plan for use, the Commission also adopted the  
21 following guidelines as proposed by Commission Staff: 1) the Company should have a  
22 planned date for when the property will be used to provide utility services, 2) plant that  
23 has been held for more than twenty years should be removed from rate base, and 3) plant

1 with special circumstances that make the future planned implementation not definite (i.e.  
2 permitting issues, legal issues, etc.) should not be included in rate base. The Order also  
3 stated that the Company would be allowed to keep the gain on the sale of any property,  
4 based on the period they were excluded from ratepayer support.

5 **Q. Which plant has the Company included in rate base in this filing?**

6 A. The Company included six parcels of land that meet the guidelines  
7 established by the Commission for PSE. Five of the parcels are for future substations  
8 (approximately \$3.1 million) and one of the parcels is for a future natural gas-fired  
9 combustion turbine (Washington's share is approximately \$2.3 million).

10 **Q. Why should the Company be allowed to include plant that is held for**  
11 **future use in rate base?**

12 A. The Company purchases certain property to meet a specific utility  
13 purpose. For the property referenced above, the location of the property and its proximity  
14 to other Avista assets warranted the purchase early, well before the actual construction of  
15 the substation or generating plant. Securing the property in advance at a reasonable cost  
16 ensures that the property is available. It is appropriate for Avista to include the property  
17 in rate base and earn a return on the investment. This adjustment increases rate base  
18 \$5,431,000. An increase to Washington net operating income of \$54,000 is due to the  
19 FIT expense of the restated level of interest on the change in rate base.

20 The adjustment in column (2.01), **Eliminate B & O Taxes**, eliminates the  
21 revenues and expenses associated with local business and occupation (B & O) taxes,  
22 which the Company passes through to its Washington customers. The adjustment  
23 eliminates any timing mismatch that exists between the revenues and expenses by

1 eliminating the revenues and expenses in their entirety. B & O taxes are passed through  
2 on a separate schedule, which is not part of this proceeding. The effect of this adjustment  
3 is to decrease Washington net operating income by \$62,000.

4 The adjustment in column (2.02), **Restate Property Tax**, restates the accrued  
5 property tax during the test period to actual property tax paid during 2015. Property tax  
6 expense for 2015 was based on actual plant balances as of December 31, 2014. The  
7 effect of this adjustment is to decrease Washington net operating income by \$283,000.  
8 Adjustment (3.06) Pro Forma Property Tax, explained below, increases property tax  
9 expense to reflect the 2016 level of expense based on plant as of December 31, 2015.

10 The last adjustment on page 6, shown in column (2.03) **Uncollectible Expense**,  
11 restates the accrued expense to the actual level of net write-offs for the test period. The  
12 effect of this adjustment is to decrease Washington net operating income by \$685,000.

13 **Q. Please turn to page 7 and explain the adjustments shown there.**

14 A. The first adjustment shown on page 7 in column (2.04), **Regulatory**  
15 **Expense**, restates recorded regulatory expense for the twelve-months-ended September  
16 30, 2015, to reflect the UTC assessment rates applied to revenues for the test period and  
17 the actual levels of FERC fees paid during the test period. The effect of this adjustment is  
18 a decrease to Washington net operating income of \$12,000.

19 The adjustment in column (2.05), **Injuries and Damages**, is a restating  
20 adjustment that replaces the accrual with a six-year rolling average of injuries and  
21 damages payments not covered by insurance. As a result of the Commission's Order in  
22 Docket No. U-88-2380-T, the Company changed to the reserve method of accounting for

1 injuries and damages not covered by insurance. The effect of this adjustment is a  
2 decrease to Washington net operating income by \$118,000.

3 The adjustment in column (2.06), **FIT/DFIT/ITC/PTC Expenses**, adjusts the FIT  
4 and DFIT calculated at 35% within Results of Operations, revising the Section 199  
5 Manufacturing Permanent M Deduction to the amount that should have been accrued for  
6 the period ending September 30, 2015. This adjustment also adjusts the appropriate level  
7 of production tax credits and investment tax credits on qualified generation.

8 The net FIT and production tax credit adjustments increase Washington net  
9 operating income by \$566,000.

10 The adjustment in column (2.07), **Office Space Charged to Non Utility**, removes  
11 a portion of the office space costs<sup>9</sup> based on the relationship of labor hours charged to  
12 subsidiary/non-utility activities by employee compared to total labor hours by employee.  
13 These percentages are applied to the employees' office space (expressed in square feet)  
14 and multiplied by office space costs/per square foot. This restating adjustment is made as  
15 a result of the Commission's Third Supplemental Order in Docket No. U-88-2380-T.  
16 This adjustment removes the portion of expense that has not already been reflected in the  
17 test period as non-utility. The effect of this adjustment is to increase Washington net  
18 operating income by \$21,000.

19 The adjustment in column (2.08), **Restate Excise Taxes**, removes the effect of a  
20 one-month lag between collection and payment of taxes. The effect of this adjustment is  
21 to increase Washington net operating income by \$216,000.

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<sup>9</sup> Office space is comprised of office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.

1           The adjustment in column (2.09), **Net Gains/Losses**, reflects a ten-year  
2 amortization of net gains realized from the sale of real property disposed of between 2006  
3 and September 30, 2015. This restating adjustment is made as a result of the  
4 Commission's Order in Docket No. UE-050482. The effect of this adjustment is to  
5 increase Washington net operating income by \$51,000.

6           The adjustment in column (2.10), **Weather Normalization**, normalizes weather  
7 sensitive kWh sales by eliminating the effect of temperature deviations above or below  
8 historical norms. Ms. Knox is sponsoring this adjustment. The effect of this particular  
9 adjustment increases Washington net operating income by \$1,927,000.

10           The final adjustment on page 7 included as column (2.11), **Eliminate Adder**  
11 **Schedule Adjustments**, removes the impact of the adder schedule revenues and related  
12 expenses, such as Schedule 59 Residential Exchange credit, Schedule 91 Tariff Rider  
13 (DSM), Schedule 92 Low Income Rate Assistance Program Rate, Schedule 93 ERM  
14 rebate, Schedule 94 BPA rebate, Schedule 95 Optional Renewable and Schedule 98 REC  
15 Revenue Surcharge/Rebate since these items are recovered/rebated by separate tariffs  
16 and, therefore, are not part of base rates. In the Company's prior GRC filings this  
17 adjustment and weather normalization were both included as part of the forward looking  
18 restatement of current base rates. Separating the revenue normalization process into three  
19 steps allows for direct comparison with the Commission Basis reported revenue. There  
20 is no effect of this adjustment on Washington net operating income, as the adjustment to  
21 expense is equal to the adjustment to revenue.

22           A. Page 8 starts with the adjustment in column (2.12), **Miscellaneous**  
23 **Restating Non-Utility/Non-Recurring Expenses**. This adjustment removes a number of



1 non-operating or non-utility expenses associated with dues and donations, etc., included  
2 in error in the test period actual results, and removes, reclassifies or restates other  
3 expenses incorrectly charged between service and or jurisdiction, totaling \$24,000.  
4 Additional expenses restated in the test period relate to Union Retroactive Pay, as it  
5 relates to the 2015 International Brotherhood of Electric Workers (IBEW) Local Unit 77  
6 contract<sup>10</sup>. The result of restating these expenses reduces operating expense by  
7 approximately \$195,000.

8 Also included with this adjustment, the Company removed or restated certain  
9 Director and Officer related expenses. Director meeting expenses were reduced to ensure  
10 a total of 50% of director meeting expenses were excluded from utility operations, as  
11 ordered in Docket No. UE-090134. The Company has also removed 10% of total  
12 Directors' and Officers' insurance expense, to reflect the non-utility/subsidiary portion, as  
13 well as, removed the utility-portion of the Company's Long Term Incentive Plan (LTIP)  
14 related to restricted shares expense, as ordered in Docket No. UE-150204. The net  
15 reduction of these expenses is approximately \$636,000.

16 Lastly, the Company has restated director fee expenses to reflect a 97% Utility /  
17 3% non-utility split, as noted below, rather than the 90%/10% split currently recorded on  
18 the Company's books, increasing expense approximately \$37,000.

---

<sup>10</sup> The new contract with the International Brotherhood of Electric Workers (IBEW) Local Unit 77 went into effect in January of 2015 with retro-active pay back to March 26, 2014. In anticipation of the retro-active pay, the Company recorded estimated union labor during the test period in the amount of \$650,306 (for March 25, 2014 through December 31, 2014 or 275 days). The correct amount of retro-active pay for the test period should represent the period October 2014 through December 2014 or 92 days in the amount of \$284,726. This adjustment restates the level of expense included in the test period to reflect 92 days and reduces test period expense by approximately \$195,464 for Washington Electric and \$54,984 for Washington Natural Gas.

1           **Q.     As noted above, the Company removed 3% of Director Fee expenses.**  
2           **What is the basis for removing 3% of these costs?**

3           A.     In November 2015 the Company requested each of its Directors to  
4 estimate the time they spend on utility versus non-utility duties and responsibilities, based  
5 on their actual experience. The responses from the Directors indicated that, in the  
6 aggregate, approximately 97% of the Directors' time is dedicated to utility matters, and  
7 approximately 3% to non-utility<sup>11</sup>. During the test period utilized in this case, the  
8 Company had recorded approximately 90% to utility and 10% to non-utility expense.

9           In Docket Nos. UE-090134 and UG-090135. Order No. 10, in reference to a 90/10  
10 sharing for D&O insurance, the Commission stated:

11                     D&O insurance is a benefit that is part of the compensation  
12                     package offered to attract and retain qualified officers and directors.  
13                     Accordingly, it makes sense to split the costs in the same manner  
14                     we require other elements of their compensation to be shared.  
15                     Based on the formula currently used to allocate officer  
16                     compensation between ratepayers and shareholders, this results in  
17                     90 percent of the costs being included for recovery in rates.  
18                     (emphasis added) (See page 56, paragraph 137)

19  
20           This Commission, as shown above, has recognized that D&O insurance is part of  
21 the “compensation package” (splitting such costs on a 90/10 basis). Similarly, Directors’  
22 fees, like D&O insurance referred to above, are a part of the Directors’ compensation  
23 package offered to attract and retain qualified Directors. Based on the actual time  
24 dedicated to the utility, a 97%/3% sharing should be applied to Directors’ fees. Using a  
25 97%/3% sharing for the Director fees paid during the test period for participating in

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<sup>11</sup> A change from previous years, in which the results of the Board of Director surveys had been approximately 90% utility/10% non-utility, is directly reflective of the sale of Avista’s subsidiary Ecova and the purchase of Alaska Energy and Resource Company (AERC) / Alaska Electric Light and Power Company (AEL&P) in mid-2014.

1 Avista Corp./Utility board meetings, increased the Company's expense included in this  
2 filing by approximately \$37,000.

3 The net effect of all of the miscellaneous restating adjustments described above, is  
4 a reduction in operating expenses of \$818,000, increasing Washington net operating  
5 income by \$532,000.

6 The adjustment in column (2.13), **Eliminate WA Power Cost Deferral**, removes  
7 the effects of the financial accounting for the Energy Recovery Mechanism (ERM.) The  
8 ERM normalizes and defers certain net power supply and transmission revenues and  
9 expenses pursuant to the Commission-approved deferral and recovery mechanism. The  
10 adjustment removes the ERM rebate revenue as well as the deferral and amortization  
11 amounts and certain directly assigned power costs and net transmission costs associated  
12 with the ERM. The effect of this adjustment is to increase Washington net operating  
13 income by \$5,034,000.

14 The adjustment in column (2.14), **Nez Perce Settlement Adjustment**, reflects an  
15 increase in production operating expenses. An agreement was entered into between the  
16 Company and the Nez Perce Tribe in 1999 to settle certain issues regarding previously  
17 owned hydroelectric generating facilities of the Company. This adjustment directly  
18 assigns the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions.  
19 This is necessary due to differing regulatory treatment in Idaho Case No. WWP-E-98-11  
20 and Washington Docket No. UE-991606. This restating adjustment is consistent with  
21 prior dockets since Docket No. UE-011595. The effect of this adjustment is to increase  
22 Washington net operating income by \$6,000.

1           The adjustment in column (2.15), **Restate Debt Interest**, restates debt interest  
2 using the Company's pro forma weighted average cost of debt, as outlined in the  
3 testimony and exhibits of Mr. Thies, on the Results of Operations level of rate base  
4 shown in column (1.00) only, resulting in a revised level of tax deductible interest  
5 expense on actual test period rate base. The Federal income tax effect of the restated  
6 level of interest for the test period increases Washington net operating income by  
7 \$435,000.

8           The Federal income tax effect of the restated level of interest on all other rate base  
9 adjustments included in the Company's filing are included and shown as an income  
10 impact of each individual rate base adjustment described elsewhere in this testimony.

11           The adjustment in column (2.16), **Restate Incentive Expenses**, restates actual  
12 incentives included in the Company's test period ending September 30, 2015, to reflect a  
13 six-year average of payout percentages, reducing overall electric expense by  
14 approximately \$1.2 million. For officers, the incentive amount included in the  
15 Company's filing is based on 2015 average officer potential payout (56.9%), for  
16 operating performance metrics (40%) defined in the Officer Short-Term Incentive Plan  
17 (STIP),<sup>12</sup> for a total of 23% (56.9% x 40%). This amount was then multiplied by the six-  
18 year average of actual O & M percentage payouts for the periods 2009-2014 (or 40.23%).  
19 Less than 9.5% of the total potential short term incentive compensation for executive  
20 officers is included in the Company's filing. See below for a brief description of the  
21 Executive Short Term Incentive Plan (STIP).

---

<sup>12</sup> Officer STIP based on earnings per share targets are excluded from this calculation. Long-term incentives based on financial metrics (performance shares) and those short-term incentives based on earnings per share are borne by shareholders.

1            For non-officer incentives, this is calculated by using the 2016 level of labor  
2        expense (determined in “Pro Forma Labor Non-Exec” adjustment 3.02) multiplied by the  
3        payout incentive opportunity per the Company’s current incentive plan (or 12% for non-  
4        union and 1.4% for union) to determine the incentive payout opportunity, multiplied by  
5        the six-year average of actual percentage payouts for the periods 2009-2014 (or 102.2%).  
6        The methodology behind this adjustment is consistent with the approach used in Docket  
7        Nos. UE-150204 and UG-150205.

8            The net effect of this adjustment (including both executive and non-executive)  
9        increases Washington electric net operating income by approximately \$800,000.

10           **Q.     Please describe the Executive Short Term Incentive Plan.**

11           A.     The STIP is designed to align the interests of executives with both  
12        customer and shareholder interests in order to achieve overall positive financial and  
13        operational performance for the Company.    The STIP is a pay-at-risk plan whereby  
14        employees are eligible to receive cash incentive pay if the stated targets are achieved.

15           The STIP has four operational components, plus two earnings per share (EPS)  
16        components. The total amount associated with utility operational components is 40% and  
17        is broken down as follows: 20% O&M Cost-Per-Customer, 8% Customer Satisfaction,  
18        8% Reliability, and 4% Response Time. The EPS components account for 60% of the  
19        total opportunity and are broken out into 50% utility EPS and 10% non-utility EPS. The  
20        operational components (40%) which are proposed to be included in retail rates mirror  
21        those metrics in the employee STIP in order to encourage employees at all levels of the  
22        Company to focus on common objectives. They reflect measures that are designed to  
23        drive cost-control, and delivery of safe, reliable service with a high level of customer

1 satisfaction. The remaining 60% related to EPS targets is borne by shareholders. The  
2 executive officer STIP is reviewed each year by the Compensation Committee of the  
3 Board of Directors and modifications are made as necessary. Annually, Executive  
4 Compensation, including the STIP (or Cash Incentive Plan), is voted on and approved as  
5 part of the Advisory Vote on Executive Compensation (Say on Pay) included in the Proxy  
6 Statement.

7 **Q. Please provide an overview of the Company's non-executive employee**  
8 **incentive plan.**

9 A. The operational metrics included in the non-executive employee incentive  
10 plan are essentially the same as the executive officer STIP discussed above with different  
11 weightings for each component. Both plans provide incentives and focus employees on  
12 stated goals while recognizing and rewarding employees for their contributions toward  
13 achieving those goals. The components of the non-executive employee incentive plan are  
14 as follows: 60% O & M Cost-Per-Customer, 15% Customer Satisfaction, 15% Reliability  
15 Index and 10% Response Time.

16 Annually, the Company will assess the non-executive employee incentive plan to  
17 determine if modifications should be made to keep employees focused on the core  
18 business goals of the Company.

19 **Q. Please explain where a pay-at-risk component of compensation fits**  
20 **into the Company's overall compensation philosophy.**

21 A. The pay-at-risk component of the overall compensation philosophy  
22 creates focus for all employees because a portion of the overall earning opportunity is at  
23 risk. In order to receive this portion of compensation, employees have to keep focused on

1 cost control, customer satisfaction and reliability within the system. This tension in plan  
2 design helps motivate and focus all employees on the stated goals of the Company.  
3 Targets are designed with maximum performance levels difficult to achieve given  
4 historical performance and the Company's forecasted results at the time the performance  
5 metrics were approved. The pay-at-risk component of compensation is not designed to  
6 pay out the full incentive opportunity every year, nor is it designed to have no payout for  
7 an extended period of time.

8 It is important to note that incentive compensation is not additional compensation  
9 for employees. Rather, incentive compensation is one component of the overall  
10 compensation structure designed to retain current employees, while remaining  
11 competitive enough to attract new employees. It provides the Company an avenue to  
12 manage costs and provide incentives for employees to achieve this portion of  
13 compensation. If incentive compensation was eliminated, base salaries or benefits would  
14 need to be adjusted in an equal amount in order to remain competitive with the  
15 Companies with which we compete for talent.

16 **Q. Please continue with your explanation of the adjustments on page 8.**

17 A. The last column on page 8, entitled **Restated Total**, subtotals all the  
18 preceding columns (1.00) through column (2.16). These totals represent actual operating  
19 results and rate base plus the standard normalizing adjustments that the Company  
20 includes in its annual Commission Basis reports. However, the Restated Total column  
21 does not represent September 30, 2015 test period results of operation on a normalized  
22 commission basis. Differences between certain restating adjustments included in  
23 normalized Commission Basis Reports (CBRs) versus those included here, include but

1 are not limited to, removal of CBR Power Supply (as the Power Supply net expense  
 2 adjustment is included later as Pro Forma Power Supply Adjustment (3.0)); inclusion of  
 3 debt interest restated based on the Company's proposed weighted cost of debt (described  
 4 in adjustment (2.15) Restate Debt Interest above), as well as restated deferred debits and  
 5 credits (described in adjustment (1.02) above). Each of the adjustments noted above have  
 6 been included consistent with past general rate case filings by the Company. The  
 7 Commission Basis Report results of operations, for the test period ending September 30,  
 8 2015, shows a 8.34% rate of return, as shown in Exhibit No. \_\_ (EMA-2), page 5, line 50.

9 **Electric Pro Forma Adjustments**

10 **Q. Please explain each of the Pro Forma adjustments shown on page 9.**

11 A. The adjustment in column (3.00), **Pro Forma Power Supply**, was made  
 12 under the direction of Mr. Johnson, and is explained in detail in his testimony. This  
 13 adjustment includes pro forma power supply related revenue and expenses to reflect the  
 14 twelve-month period January 1, 2017 through December 31, 2017, using historical  
 15 loads.<sup>13</sup> Mr. Johnson's testimony outlines the system level of pro forma power supply  
 16 revenues and expenses that are included in this adjustment. This adjustment calculates  
 17 the Washington jurisdictional share of those figures. The net effect of the power supply  
 18 adjustments decrease Washington net operating income by \$3,592,000.<sup>14</sup>

19 The adjustment in column (3.01), **Pro Forma Transmission Revenue/Expense**,  
 20 was made under the direction of Mr. Cox and is explained in detail in his testimony. This

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<sup>13</sup> The impact of this adjustment is also included in the Company's electric Attrition Study. See column [K], page 4 of Exhibit No. \_\_ (EMA-2).

<sup>14</sup> As explained by Ms. Andrews, approximately \$14.3 million (or 37%) of the requested 2017 revenue requirement is associated with increased net power supply costs compared to authorized power supply costs, of which over \$8 million is due to the expiration of the Portland General Electric (PGE) capacity contract in 2016. Mr. Johnson explains the PGE capacity contract within his testimony.



1 adjustment includes pro forma transmission-related revenues and expenses to reflect the  
 2 twelve-month period January 1, 2017 through December 31, 2017.<sup>15</sup> The net effect of the  
 3 transmission revenue and expense adjustments decrease Washington net operating  
 4 income by \$369,000.

5 The adjustment in column (3.02), **Pro Forma Labor-Non-Exec**, reflects changes  
 6 to test period union and non-union wages and salaries, excluding executive salaries,  
 7 which are handled separately in adjustment (3.03). For non-union employees, test period  
 8 wages and salaries are restated to include the March 2015 overall actual increase of 3.0%  
 9 on an annualized basis, and the March 2016 overall increase of 3.0% (approved by the  
 10 Compensation Committee of the Board of Directors<sup>16/17</sup>).

11 For union employees, 2015 wages and salaries are restated to annualize the March  
 12 2015 increase, and increases of 3% for 2016 and 2017 in accordance with union contract  
 13 terms.<sup>18</sup> The methodology behind this adjustment is consistent with Docket No. UE-  
 14 150204 and UG-150205. The effect of this adjustment on Washington net operating  
 15 income is a decrease of approximately \$1,349,000 for electric operations.

16 The adjustment in column (3.03), **Pro Forma Labor-Executive**, annualizes  
 17 salaries for the current executive officer team to salary levels approved and in effect  
 18 during 2015. The total salary level was allocated between 86% utility and 14% non-

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<sup>15</sup> The impact of certain transmission revenues (i.e. transmission revenues included in authorized ERM net energy costs) included in this adjustment are also included in the Company's electric Attrition Study. See column [K], page 4 of Exhibit No. \_\_ (EMA-2).

<sup>16</sup> In November 2015 a 3.0% increase for non-union employees was approved to be effective March 1, 2016, based on then-current market data.

<sup>17</sup> The March 2017 non-union labor increase will be presented to the Compensation Committee of the Board of Directors for approval at the Board's May 2016 meeting. However, the March 2017 increase was excluded from the Pro Forma Labor Adjustment (3.0), rather this labor increase is included in the Cross Check Labor Non-Exec Adjustment (4.02).

<sup>18</sup> Union increases are governed by contract terms. The current contract was approved January 8, 2015 (including amendments dated 09.23.2015) for increases of 3% for 2015-2018.

1 utility accounts based on the actual allocation as of September 30, 2015 consistent with  
2 Order No. UE-150204 and UG-150205.<sup>19</sup> These modifications result in an increase to the  
3 executive compensation expense by approximately \$54,000 from that included in the  
4 Company's historical test period. The effect of this adjustment on Washington net  
5 operating income is a decrease of approximately \$35,000 electric operations.

6 The adjustment in column (3.04), **Pro Forma Employee Benefits**, adjusts for  
7 changes to Company retirement and medical expenses. In total, this adjustment reflects  
8 the change in total employee benefit costs on a system level from \$57.9 million to \$62.2  
9 million. Washington's share of this adjustment decreases Washington net operating  
10 income by \$750,000.

11 **Q. Please describe the retirement portion of the Employee Benefits**  
12 **adjustment and Washington's share of this expense.**

13 A. The Company's pension and 401(k) expense portion of this adjustment is  
14 determined in accordance with Accounting Standard Codification 715 (ASC-715), and  
15 has increased on a system basis from approximately \$29.3 million for the actual test  
16 period costs for the twelve months ended September 30, 2015, to \$31.4 million for 2016.  
17 The increase in pension expense (\$0.6 million Washington electric, \$0.2 million natural  
18 gas) is primarily due to the discount rate on pension liability and expected return on  
19 assets.

20 At this time the amounts included in this case are based on the most current  
21 available data. Preliminary pension expense is determined by an outside actuarial firm, in

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<sup>19</sup> Order No. UE-150204 and UG-150205 page 75, at 218 "...we adopt Staff's allocation based on measured timesheet data from the test period."

1 accordance with ASC-715, and provided to the Company late in the first quarter of each  
2 year. These calculations and assumptions are reviewed by the Company's outside  
3 accounting firm annually for reasonableness and comparability to other companies. New  
4 estimates will be finalized and presented to the Board of Directors in May 2016. Pension  
5 expense will be updated during this case in order to reflect the results of this analysis.

6 **Q. Please describe any recent changes to the Company's retirement plan.**

7 A. In October 2013, the Company revised our defined benefit pension plan  
8 such that, as of January 1, 2014, the plan was closed to all non-union employees hired or  
9 rehired by Avista on or after January 1, 2014. All actively employed non-union  
10 employees that were hired prior to January 1, 2014, and are currently covered under the  
11 defined benefit pension plan, will continue accruing benefits as originally specified in the  
12 plan. A defined contribution 401(k) plan replaced the defined benefit pension plan for all  
13 non-union employees hired or rehired on or after January 1, 2014. Under the defined  
14 contribution plan, the Company provides a non-elective contribution as a percentage of  
15 each employee's pay based on his or her age. The defined contribution is in addition to  
16 the existing 401(k) contribution in which the Company matches a portion of the pay  
17 deferred by each participant. In addition to the above changes, the Company also revised  
18 the lump sum calculation effective January 1, 2014 for non-union participants who retire  
19 under the defined benefit pension plan. The lump sum amount is equivalent to the  
20 present value of the annuity based upon discount rates.

21 **Q. Please now describe the medical insurance (including active medical**  
22 **and post-retirement medical) portion of the Employee Benefits adjustment and**  
23 **Washington's share of this expense.**

1           A.     The Company's medical insurance and post-retirement expense portion of  
2 this adjustment (\$0.5 million Washington electric, and \$0.2 million Washington natural  
3 gas) adjusts for the medical-related costs planned for 2017 above the test period. Medical  
4 insurance for active employees and post-retirement expenses has increased on a system  
5 basis from \$28.6 million for the actual test period costs for the twelve months ended  
6 September 30, 2015, to \$30.7 million for 2017. The increase in 2017 represents a  
7 decrease in overall medical premiums, offset by an increase in Staff levels.

8           **Q.     Please describe the recent changes to the Company's medical plans.**

9           A.     In October 2013 the Company also revised the health care benefit plan for  
10 non-union employees hired or rehired on or after January 1, 2014. Upon retirement the  
11 Company will no longer provide a contribution towards his or her medical premiums. The  
12 Company will provide access to the retiree medical plan, but the non-union employees  
13 hired or rehired on or after January 1, 2014, will pay the full cost of premiums upon  
14 retirement. In addition, beginning January 1, 2020, the method for calculating health  
15 insurance premiums for non-union retirees under age 65 and active Company employees  
16 will be revised. The revision will result in separate health insurance premiums for each  
17 group.

18           **Q.     Please continue with your explanation of adjustments on page 9.**

19           A.     The adjustment in column (3.05), **Pro Forma Regulatory Amortization**  
20 **Restating Adjustment**, removes various amortization expenses included in the  
21 Company's test period that expire prior to the 2017 rate year. The expiring regulatory  
22 amortizations include: 1) 2011 deferred Colstrip and Coyote Springs 2 thermal  
23 maintenance expense, and a 4-year Amortization of the 2011 deferral amount approved in

1 Docket No. UE-100467, started January 1, 2012, expiring on December 31, 2015; 2)  
2 BPA Settlement Deferral, authorized in UE-130536, allowing the Company to defer  
3 Washington's share of \$2.1 million of annual transmission revenue and credit to  
4 customers during 2015; 3) Canada to Northern California (CNC) Transmission Project, a  
5 3-year amortization period ending in December 2014; 4) LiDAR O&M and Deferred  
6 O&M, a 3-year amortization period ending in December 2014; and 5) Wartsila Generator  
7 (Small Gen) expenses, a 10-year amortization period ending December 2014. The effect  
8 of this adjustment is to increase Washington net operating income by \$255,000.

9 The adjustment in column (3.06), **Pro Forma Property Tax**, restates the 2015  
10 level of property tax expense included in adjustment (2.02) Restate 2015 Property tax, to  
11 the 2016 level of expense. The property on which the tax is calculated is the property  
12 value as of December 31, 2015, reflecting the 2016 level of expense the Company will  
13 experience during 2016. The effect of this adjustment decreases Washington net  
14 operating income by \$704,000.

15 The last column on page 9, includes the adjustment in column (3.07), **Pro Forma**  
16 **Meter Deferral and Amortization**, reflects the removal of the estimated undepreciated  
17 value of the electric distribution meters of \$18.6 million, removing this balance from  
18 electric distribution plant, and recording it as a regulatory asset (added to regulatory  
19 deferred debits and credits rate base balance). The impact to net rate base is therefore \$0.

20 This adjustment also reduces depreciation to reflect the net depreciation expense  
21 included in the 2017 rate period, as well as the amortization expense of the Regulatory  
22 Asset over the Company's proposed fifteen-year amortization schedule (starting in  
23 January 2017), with a return on the unamortized balance. Ms. Schuh is sponsoring this

1 adjustment and provides more detail within her testimony. Company witness Ms.  
2 Rosentrater describes the AMI program in general.

3 The reduction in depreciation expense of \$84,000, net of the increase in  
4 amortization expense of approximately \$1.2 million, increases expense \$1.1 million. The  
5 effect of this component decreases Washington net operating income by \$749,000, with  
6 no net change to rate base.

7 **Q. Please continue with your discussion of the Pro Forma adjustments**  
8 **included on page 10 of Exhibit No. \_\_\_\_ (JSS-2).**

9 A. The first column on page 10, adjustment (3.08) **Pro Forma Revenue**  
10 **Normalization**, includes revenue repricing of the 2016 authorized rates approved in  
11 Docket No. UE-150204.<sup>20</sup> Ms. Knox is sponsoring this adjustment. The effect of this  
12 adjustment decreases Washington net operating income by \$1,988,000.

13 The adjustment included in column (3.09), **Pro Forma Capital Additions**  
14 **December 2015 AMA**, restates net plant included in the historical CBR test year from a  
15 September 30, 2015 AMA basis to a December 31, 2015 AMA basis, together with the  
16 associated A/D, ADFIT and depreciation expense at December 31, 2015, to reflect actual  
17 balances as of December 31, 2015. Company witness Ms. Schuh describes this  
18 adjustment in detail within her testimony.<sup>21</sup> The effect of this component decreases

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<sup>20</sup> The impact of this adjustment is also included in the Company's electric Attrition Study. See column [F], page 4 of Exhibit No. \_\_ (EMA-2).

<sup>21</sup> Distribution-related capital expenditures for the period October – December 2015 associated with connecting new customers to the Company's system were excluded. The Pro Forma and Cross Check Studies do not include the increase in revenues from growth in the number of customers from the historical test period to the 2017 rate year and therefore, the growth in plant investment associated with customer growth was also excluded.

1 Washington net operating income by \$1,062,000 and increases rate base by \$18,307,000.

2 The adjustment included in column (3.10), **Pro Forma 2016 Limited Capital**  
3 **Additions**, reflects increases related to certain 2016 capital additions, together with  
4 associated A/D and ADFIT. This adjustment also includes associated depreciation  
5 expense for these 2016 additions. As sponsored and discussed by Ms. Schuh, the  
6 Company has identified Pro Forma projects that are one-half of one percent of the  
7 Company's rate base (i.e., above \$6.3 million for electric and \$1.17 for natural gas),  
8 representing a threshold for choosing specific capital projects to include within the  
9 modified test year Pro Forma Study.<sup>22/23</sup> The effect of this adjustment decreases  
10 Washington net operating income by \$347,000 and increases rate base by \$86,690,000.

11 The adjustment included in column (3.11) is **O&M Offsets**. As explained by Ms.  
12 Schuh, for the specific 2016 capital projects included in Pro Forma 2016 Limited Capital  
13 Additions adjustment (3.10) above, maintenance records were reviewed to determine  
14 whether any specific maintenance costs were incurred in the test period that would be  
15 reduced or eliminated by the investment for that capital project. Those reductions in costs  
16 were quantified and included as a reduction to O&M. The effect of this adjustment on  
17 Washington net operating income is an increase of \$133,000.

18 The final pro forma adjustment included in Column (3.12), **Pro Forma Major**  
19 **Maintenance Normalize CS2/Colstrip**, includes an adjustment to normalize major  
20 maintenance expense associated with its Colstrip/Coyote Springs II (CS2) thermal  
21 projects. In Order 05, page 56, paragraph 153, of Docket No. UE-150204, the

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<sup>22</sup> This threshold is consistent with that used by the Commission in Order 05 in Docket Nos. UE-150204 and UG-150205 (Consolidated), paragraph 39 and 40.

<sup>23</sup> The remaining planned capital projects for 2016, as well as adjusting total plant and associated A/D and ADFIT on a 2016 AMA basis, are reflected in "Cross Check Capital Add 2016 AMA" Adjustment (4.00).

1 Commission ordered the Company to normalize and recover its major maintenance  
2 expense associated with these plants over a three-year period for Colstrip and four-year  
3 period for CS2 to match the major maintenance cycles for each plant, rather than in total  
4 in the year the maintenance occurred.

5 In 2015 there were no major maintenance expenses for the Company's Colstrip or  
6 CS2 thermal plants to remove from test period results. However, the Company reviewed  
7 the expected major maintenance planned in 2016 and 2017 for these projects to establish  
8 a normalized level of maintenance expense for the 2017 rate period. For major  
9 maintenance planned at Colstrip<sup>24</sup> the Company used Washington's share of actual 2014  
10 major maintenance expense of \$1.23 million (\$1.9 million system) to determine the level  
11 of expense expected in 2016 and 2017, no inflation in costs were included. To normalize  
12 these system expenses, the Company included 1/3 of the 2016 major maintenance  
13 expense (to normalize over the period 2016-2018, \$411,000 annually), and 1/3 of the  
14 2017 major maintenance expense (to normalize over the period 2017-2019, \$411,000  
15 annually), for a total of \$822,000 in normalized major maintenance expense to include for  
16 the 2017 rate period. Including this level of major maintenance of approximately  
17 \$822,000 in the 2017 rate year will establish the normalized level of major maintenance

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<sup>24</sup> Major maintenance occurs two out of every three years. No maintenance occurred in 2015, but will occur in 2016 and 2017.



1 starting in 2017 forward for the Colstrip thermal plant.<sup>25/26</sup>

2 The effect of this adjustment increases O&M expense by \$822,000, decreasing  
3 Washington net operating income by \$534,000.

4 **Q. Please explain what is shown in the last column on page 10 of Exhibit**  
5 **No. \_\_ (JSS-2).**

6 A. The last column on page 10, labeled Pro Forma Sub-Total, reflects total  
7 pro forma results of operations and rate base consisting of test period actual results and  
8 the restating and pro forma adjustments explained thus far.<sup>27</sup>

9 **2017 Electric Cross Check Adjustments**

10 **Q. Turning to page 11 of Exhibit No. \_\_ (JSS-2), please continue to briefly**  
11 **explain each of the adjustments.**

12 A. Adjustments starting on page 11 begin the 2017 Cross Check adjustments  
13 included by the Company to include additional expenses and plant additions beyond the  
14 Pro Forma Study identified by the Company that are expected during the 2017 rate year.

15 The first adjustment included in column (4.00), **Cross Check Capital Additions**

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<sup>25</sup> The CS2 major overhaul planned in 2016 will be capitalized as required by the Company's capitalization policies; therefore, there is no major maintenance to normalize over the 2016-2017 rate period for the CS2 plant.

<sup>26</sup> A normalized level of expense will occur for regulatory purposes, and for customers. However, for financial purposes and for shareholders, starting in 2017, and each of the two-years (in the three-year cycle) as actual major maintenance occurs, the Company will under-earn approximately 1/3 of the maintenance costs. Similarly, the Company will over earn in the one-year (in the three-year cycle) there is no maintenance by 2/3 of the maintenance cycle. Adjusted operating expenses in 2017, therefore, will be understated by 1/3 (\$411,000) compared to actual major maintenance costs of \$1.23 million expected in 2017.

<sup>27</sup> As noted above and discussed further by Ms. Andrews, the level of electric revenue requirement established at this point based on the modified test period Pro Forma level (\$11.843 million) compared to the revenue requirement requested in this case based on the Company's electric Attrition Study (\$38.568 million), establishes the "2017 Attrition Adjustment" necessary for the Company to earn its proposed rate of return of 7.64% in 2017.

1 **2016 AMA**, reflects the additional 2016 capital additions<sup>28</sup> beyond that included in  
2 adjustment (3.10) “Pro Forma 2016 Limited Capital Additions,” discussed above,  
3 including associated depreciation expenses, A/D and ADFIT. This adjustment also  
4 adjusts total plant and associated A/D and ADFIT to calendar 2016 on an AMA basis.  
5 Ms. Schuh describes this adjustment in detail within her testimony. The effect of this  
6 adjustment decreases Washington net operating income by \$4,201,000 and increases rate  
7 base by \$2,234,000.

8 The adjustment included in column (4.01), **Cross Check Capital Additions 2017**  
9 **AMA**, reflects the additional 2017 capital additions<sup>29</sup> together with the associated A/D  
10 and ADFIT for 2017 on an AMA basis. This adjustment also includes associated  
11 depreciation expense for these 2017 additions. In addition, this adjustment adjusts total  
12 plant and associated A/D and ADFIT for 2016 to calendar year 2017 on an AMA basis.  
13 Ms. Schuh describes this adjustment in detail within her testimony. The effect of this  
14 adjustment decreases Washington net operating income by \$3,943,000 and increases rate  
15 base by \$69,281,000.

16 The adjustment included in column (4.02), **Cross Check Labor Non-Exec**,  
17 reflects the additional 2017 non-union labor increases expected in March 2017, excluded  
18 from Adjustment 3.02 “Pro Forma Labor Non-Exec” discussed above.<sup>30</sup> The effect of  
19 this adjustment decreases Washington net operating income by \$422,000.

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<sup>28</sup>As noted above, distribution-related capital expenditures beyond the September 30, 2015 historical test period were excluded, consistent with treatment of revenues from growth in the number of customers, which is also excluded beyond the historical test period.

<sup>29</sup> Id.

<sup>30</sup> The March 2017 non-union labor increase will be presented to the Compensation Committee of the Board of Directors for approval at the Board’s May 2016 meeting.

1           The adjustment included in column (4.03), **Cross Check 2017 AMI Capital**  
2 **Additions and Expenses**, reflects the 2017 plant-in-service, and associated A/D and  
3 ADFIT on an AMA basis related to the Company's planned investment in its Advanced  
4 Metering Infrastructure (AMI) project. This adjustment also includes the associated  
5 depreciation expense for the 2017 AMI additions. Ms. Schuh sponsors and discusses this  
6 adjustment within her testimony. See also Ms. Rosentrater testimony, as she provides  
7 more detailed information and support for the AMI project.<sup>31</sup> The effect of this  
8 adjustment decreases Washington net operating income by \$1,926,000 and increases rate  
9 base by \$20,703,000.

10           The adjustment included in column (4.04), **Cross Check Information**  
11 **Technology/Services Expense**, includes the incremental costs associated with software  
12 development, application licenses, maintenance fees, and technical support for a range of  
13 information services programs. These incremental expenditures are necessary to support  
14 Company cyber and general security, emergency operations readiness, electric and  
15 natural gas facilities and operations support, and customer services. The effect of this  
16 adjustment increases operating expenses \$1.9 million, and decreases Washington net  
17 operating income by \$1,213,000.

18           **Q.     Please summarize the increases in expenses for the 2017 rate year.**

19           A.     Table No. 4 below summarizes the net increase in Information Systems  
20 and Technology expenses from the test period to 2017 on a system basis. A brief  
21 description of the department functions and cost changes follow:

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<sup>31</sup> See Ms. Rosentrater's testimony at Exhibit No. \_\_ (HLR-1T).

**Table No. 4**

Non-Labor Increases	Test Period	2017	Change
• Information Technology / Infrastructure	\$11,389	\$ 9,905	\$-1,484
• Information Systems / Applications	\$ 9,005	\$12,939	\$3,934
• Administration	\$ 1,176	\$ 382	\$ -794
Incremental Labor Additions			
• Information Technology / Infrastructure	-	\$ 394	\$ 394
• Information Systems / Applications	-	\$ 1,510	\$1,510

**Information Technology / Infrastructure (Non-Labor)**

Information Technology / Infrastructure includes costs for planning, architecting, engineering, operating, maintaining and delivering the company's communications systems, network systems, distributed and centralized computer systems, cyber and physical security systems and the service desk for technology users. The primary driver of the decrease of Information Technology non-labor costs is conversion of contract workers to Avista employees (\$2,050,000 system) offset by increases in communication service costs, equipment maintenance and security requirements of approximately \$566,000 system. Examples of common information technology costs include cellular communication charges for sensor technology and remote meter reading, maintenance of data center equipment and costs for cyber intrusion prevention testing. The net overall decrease in non-labor information technology/infrastructure as noted in Table No. 4, totals approximately \$1.5 million system.

**Information Systems / Applications (Non-Labor)**

Information Systems / Applications includes the cost for planning, architecting, engineering, operating, maintaining and delivering the company's application software solutions. Drivers for the increase in Information System non-labor costs is increased in

1 software service and maintenance fees. Examples of software as a service fee includes  
2 hosting for the mobile outage tool for customers and customer bill printing. Examples of  
3 software maintenance fees include financial systems and the construction design tool.  
4 Major application system projects expected to be completed from 2015 to 2017 include  
5 implementation of an enterprise content management system, refresh of the internal web  
6 site, replacement of the custom developed construction design tool with a commercial off  
7 the shelf project and systems to support AMI. The overall increase in non-labor  
8 information systems/applications, as noted in Table No. 4, total approximately \$3.9  
9 million system.

10 **Administrative**

11 The Administrative function includes costs for employee training, processing of invoices  
12 and purchase requests, budget preparation and management and centralized service fees.  
13 The primary driver of the cost decrease is the elimination of the HP management fees.  
14 The overall decrease in non-labor administrative expenses, as noted in Table No. 4, total  
15 approximately \$.8 million system.

16 **Incremental Labor Increases**

17 Incremental Avista labor increases are due to conversion of contractors to Avista  
18 employees, increased demands in expanded networks, grid modernization and AMI,  
19 apprentices in advance of retirements, increasing demands for security, growing backlog  
20 of application system maintenance and the addition of new systems. The overall  
21 increased labor costs expected in 2017 above the historical test period, as noted in Table  
22 No. 4 above, related to information technology/infrastructure (\$394,000 system) and  
23 information systems/applications (\$1.5 million system), totals \$1.9 million system.

1           **Q. In Table No. 4 above, do any of these items have related offsetting**  
2 **expenses? If yes, would you please explain them?**

3           A. Generally no. The majority of costs included above support new  
4 applications being deployed by the Company, and increases in maintenance costs for  
5 existing applications (i.e. increased non-labor expense for software maintenance and  
6 licensing fees and software and hardware costs). However, conversion of contract labor  
7 to Avista employees results in a net savings, which are reflected in the numbers above.

8           **Q. Please continue with your explanation of the last adjustment on page**  
9 **11.**

10          A. The last column on page 11, includes the adjustment in column (4.05),  
11 **Cross Check Property Tax**, which restates the pro forma level of property tax expense  
12 included in Pro Forma Property Tax Adjustment (3.06), to property tax levels expected  
13 during the 2017 rate period, based on property values expected as of December 31, 2016.  
14 The effect of this adjustment decreases Washington net operating income by \$807,000.

15          **Q. Turning to page 12 of Exhibit No. \_\_ (JSS-2), please continue by**  
16 **explaining the adjustment in the first column (4.06).**

17          A. On page 12, column (4.06), **Cross Check Insurance Expense**, adjusts  
18 actual test period insurance expense related to the utility for general liability, directors  
19 and officers (“D&O”) liability, and property to reflect the expected 2017 level of  
20 insurance. This adjustment results in an increase in expense of \$76,000 electric  
21 Washington share. Insurance costs that are properly charged to non-utility operations  
22 have been excluded from this adjustment. In addition, Avista has removed a total of 10%

1 of the total D&O insurance expense from that expected in 2017. This adjustment  
2 decreases Washington net operating income by \$49,000.

3 **Q. Please continue to briefly explain the column on page 12, labeled**  
4 **“2017 Cross Check Total”.**

5 A. The column on page 12, labeled “2017 Cross Check Total,” reflects the  
6 total electric revenue requirement for 2017 of \$43,474,000 based on incremental cross  
7 check adjustments above that included within the Pro Forma Study balances shown on  
8 page 10 of Exhibit No. \_\_ (JSS-2). This revenue requirement can be compared or “cross  
9 checked” to the revenue requirement determined by the Attrition Study of \$38,568,000,  
10 per Ms. Andrews’ Exhibit No. \_(EMA-2), page 1.

11 **Q. Please describe adjustment 4.07 shown on page 12.**

12 A. The column on page 12, labeled (4.07), **Reconcile 2017 Cross Check To**  
13 **Attrition**, represents the difference, or reduction of \$4,906,000 revenue requirement from  
14 the balances determined by the 2017 electric Cross Check Study, versus the 2017 electric  
15 Attrition Study. This adjustment records the decrease in expense of \$1,830,000,  
16 increasing Washington net operating income by \$913,000, and decreasing net rate base  
17 by \$27,863,000, necessary to equate with the total level of attrition deficiency as  
18 determined by the Company’s Attrition Study sponsored by Ms. Andrews.

19 The final column on page 12 labeled **“2017 Final Attrition Adjusted/Cross**  
20 **Check Total,”** reflects adjustments to match the revenue requirement determined by Ms.  
21 Andrews’ electric Attrition Study. The 2017 Cross Check revenue requirement is  
22 reconciled to the Attrition Study revenue requirement in order to establish revenue,

1 expenses and rate base numbers that can be used as inputs to the Company's cost of  
2 service study prepared by Ms. Knox.

3 **2018 Electric Cross Check Adjustments**

4 **Q. Turning to page 13 of Exhibit No. \_\_ (JSS-2), please continue to**  
5 **explain each of the adjustments beginning with column (18.01).**

6 A. Adjustments starting on page 13 begin the 2018 Cross Check adjustments  
7 included by the Company to include additional expenses and plant additions beyond the  
8 2017 rate period identified by the Company, that are expected during the first 6-months  
9 of the 2018 rate year.

10 The first adjustment included in column (18.01), **Cross Check Power Supply**,  
11 was made under the direction of Mr. Johnson, and is explained in detail in his testimony.  
12 This adjustment includes pro forma power supply related revenues and expenses to reflect  
13 the twelve-month period July 1, 2017 through June 30, 2018, using historical loads,  
14 incorporating the incremental increase in net power supply expense from the 2017 rate  
15 period levels.<sup>32</sup> Mr. Johnson's testimony outlines the system level pro forma power  
16 supply revenues and expenses that are included in this adjustment. The effect of this  
17 adjustment decreases Washington net operating income by \$1,811,000.

18 The adjustment in column (18.02), **Cross Check Transmission**  
19 **Revenue/Expense**, was made under the direction of Mr. Cox and is explained in detail in  
20 his testimony. This adjustment includes the incremental transmission-related revenues to  
21 reflect changes in revenues for the 6-month period January to June 2018, beyond that

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<sup>32</sup> The impact of this adjustment is also included in the Company's electric Attrition Study. See column [K], page 4 of Exhibit No. \_\_ (EMA-4).



1 reflected during the 2017 rate period.<sup>33</sup> There are no material changes in expense  
2 expected during the 6-month period, January to June 2018. The net effect of the  
3 transmission revenue adjustment decreases Washington net operating income by  
4 \$126,000

5 The adjustment included in column (18.03), **Cross Check Labor Non-Exec**,  
6 reflects the incremental labor expense associated with the March 2018 union and non-  
7 union labor increase expected for the period March 1 – through June 30, 2018. The effect  
8 of this adjustment decreases Washington net operating income by \$504,000.

9 The adjustment included in column (18.04), **Cross Check Planned Capital**  
10 **Additions 2018 AMA**, reflects the additional 2018 capital additions together with the  
11 associated A/D and ADFIT for the 6-month period January through June 2018, on an  
12 AMA basis. This adjustment also includes associated depreciation expense for the  
13 incremental 6-month period January to June 2018 on these capital additions. In addition,  
14 this adjustment adjusts total plant and associated A/D and ADFIT for 2017 AMA to  
15 January to June 2018 AMA. Ms. Schuh describes this adjustment in detail within her  
16 testimony. The effect of this adjustment decreases Washington net operating income by  
17 \$2,299,000, associated with increased depreciation expense, and decreases rate base by  
18 \$4,895,000, because of the impact of A/D and ADFIT on total plant adjusted to June  
19 2018 AMA.

20 The adjustment included in column (18.05), **Cross Check 2018 AMI Capital**  
21 **Additions and Expenses**, reflects the January through June of 2018 plant-in-service

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<sup>33</sup> The impact of certain transmission revenues (i.e. transmission revenues included in authorized ERM net energy costs) included in this adjustment are also included in the Company's electric Attrition Study. See column [K], page 4 of Exhibit No. \_\_ (EMA-4).

1 additions, and associated A/D and ADFIT on an AMA basis related to the Company's  
2 planned investment in its Advanced Metering Infrastructure (AMI) project for this  
3 incremental 6-month period. This adjustment also includes the associated depreciation  
4 expense for these additions. Ms. Schuh sponsors and discusses this adjustment within her  
5 testimony. Ms. Rosentrater provides more detailed information and support for the AMI  
6 project. The effect of this adjustment decreases Washington net operating income by  
7 \$1,150,000 and increases rate base by \$17,483,000.

8 **Q. Turning to page 14 of Exhibit No. \_\_ (JSS-2), please continue by**  
9 **explaining the adjustment in the first column (18.06).**

10 A. The adjustment included on page 14 in column (18.06), **Cross Check**  
11 **Insurance Expense**, adjusts 2017 insurance expense levels related to the utility for  
12 general liability, D&O liability, and property included in Adjustment 4.06 "Cross Check  
13 Insurance Expense" discussed above, reflecting the incremental 6-month January through  
14 June 2018 level of insurance expense. This adjustment excludes the 10% portion of  
15 D&O insurance associated with non-utility. This adjustment decreases Washington net  
16 operating income by \$43,000.

17 The adjustment included in column (18.07), **Cross Check Information**  
18 **Technology/Services Expense**, includes the incremental costs associated with software  
19 development, application licenses, maintenance fees, and technical support for a range of  
20 information services programs beyond 2017 for the period January through June 2018.  
21 These incremental expenditures are necessary to support Company cyber and general  
22 security, emergency operations readiness, electric and natural gas facilities and operations

1 support, and customer services. The effect of this adjustment decreases Washington net  
2 operating income by \$255,000.

3 The next column on page 14, labeled “**2018 Cross Check Total**,” reflects the  
4 total electric revenue requirement for the 18-month period as of June 2018 of  
5 \$50,103,000. This revenue requirement level includes incremental cross check  
6 adjustments for the 6-month period January through June 2018, adjusting balances  
7 beyond that expected during the 2017 rate year. This revenue requirement can be  
8 compared or “cross checked” to the revenue requirement determined using Ms. Andrews’  
9 electric Attrition Study of \$48,869,000, shown on page 1 of Exhibit No. \_\_ (EMA-4).

10 **Q. Please describe the last adjustment (18.08) shown on page 14.**

11 A. The last adjustment on page 14, labeled (18.08), **Reconcile 2018 Cross**  
12 **Check to Attrition**, represents the difference (\$1,234,000 revenue requirement) between  
13 the 2018 electric Cross Check Study (\$50,103,000) and the electric Attrition Study  
14 (\$48,869,000). This adjustment records the decrease in expense of \$1,844,000,  
15 increasing Washington net operating income by \$1,264,000, and decreasing net rate base  
16 by \$6,530,000 necessary to reconcile with the Company’s electric Attrition Study  
17 sponsored by Ms. Andrews.

18 **Q. Please describe the last two total columns on page 14 of Exhibit No.**  
19 **\_\_(JSS-2).**

20 A. Immediately following column (18.08), are total columns labeled “**2018**  
21 **FINAL Attrition Adjusted / Cross Check Total**” and “**INCREMENTAL 2018 (I)**  
22 **Attrition Adjusted / Cross Check Total.**”

1           The column labeled “2018 Final Attrition Adjusted/Cross Check Total,” provides  
 2 the final revenue requirement for the period January 2017 through June 2018 (18-month  
 3 period) of \$48,869,000. This (18-month) June 2018 Cross Check Study has been  
 4 adjusted, at this point, to match the electric (18-month) June 2018 Attrition Study results  
 5 determined by Ms. Andrews. The final column, column “INCREMENTAL 2018 (I)  
 6 Attrition Adjusted / Cross Check Total,” represents the incremental revenue requirement  
 7 of \$10,301,000 above the 2017 rate period.

8

9                                   **IV.    NATURAL GAS REVENUE REQUIREMENT**

10           **Q.    Moving to the natural gas Pro Forma and Cross Check Studies, please**  
 11 **explain what is shown starting on pages 1 and 2 of Exhibit No. \_\_\_\_ (JSS-3)?**

12           A.    Exhibit No. \_\_ (JSS-3), pages 1 and 2, shows actual and Cross Check  
 13 (2017 and January to June 2018 (AMA)) natural gas operating results and rate base for  
 14 the test period for the State of Washington. Column (b) of page 1 of Exhibit No.  
 15 \_\_\_\_ (JSS-3) shows twelve-months ending September 30, 2015 actual operating results  
 16 and components of the average-of-monthly-average rate base as recorded<sup>34</sup>; column (c) is  
 17 the total of all adjustments to net operating income and rate base to reflect 2017 Cross  
 18 Check results; and column (d) is the 2017 Cross Check adjusted results of operations, all  
 19 under existing rates. Column (e) shows the revenue increase required to allow the  
 20 Company to earn a 7.64% rate of return for the 2017 rate year. Column (f) reflects total  
 21 2017 natural gas operating results with the requested increase of \$4,397,000

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<sup>34</sup> Actual plant rate base (cost, A/D and associated ADFIT) uses the 12ME September 30, 2015 AMA balances. Plant rate base is adjusted to a 2017 and January to June 2018 AMA basis with restating, pro forma and cross check adjustments.

1            Page 2 of Exhibit No. \_\_ (JSS-3), show similar columns starting with 2017 Cross  
2 Check results (equal to column (d) on page 1 of Exhibit No. \_\_ (JSS-3)), reflecting  
3 operating results and components of the AMA rate base for 2017, in column (b). Column  
4 (c), of page 2, is the total of all adjustments to net operating income and rate base to  
5 reflect January to June 2018 results; and column (d) is the January to June 2018 results of  
6 operations (on an AMA basis), all under existing rates. Columns (e) and (f) show the  
7 revenue increases required in calendar 2017 and incremental 6-months, January to June  
8 2018, to allow the Company to earn a 7.64% rate of return for the 18-month period  
9 January 2017 through June 2018. Column (g) reflects January to June 2018 Cross Check  
10 operating results with the requested increase of \$941,000 for natural gas, above that  
11 requested in 2017.

12            **Q.     Would you please explain page 3 of Exhibit No. \_\_\_\_ (JSS-3)?**

13            A.     Yes. Page 3 shows, at line 7, the calculation of the \$4,397,000 for 2017,  
14 and the incremental \$941,000 for the 6-months January to June 2018, revenue  
15 requirements at the requested 7.64% rate of return based on the natural gas Cross Check  
16 Studies. This page also shows, at lines 12-17, the values of the natural gas modified  
17 historical test period Pro Forma (-\$1,151,000) compared to the revenue requirement  
18 increases noted above, providing the 2017 (\$5,548,000) and incremental 6-month 2018  
19 (\$941,000) Attrition Adjustments, necessary above the Pro Forma level.

20            **Q.     What does page 4 of Exhibit No. \_\_\_\_ (JSS-3) show?**

21            A.     Page 4 shows the proposed Cost of Capital and Capital Structure utilized  
22 by the Company in this case, and the weighted average cost of capital calculation of  
23 7.64%. Mr. Thies discusses the Company's proposed rate of return and the capital

1 structure utilized in this case, while Mr. McKenzie provides additional testimony related  
2 to the appropriate return on equity for Avista.

3 **Q. Please explain page 5 of Exhibit No. \_\_\_\_ (JSS-3)?**

4 A. Page 5 shows the derivation of the net-operating-income-to-gross-revenue  
5 conversion factor. The conversion factor takes into account uncollectible accounts  
6 receivable, Commission fees and Washington State excise taxes. Federal income taxes  
7 are reflected at 35%.

8 **Q. Now turning to pages 6 through 10 of your Exhibit No. \_\_\_\_ (JSS-3),**  
9 **would you please explain what those pages show?**

10 A. Page 6 begins with actual operating results and rate base for the twelve-  
11 months-ending September 30, 2015 test period in column (1.00). Individual normalizing  
12 and restating adjustments that are standard components of our annual reporting to the  
13 Commission begin in column (1.01) on page 6 and continue through column (2.15) on  
14 page 8. Individual pro forma adjustments are shown on pages 9 and 10 in columns (3.00)  
15 through (3.10). The last column on page 10, labeled “Pro Forma Sub-total” is the subtotal  
16 of the previous columns (1.00) through (3.10), and produce the Pro Forma Study results  
17 discussed above totaling -\$1,151,000.

18 **Q. Continuing after page 10 (Pro Forma Study results), what is included**  
19 **on pages 11 and 12 of your Exhibit No. \_\_\_\_ (JSS-3)?**

20 A. Columns (4.00) through (4.06), on page 11 of Exhibit No. \_\_\_\_ (JSS-3),  
21 represent additional pro forma adjustments related to expenses and capital additions  
22 expected through the 2017 rate period. The column on page 12, labeled “2017 Cross  
23 Check Total,” reflects the total natural gas revenue requirement for 2017 of \$6,386,000

1 based on the use of all adjustments to this point (restating, pro forma and cross check),  
2 from the historical test period to the 2017 rate year.

3 Column (4.07) on page 12 represents the difference of \$1,990,000 between the  
4 2017 natural gas Cross Check Study and the 2017 natural gas Attrition Study.

5 The 2017 Cross Check revenue requirement is reconciled to the Attrition Study  
6 revenue requirement in order to establish revenue, expenses and rate base numbers that  
7 can be used as inputs to the Company's natural gas cost of service study prepared by Mr.  
8 Miller. These balances are shown in the final column on page 12, "2017 Final Attrition  
9 Adjusted/Cross Check Total."

10 Each of the Commission Basis, restating, pro forma and cross check adjustments  
11 are discussed in the testimony that follows. The Company has also provided workpapers,  
12 both in hard copy and electronic formats, outlining additional details related to each of  
13 these adjustments.

14 **Q. Lastly, continuing after page 12 (2017 Cross Check results), what is**  
15 **included on pages 13 and 14 of your Exhibit No. \_\_\_\_ (JSS-3)?**

16 A. Columns (18.01) through (18.05), on page 13, and (18.06) on page 14, of  
17 Exhibit No. \_\_\_\_ (JSS-3), represent incremental cross check adjustments related to  
18 expenses and capital additions expected through the January to June 2018 rate period.  
19 The column on page 14, labeled "2018 Cross Check Total," reflects the total natural gas  
20 revenue requirement for the period January to June 2018 of \$6,591,000 based on the use  
21 of all adjustments to this point (restating, Pro Forma and Cross Check), from the  
22 historical test period to the January to June 2018 rate period.

1 Column (18.07) on page 14 represents the difference of \$1,253,000 between the  
2 January to June 2018 natural gas Cross Check Study and the January to June 2018 natural  
3 gas Attrition Study. The June 2018 ending Cross Check revenue requirement is  
4 reconciled to the Attrition Study revenue requirement in the final column on page 18,  
5 “2018 Final Attrition Adjusted/Cross Check Total.” The last column “Incremental 2018  
6 (I) Attrition Adjusted / Cross Check Total” represents the incremental results for the 6-  
7 month period ending June 2018, beyond the 2017 rate period.

8 **Natural Gas Standard Commission Basis and Restating Adjustments**

9 **Q. Would you please explain each of the Commission Basis and restating**  
10 **adjustments, the reason for the adjustment and its effect on test period State of**  
11 **Washington net operating income and/or rate base?**

12 A. The **Results of Operations** column (1.00), reflects the Company’s actual  
13 operating results and total net rate base experienced by the Company for the twelve-  
14 month period ending September 30, 2015 on an AMA basis. Columns following the  
15 Results of Operations column (1.00), (columns (1.01) – (2.15)) mainly reflect  
16 normalizing and restating adjustments necessary to restate the actual results based on  
17 prior Commission orders, reflect appropriate annualized expenses, correct for errors, or  
18 remove prior period amounts reflected in the actual September 30, 2015 results.

19 **Q. Please continue with your explanation of each adjustment and its**  
20 **effect on test period net operating income and/or rate base.**

21 A. The first adjustment, column (1.01) on page 6, entitled **Deferred FIT**  
22 **Rate Base**, adjusts the ADFIT rate base balance included in the Results of Operations



1 column (1.00) to the adjusted ADFIT balance reflected on an AMA basis, as shown  
2 within my workpapers provided with the Company's filing.

3 ADFIT reflects the deferred tax balances arising from accelerated tax depreciation  
4 (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery,  
5 or MACRS, repairs deduction<sup>35</sup> and bonus depreciation<sup>36</sup>), bond refinancing premiums,  
6 and contributions in aid of construction.

7 The change in ADFIT included in this adjustment is primarily due to the  
8 annualizing of tax depreciation adjustments for the repairs deduction and bonus  
9 depreciation related to the 2015 federal tax return. Results of operations at September 30,  
10 2015 did not reflect ADFIT for repairs deduction or bonus depreciation<sup>37</sup>. This  
11 adjustment restates ADFIT to reflect the impact of both tax deductions as if they had been  
12 recorded beginning in January 2015.

13 The effect on Washington rate base for this adjustment is an increase of \$50,000.  
14 There was no change to Washington net operating income associated with this  
15 adjustment.

16 The adjustment in column (1.02), **Deferred Debits and Credits**, is a  
17 consolidation of certain Commission Basis or restating rate base adjustments and their  
18 operating income (NOI) impact as described in the Electric Standard Commission Basis

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<sup>35</sup> In 2015 Avista filed for a "Change of Accounting" with the IRS to implement certain IRS Tangible Property Regulations associated with revised rules on property capitalization versus repair requirements. The repair regulations resolve some of the controversies that have arisen over the years between the IRS and taxpayers over how to classify certain costs for repairs or supplies that are deductible in a current tax year versus fixed assets that have to be capitalized and depreciated over a number of years.

<sup>36</sup> This special "bonus depreciation" allowance is available to all businesses and applies to most types of tangible personal property and computer software acquired and placed in service during the tax year. It allows taxpayers to deduct 50% of the cost of qualifying property in addition to the regular depreciation allowance that is normally available.

<sup>37</sup> Bonus depreciation for 2015 was not approved by the IRS until December 2015, therefore, the Company did not record the tax benefit until December 2015.

1 and Restating section above. The rate base amount for each of the deferred debits and  
2 credits adjustments discussed below are already reflected in the natural gas results of  
3 operations reports and the Results of Operations column (1.00), and, therefore, no  
4 restating rate base adjustment is necessary. The net impact on a consolidated basis of this  
5 adjustment on Washington natural gas net operating income (NOI) is a decrease of  
6 \$1,000.

7 For consistency with prior rate case filings, a description of each adjustment is  
8 included below.

9 • **Customer Advances** decreases rate base for money advanced by  
10 customers for line extensions, as they will be recorded as contributions in aid of  
11 construction at some future time. The reduction to rate base per results of  
12 operations is accurately reflected at approximately \$12,000. No adjustment from  
13 that recorded within results of operations is necessary.

14  
15 • **Customer Deposits** reduces natural gas rate base by the average-of-  
16 monthly-averages of customer deposits held by the Company, as ordered by this  
17 Commission in Docket UG-090135. The reduction to rate base per results of  
18 operations is already reflected at \$497,000; therefore no adjustment is necessary  
19 to rate base. The corresponding interest paid on customer deposits is reclassified  
20 to utility operating expense, at the current UTC interest rate of 0.16%. The effect  
21 on Washington operating income is a decrease of \$1,000.

22  
23 **Q. Please continue describing the remaining adjustments on page 6.**

24 A. The adjustment in column (1.03), **Working Capital**, reflects the natural  
25 gas working capital balance for the twelve-month period ending September 30, 2015 on  
26 an AMA basis, based on the ISWC methodology, as explained further in the Electric  
27 Standard Commission Basis and Restating section above. In addition, ISWC was revised  
28 to reflect the tax depreciation impact (related to repairs and bonus depreciation) on  
29 ADFIT, impacting current taxes payable through December 31, 2015. The net effect of  
30 adjustments to ISWC from that recorded per results of operations at September 30, 2015,

1 increases net rate base by \$2,828,000. An increase to Washington net operating income of  
2 \$28,000 is due to the FIT expense on the restated level of interest on the change in rate  
3 base<sup>38</sup>.

4 The adjustment in column (2.01), **Eliminate B & O Taxes**, eliminates the  
5 revenues and expenses associated with local business and occupation taxes, which the  
6 Company passes through to customers. The adjustment eliminates any timing mismatch  
7 that exists between the revenues and expenses by eliminating the revenues and expenses  
8 in their entirety. B & O Taxes are passed through on a separate schedule, which is not  
9 part of this proceeding. The effect of this adjustment is to decrease Washington net  
10 operating income by \$9,000.

11 The adjustment in column (2.02), **Restate Property Tax**, restates the accrued  
12 property tax during the test period to actual property tax paid during 2015. Property tax  
13 expense for 2015 was based on actual plant balances as of December 31, 2014. The  
14 effect of this adjustment is to increase Washington net operating income by \$122,000.  
15 Adjustment (3.04) Pro Forma Property Tax, explained below, increases property tax  
16 expense to reflect the 2016 level of expense based on plant as of December 31, 2015.

17 The adjustment in column (2.03), **Uncollectible Expense**, restates the accrued  
18 expense to the actual level of net write-offs for the test period. The effect of this  
19 adjustment is to increase Washington net operating income by \$203,000.

20 **Q. Please turn to page 7 and explain the first column shown there, and**  
21 **the adjustments that follow.**

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<sup>38</sup> The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within each individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on line 28 of Exhibit No. \_\_ (JSS-3).

1           A.     The first adjustment on page 7 in column (2.04), entitled **Regulatory**  
2 **Expense Adjustment**, restates recorded regulatory expense for the twelve-month period  
3 ended September 30, 2015 to reflect the UTC assessment rates applied to revenues for the  
4 test period. The effect of this adjustment is to increase Washington net operating income  
5 by \$8,000.

6           The adjustment in column (2.05), entitled **Injuries and Damages**, is a restating  
7 adjustment that replaces the accrual with a six-year rolling average of injuries and  
8 damages payments not covered by insurance. As a result of the Commission's Order in  
9 Docket No. U-88-2380-T, the Company changed to the reserve method of accounting for  
10 injuries and damages not covered by insurance. The effect of this adjustment decreases  
11 Washington net operating income by \$150,000.

12           The adjustment in column (2.06), entitled **FIT/DFIT Expense**, adjusts the FIT  
13 calculated at 35% within Results of Operations to reflect the appropriate Schedule M  
14 adjustment necessary to match a DFIT expense amount recorded related to WA natural  
15 gas decoupling. The effect of this adjustment decreases current FIT expense by  
16 \$223,000.

17           The adjustment in column (2.07), **Office Space Charges to Subs**, removes a  
18 portion of the office space costs<sup>39</sup> based on the relationship of labor hours charged to  
19 subsidiary/non-utility activities by employee compared to total labor hours by employee.  
20 These percentages are applied to the employees' office space (expressed in square feet)  
21 and multiplied by office space costs/per square foot. This restating adjustment is made as

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<sup>39</sup> Office space is comprised of office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.

1 a result of the Commission's Third Supplemental Order in Docket No. U-88-2380-T.  
2 This adjustment removes the portion of expense that has not already been reflected in the  
3 test period as non-utility. The effect of this adjustment is to increase Washington net  
4 operating income by \$6,000.

5 The adjustment in column (2.08), **Restate Excise Taxes**, removes the effect of a  
6 one-month lag between collection and payment of taxes. The effect of this adjustment is  
7 to increase Washington net operating income by \$3,000.

8 The adjustment in column (2.09), **Net Gains/Losses**, reflects a ten-year  
9 amortization of net gains realized from the sale of real property disposed of between 2006  
10 and September 30, 2015. This restating adjustment is made as a result of the  
11 Commission's Order in Docket No. UG-050483 and consistent with previous Company  
12 general rate cases. The effect of this adjustment is to increase Washington net operating  
13 income by \$4,000.

14 **Q. Please turn to page 8 and explain the adjustments shown there.**

15 A. The first adjustment on page 8 in column (2.10), entitled **Weather**  
16 **Normalization & Gas Cost Adjustment**, normalizes weather sensitive gas therm sales  
17 by eliminating the effect of temperature deviations above or below historical norms. This  
18 adjustment also restates therms sold to reflect the weather normalized therms and then  
19 reprices the adjusted therms sold based upon the authorized weighted average cost of gas.  
20 Company witness Mr. Miller is sponsoring this adjustment. The effect of this particular  
21 adjustment increases Washington net operating income by \$1,154,000.

22 The adjustment in column (2.11), **Eliminate Adder Schedule Adjustments**,  
23 removes the impact of adder schedule revenues and related expenses, such as Schedule

1 191 Tariff Rider (DSM), Schedule 192 Low Income Rate Assistance Program Rate,  
2 Schedule 155 Gas Cost surcharge or rebate, and Schedule 159 Decoupling surcharge or  
3 rebate, since these items are recovered/rebated by separate tariffs and, therefore, are not  
4 part of base rates. Various accounts associated with the cost of gas managed through the  
5 PGA deferral mechanism are consolidated into City Gate Purchases in this adjustment. In  
6 the Company's prior GRC filings this adjustment and weather normalization were both  
7 included as part of the forward looking restatement of current base rates. Separating the  
8 revenue normalization process into three steps allows for direct comparison with the  
9 Commission Basis reported revenue. There is no effect of this adjustment to Washington  
10 net operating income as the adjustment to expense is equal to the adjustment to revenue.

11 The adjustment in column (2.12), **Miscellaneous Restating Adjustments**,  
12 removes a number of non-operating or non-utility expenses associated with dues and  
13 donations, etc., included in error in the test period actual results, and removes, reclassifies  
14 or restates other expenses incorrectly charged between service and or jurisdiction,  
15 increasing expense a total of \$5,000. Additional expenses restated in the test period relate  
16 to Union Retroactive Pay, as discussed in the Electric Standard Commission Basis section  
17 above, resulting in a reduction to operating expense of approximately \$55,000.

18 Also included with this adjustment, the Company removed or restated certain  
19 Director and Officer related expenses. Director meeting expenses were reduced to ensure  
20 a total of 50% of director meeting expenses were excluded from utility operations, as  
21 ordered in Docket No. UG-090135. The Company has also removed 10% of total  
22 Directors' and Officers' insurance expense, to reflect the non-utility/subsidiary portion of  
23 these, as well as, removed the utility-portion of the Company's Long Term Incentive Plan

1 (LTIP) related to restricted shares expense, as ordered in Docket No. UG-150205. The  
2 net reduction of these expenses is approximately \$183,000.

3 Lastly, the Company has restated director fee expenses to reflect a 97% Utility /  
4 3% non-utility split, as discussed in the Electric Standard Commission Basis section  
5 above, rather than the 90%/10% split recorded on the Company's books, increasing  
6 expense approximately \$11,000.

7 The net effect of all of the miscellaneous restating adjustments described above, is  
8 a reduction in operating expenses of \$222,000, increasing Washington net operating  
9 income by \$144,000.

10 The adjustment in column (2.13), **Restate Debt Interest**. This adjustment  
11 restates debt interest using the Company's pro forma weighted average cost of debt, as  
12 outlined in the testimony and exhibits of Mr. Thies, on the Results of Operations level of  
13 rate base shown in column (1.00). This adjustment results in a revised level of tax  
14 deductible interest expense on actual test period rate base. The Federal income tax effect  
15 of the restated level of interest for the test period increases Washington net operating  
16 income by \$86,000.

17 The Federal income tax effect of the restated level of interest on all other rate base  
18 adjustments included in the Company's filing are included and shown in each individual  
19 rate base adjustment described elsewhere in this testimony.

20 The adjustment in column (2.14), **Restating Incentive Adjustment**, restates  
21 actual incentives included in the Company's test period ending September 30, 2015,  
22 reducing overall expense by approximately \$489,000. (See the Electric Standard

1 Commission Basis and Restating section above for additional description.) The effect of  
2 this adjustment increases Washington net operating income by \$318,000.

3 The last restating adjustment shown on page 8 is included in column (2.15),  
4 labeled **Project Compass Deferral**. Per the Settlement Stipulation in Docket No. UG-  
5 140189, Section III, paragraph 7, page 4-5, the Company was allowed to defer for  
6 recovery in a future proceeding the natural gas revenue requirement amount associated  
7 with the Project Compass Customer Information System for the calendar year 2015,  
8 based on the actual costs of the Project at the time the Project goes into service. The  
9 carrying charge on the deferral balance was set at 3.25%. This project was moved into  
10 service in February of 2015. A two-year amortization schedule (2016-2017) was  
11 established within Docket No. UG-150205.

12 This adjustment records the deferral of the natural gas revenue requirement  
13 amount for the period January through September 2015, decreasing expense. (The  
14 regulatory amortization expense to be included in the 2017 rate period associated with  
15 this deferral has been included in Adjustment 3.07 “Pro Forma Regulatory  
16 Amortizations” below.) The effect of this adjustment increases Washington net operating  
17 income by \$978,000.

18 The last column on page 7, entitled **Restated Total**, subtotals all the preceding  
19 columns (1.00) through column (2.15). These totals represent actual operating results and  
20 rate base plus standard normalizing adjustments that the Company includes in its annual  
21 Commission Basis reports. However, the Restated Total column does not represent  
22 September 30, 2015 test period results of operations on a normalized Commission Basis.  
23 Differences between certain restating adjustments included in normalized Commission



1 Basis Reports (CBRs) versus those included here, include but are not limited to, the  
 2 inclusion of debt interest restated based on the Company's proposed weighted cost of  
 3 debt (described in adjustment (2.13) Restate Debt Interest above). The Commission Basis  
 4 Report results of operations, for the test period ending September 30, 2015, shows a  
 5 6.49% rate of return, as shown in Exhibit No. \_\_ (EMA-3), page 5, line 49.

6 **Natural Gas Pro Forma Adjustments**

7 **Q. Please explain each of the pro forma adjustments shown on page 9.**

8 A. The adjustment in column (3.00), **Pro Forma Labor-Non-Exec**, reflects  
 9 changes to test period union and non-union wages and salaries, as explained in the  
 10 Electric Pro Forma section above. Executive salaries are handled separately in  
 11 adjustment (3.01). The methodology behind this adjustment is consistent with that used  
 12 in the Company's previous Docket No. UG-150205. The effect of this adjustment on  
 13 Washington net operating income is a decrease of \$419,000.

14 The adjustment in column (3.01), **Pro Forma Labor-Executive**, reflects changes  
 15 to reflect an annualized 2015 level of allocated executive officer salaries (effective March  
 16 2015). The total salary level was allocated between 86% utility and 14% non-utility  
 17 accounts based on the actual allocation as of September 30, 2015 consistent with Order  
 18 No. UG-150205.<sup>40</sup> The impact of this adjustment on Washington net operating income is  
 19 an increase of \$8,000.

20 The adjustment in column (3.02), **Pro Forma Employee Benefits**, adjusts for  
 21 changes in both the Company's pension and medical insurance expense (as explained in

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<sup>40</sup> Order No. UG-150205 page 75, at 218 "...we adopt Staff's allocation based on measured timesheet data from the test period."

1 the Electric Pro Forma section above), and decreases Washington net operating income  
2 by \$224,000.

3 The adjustment in column (3.03), **Pro Forma Pipeline Safety Labor**, reflects an  
4 increase in labor costs required in order to meet standards and compliance requirements  
5 associated with new Pipeline Safety Management System requirements (API RP-1173),  
6 consistent with peer utilities. The goal of API RP-1173 is to enhance the effectiveness of  
7 risk management and enable continual improvement of pipeline safety performance.  
8 Compliance with the program, although not mandatory at this time, is a recommendation  
9 of the National Transportation Standards Board in response to the recent Marshall  
10 Michigan incident. Additional staff is required to develop and implement the required  
11 standards, provide oversight of quality control systems, develop and maintain a Damage  
12 Prevention program, perform compliance on the program and effectively communicate  
13 and train personnel on the new standards. The impact of this adjustment on Washington  
14 net operating income is a decrease of \$68,000.

15 The adjustment in column (3.04), **Pro Forma Property Tax**, restates the 2015  
16 level of property tax expense included in adjustment (2.02) Restate Property tax, to the  
17 2016 level of expense. The property on which the tax is calculated is the property value  
18 as of December 31, 2015, reflecting the 2016 level of expense the Company will  
19 experience during 2016. The effect of this particular adjustment is to decrease  
20 Washington net operating income by \$127,000.

1           The adjustment in column (3.05), **Pro Forma Revenue Normalization**, includes  
2 revenue repricing of the 2016 authorized rates approved in Docket No. UG-120205.<sup>41</sup>  
3 Mr. Miller is sponsoring this adjustment. The effect of this adjustment increases  
4 Washington net operating income by \$8,002,000.

5           The last pro forma adjustment on page 9 includes the adjustment in column  
6 (3.06), **Pro Forma Atmospheric Testing**, which adjusts the test period expense for  
7 atmospheric corrosion expense. This is an inspection program to find conditions in the  
8 Company's system that could lead to corrosion issues on customer meter sets. This  
9 program is a federally-mandated program that requires the Company to inspect all above-  
10 ground steel pipe at a frequency not to exceed three-years. This expense includes the  
11 inspection costs and follow-up remedial actions based on transitioning the Atmospheric  
12 Corrosion (AC) inspection cycle from a three-year rotation between the Company's  
13 jurisdictions (Washington, Idaho, and Oregon) to an inspection cycle that will be  
14 completed one third of each jurisdiction per year.

15           The atmospheric testing and follow-up remedial services expense included in the  
16 twelve-month test period ending September 30, 2015, was approximately \$708,000. For  
17 2017, the atmospheric testing and follow-up remedial services inspection program will  
18 include costs of approximately \$335,000 for the AC inspection cycle and approximately  
19 \$608,000 for the remediation costs, for a total of \$943,000. The net increase to expense  
20 is therefore \$236,000, decreasing Washington net operating income by \$153,000.

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<sup>41</sup> The impact of this adjustment is also included in the Company's natural gas Attrition Study. See column [C], page 4 of Exhibit No. \_\_ (EMA-4).

1           **Q.     Please briefly explain each of the adjustments included on page 10 of**  
2 **Exhibit No. \_\_\_\_ (JSS-3).**

3           A.     The first adjustment included in column (3.07) **Pro Forma Regulatory**  
4 **Amortization**, includes the regulatory amortization expense associated with the approved  
5 two-year amortization of the deferred natural gas revenue requirement associated with the  
6 Company’s Project Compass Customer Information System (CIS) for calendar year 2015.  
7 See natural gas restating adjustment above labeled (2.15) “Project Compass Deferral.”

8           This adjustment first eliminates the 2015 deferral of the expense recorded as a  
9 September 2015 CBR adjustment (2.15), which must be removed for the 2017 rate  
10 period. Second, amortization expense must be added to 2017 expense to reflect year two  
11 of the two-year amortization (2016-2017) expense. The effect of this adjustment increases  
12 regulatory amortization expense by \$2.6 million. The resulting 2017 level of regulatory  
13 amortization expense (total of adjustment (2.15) of -\$1.5 million, and this adjustment  
14 (3.07) of \$2.6 million) represents the regulatory expense expected and included during  
15 the 2017 rate year of \$1.08 million. The effect of this adjustment decreases Washington  
16 net operating income by \$1,680,000.

17           The adjustment in column (3.08), **Pro Forma Capital Additions December 2015**  
18 **AMA**, restates net plant included in the historical CBR test year from a September 30,  
19 2015 AMA basis to a December 31, 2015 AMA basis, together with the associated A/D  
20 and ADFIT at December 31, 2015 AMA, to reflect actual AMA balances as of December  
21 31, 2015. This adjustment also adjusts depreciation expense to reflect actual expense for

1 calendar 2015. Ms. Schuh describes this adjustment in detail within her testimony.<sup>42</sup> The  
2 effect of this component decreases Washington net operating income by \$314,000 and  
3 increases rate base by \$6,106,000.

4 The adjustment included in column (3.09), **Pro Forma 2016 Limited Capital**  
5 **Additions**, reflects increases related to certain 2016 capital additions, together with  
6 associated A/D and ADFIT. This adjustment also includes associated depreciation  
7 expense for these 2016 additions. As sponsored and discussed by Ms. Schuh, the  
8 Company has identified Pro Forma projects that are one-half of one percent of the  
9 Company's rate base (i.e., above \$6.3 million for electric and \$1.17 for natural gas),  
10 representing a threshold for choosing specific capital projects to include within the  
11 modified test year Pro Forma Study.<sup>43/44</sup> The effect of this component decreases  
12 Washington net operating income by \$129,000 and increases rate base by \$18,120,000.

13 The next adjustment in column (3.10) is **Pro Forma O&M Offsets**. As explained  
14 by Ms. Schuh, for the specific 2016 capital projects included in Pro Forma 2016 Limited  
15 Capital Additions adjustment (3.09) above, maintenance records were reviewed to  
16 determine whether any specific maintenance costs were incurred in the test period that  
17 would be reduced or eliminated by the investment for that capital project. Those  
18 reductions in costs were quantified and included as a reduction to O&M. The effect of  
19 this adjustment on Washington net operating income is an increase of \$36,000.

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<sup>42</sup> Distribution-related capital expenditures for the period October – December 2015 associated with connecting new customers to the Company's system were excluded. The Pro Forma and Cross Check Studies do not include the increase in revenues from growth in the number of customers from the historical test period to the 2017 rate year and therefore, the growth in plant investment associated with customer growth was also excluded.

<sup>43</sup> This threshold is consistent with that used by the Commission in Order 05 in Docket Nos. UE-150204 and UG-150205 (Consolidated), paragraph 39 and 40.

<sup>44</sup> The remaining planned capital projects for 2016, as well as adjusting total plant and associated A/D and ADFIT on a 2016 AMA basis, are reflected in "Cross Check Capital Add 2016 AMA" Adjustment (4.01).

1           The last column on page 10, labeled Pro Forma Sub-Total, reflects total pro forma  
2 results of operations and rate base consisting of test period actual results (twelve-months  
3 ending September 30, 2015) and the restating and pro forma adjustments explained thus  
4 far.

5           **2017 Natural Gas Cross Check Adjustments**

6           **Q.     Turning to page 11 of Exhibit No. \_\_ (JSS-3), please continue to**  
7 **explain each of the adjustments.**

8           A.     The first adjustment included in column (4.00), **Cross Check Labor Non-**  
9 **Exec**, reflects the additional 2017 non-union labor increases expected in March 2017,  
10 excluded from Adjustment 3.02 “Pro Forma Labor Non-Exec” discussed above.<sup>45</sup> The  
11 effect of this adjustment decreases Washington net operating income by \$108,000.

12           The adjustment included in column (4.01), **Cross Check Capital Additions 2016**  
13 **AMA**, reflects the additional 2016 capital additions<sup>46</sup> beyond that included in adjustment  
14 (3.09) “Pro Forma 2016 Limited Capital Additions,” discussed above, including  
15 associated depreciation expenses, A/D and ADFIT. This adjustment also adjusts total  
16 plant and associated A/D and ADFIT to calendar 2016 on an AMA basis. Ms. Schuh  
17 describes this adjustment in detail within her testimony. The effect of this adjustment  
18 decreases Washington net operating income by \$946,000 and increases rate base by  
19 \$1,383,000.

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<sup>45</sup> The March 2017 non-union labor increase will be presented to the Compensation Committee of the Board of Directors for approval at the Board’s May 2016 meeting.

<sup>46</sup>As noted above, distribution-related capital expenditures beyond the September 30, 2015 historical test period were excluded, consistent with treatment of revenues from growth in the number of customers, which is also excluded beyond the historical test period.

1           The adjustment included in column (4.02), **Cross Check Capital Additions 2017**  
2 **AMA**, reflects the additional 2017 capital additions<sup>47</sup> together with the associated A/D  
3 and ADFIT for 2017 on an AMA basis. This adjustment includes associated depreciation  
4 expense for these 2017 additions. In addition, this adjustment also adjusts total plant and  
5 associated A/D and ADFIT for 2016 to calendar year 2017 on an AMA basis. Ms. Schuh  
6 describes this adjustment in detail within her testimony. The effect of this adjustment  
7 decreases Washington net operating income by \$1,000,000 and increases rate base by  
8 \$8,956,000.

9           The adjustment included in column (4.02), **Cross Check 2017 AMI Capital**  
10 **Additions and Expenses**, reflects the 2017 plant-in-service, and associated A/D and  
11 ADFIT on an AMA basis related to the Company's planned investment in its Advanced  
12 Metering Infrastructure (AMI) project. This adjustment also includes the associated  
13 depreciation expense for the 2017 AMI additions. Ms. Schuh sponsors and discusses this  
14 adjustment within her testimony. See also Ms. Rosentrater testimony, as she provides  
15 more detailed information and support for the AMI project.<sup>48</sup> The effect of this  
16 adjustment decreases Washington net operating income by \$661,000 and increases rate  
17 base by \$9,003,000.

18           The adjustment included in column (4.04), **Cross Check Information**  
19 **Technology/Services Expense**, includes the incremental costs associated with software  
20 development, application licenses, maintenance fees, and technical support for a range of  
21 information services programs. These incremental expenditures are necessary to support

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<sup>47</sup> Id.

<sup>48</sup> See Ms. Rosentrater's testimony at Exhibit No. \_\_ (HLR-1T).

1 Company cyber and general security, emergency operations readiness, electric and  
2 natural gas facilities and operations support, and customer services. The effect of this  
3 adjustment increases operating expenses \$459,000 and decreases Washington net  
4 operating income by \$298,000.

5 For a summary and further description of the net increase in Information Systems  
6 and Technology expenses for the 2017 rate year on a system basis, see Table No. 4,  
7 above, discussed in the 2017 Electric Cross Check Adjustment section.

8 The adjustment in column (4.05), **Cross Check Insurance Expense**, adjusts  
9 actual test period insurance expense related to the utility for general liability, D&O  
10 liability, and property to reflect the expected 2017 level of insurance. This adjustment  
11 results in an increase in expense of \$22,000 natural gas Washington share. Insurance  
12 costs that are properly charged to non-utility operations have been excluded from this  
13 adjustment. In addition, Avista has removed a total of 10% of the total Directors' and  
14 Officers' insurance expense from that expected in 2017. This adjustment decreases  
15 Washington net operating income by \$14,000.

16 The last column on page 11, includes the adjustment in column (4.06), **Cross**  
17 **Check Property Tax**, which restates the pro forma level of property tax expense  
18 included in Pro Forma Property Tax Adjustment (3.04) (2016 expected levels), to  
19 property tax levels expected during the 2017 rate period, based on property values  
20 expected as of December 31, 2016. The effect of this adjustment decreases Washington  
21 net operating income by \$168,000.

22 **Q. Turning to page 12 of Exhibit No. \_\_ (JSS-3), please explain the**  
23 **column labeled "2017 Cross Check Total."**



1           A.     The column on page 12, labeled “2017 Cross Check Total,” reflects the  
2 total natural gas revenue requirement for 2017 of \$6,386,000 based on incremental cross  
3 check adjustments above that included within the Pro Forma Study balances shown on  
4 page 10 of Exhibit No. \_\_ (JSS-3). This revenue requirement can be compared or “cross  
5 checked” to the revenue requirement determined using the Attrition Study of \$4,397,000,  
6 per Ms. Andrews’ Exhibit No. \_\_ (EMA-3), page 1.

7           **Q.     Please describe adjustment 4.07 shown on page 12.**

8           A.     The column on page 12, labeled (4.07), **Reconcile Cross Check to**  
9 **Attrition**, represents the difference (\$1,990,000 revenue requirement) between the 2017  
10 natural gas Cross Check Study and the 2017 natural gas Attrition Study. This adjustment  
11 records the decrease in expense of \$1,129,000, increasing Washington net operating  
12 income by \$659,000, and decreasing net rate base by \$7,520,000, necessary to equate  
13 with the total level of attrition deficiency as determined by the Company’s Attrition  
14 Study sponsored by Ms. Andrews.

15           The final column on page 12 labeled “**2017 Final Attrition Adjusted/Cross**  
16 **Check Total**,” reflects adjustments to match the revenue requirement determined by Ms.  
17 Andrews’ natural gas Attrition Study. The 2017 Cross Check revenue requirement is  
18 reconciled to the Attrition Study revenue requirement in order to establish revenue,  
19 expenses and rate base numbers that can be used as inputs to the Company’s cost of  
20 service study prepared by Mr. Miller.

21           **2018 Natural Gas Cross Check Adjustments**

22           **Q.     Turning to page 13 of Exhibit No. \_\_ (JSS-3), please continue to**  
23 **explain each of the adjustments beginning with column (18.01).**

1           A.     The first adjustment included in column (18.01), **Cross Check Labor**  
2 **Non-Exec**, reflects the incremental labor expense associated with the March 2018 union  
3 and non-union labor increase expected for the period March 1 – through June 30, 2018.  
4 The effect of this adjustment decreases Washington net operating income by \$150,000.

5           The adjustment in column (18.02) **Cross Check Regulatory Amortization**,  
6 reduces regulatory amortization expense by \$540,000 to reflect expiration of the two-year  
7 (2016-2017) 2015 Project Compass amortization at the end of 2017, removing 6-months  
8 of the amortization expense during the 6-month period ending June 30, 2018. (See related  
9 adjustments (2.15) and (3.07) above.) The effect of this adjustment increases Washington  
10 net operating income by \$351,000.

11           The adjustment in column (18.03), **Cross Check Insurance Expense**, adjusts  
12 2017 insurance expense levels related to the utility for general liability, D&O liability,  
13 and property included in Adjustment 4.05 “Cross Check Insurance Expense” discussed  
14 above, reflecting the incremental January through June 2018 level of insurance expense.  
15 This adjustment excludes the 10% portion of D&O insurance associated with non-utility.  
16 This adjustment decreases Washington net operating income by \$12,000.

17           The adjustment included in column (18.04), **Cross Check Information**  
18 **Technology/Services Expense**, includes the incremental costs associated with software  
19 development, application licenses, maintenance fees, and technical support for a range of  
20 information services programs beyond 2017 for the period January through June 2018.  
21 These incremental expenditures are necessary to support Company cyber and general  
22 security, emergency operations readiness, electric and natural gas facilities and operations

1 support, and customer services. The effect of this adjustment decreases Washington net  
2 operating income by \$66,000.

3 The adjustment included in column (18.05), **Cross Check Planned Capital**  
4 **Additions 2018 AMA**, reflects the additional 2018 capital additions together with the  
5 associated A/D and ADFIT for the 6-month period January through June 2018, on an  
6 AMA basis. This adjustment also includes associated depreciation expense for the  
7 incremental 6-month period January to June 2018 on these capital additions. In addition,  
8 this adjustment adjusts total plant and associated A/D and ADFIT for calendar year 2017  
9 AMA to June 2018 AMA. Ms. Schuh describes this adjustment in detail within her  
10 testimony. The effect of this adjustment decreases Washington net operating income by  
11 \$557,000, associated with increased depreciation expense, and decreases rate base by  
12 \$2,036,000, because of the impact of A/D and ADFIT on total plant adjusted to June  
13 2018 AMA.

14 **Q. Turning to page 14 of Exhibit No. \_\_ (JSS-3), please explain the**  
15 **adjustment in the first column (18.06).**

16 A. The adjustment included on page 13 in column (18.06), **Cross Check**  
17 **2018 AMI Capital Additions and Expenses**, reflects the January through June of 2018  
18 plant-in-service additions, and associated A/D and ADFIT on an AMA basis related to  
19 the Company's planned investment in its Advanced Metering Infrastructure (AMI)  
20 project for this incremental 6-month period. This adjustment also includes the associated  
21 depreciation expense for these additions. Ms. Schuh sponsors and discusses this  
22 adjustment within her testimony. Ms. Rosentrater provides more detailed information

1 and support for the AMI project. The effect of this adjustment decreases Washington net  
2 operating income by \$497,000 and increases rate base by \$7,649,000.

3 The next column on page 14, labeled “**2018 Cross Check Total,**” reflects the  
4 total natural gas revenue requirement as of January to June 2018 of \$6,591,000 based on  
5 the inclusion of incremental cross check adjustments for the period January through June  
6 2018, to adjust balances beyond that expected during the 2017 rate year. This revenue  
7 requirement can be compared or “cross checked” to the revenue requirement determined  
8 using Ms. Andrews’ natural gas Attrition Study of \$5,338,000, shown on page 1 of  
9 Exhibit No. \_\_ (EMA-5).

10 **Q. Please describe the last adjustment (18.07) shown on page 14.**

11 A. The last adjustment on page 14, in column (18.08), **Reconcile 2018 Cross**  
12 **Check to Attrition,** represents the difference (\$1,253,000 revenue requirement) between  
13 the 2018 natural gas Cross Check Study (\$6,591,000) and the natural gas Attrition Study  
14 (\$5,338,000). This adjustment records the decrease in expense of \$1,086,000, increasing  
15 Washington net operating income by \$695,000, and decreasing net rate base by  
16 \$1,069,000, necessary to equate with the total level of attrition deficiency as determined  
17 by the Company’s natural gas Attrition Study sponsored by Ms. Andrews.

18 **Q. Please describe the last two total columns on page 14 of Exhibit No.**  
19 **\_\_(JSS-3).**

20 A. Immediately following column 18.07, are total columns labeled “**2018**  
21 **FINAL Attrition Adjusted / Cross Check Total**” and “**INCREMENTAL 2018 (I)**  
22 **Attrition Adjusted / Cross Check Total.**”

1 The column labeled “2018 Final Attrition Adjusted/Cross Check Total,” provides  
 2 the final revenue requirement for the period January 2017 through June 2018 (18-month  
 3 period) of \$5,338,000. This (18-month) June 2018 Cross Check Study has been adjusted,  
 4 at this point, to match the natural gas (18-month) June 2018 Attrition Study results  
 5 determined by Ms. Andrews. The final column, column “INCREMENTAL 2018 (I)  
 6 Attrition Adjusted / Cross Check Total,” represents the incremental revenue requirement  
 7 of \$941,000 above the 2017 rate period.

8  
 9 **V. ALLOCATION PROCEDURES**

10 **Q. Have there been any changes to the Company’s system and**  
 11 **jurisdictional allocation procedures since the Company’s last general electric and**  
 12 **natural gas cases, Docket Nos. UE-150204 and UG-150205?**

13 A. No. For ratemaking purposes, the Company allocates revenues, expenses  
 14 and rate base between electric and natural gas services and between Washington, Idaho,  
 15 and Oregon jurisdictions where electric and/or natural gas service is provided. The  
 16 allocation factors used in this case, which are updated annually, have been provided with  
 17 my workpapers.

18  
 19 **VI. COMPLIANCE WITH PAST COMMISSION ORDERS**

20 **Q. Order No. 6, in Docket Nos. UE-110876 and UG-110877, required**  
 21 **Avista to begin tracking its Washington general rate case expenses beginning in**  
 22 **2012. Please explain the Company’s compliance with these requirements?**

23 A. Effective January 1, 2012, Avista began separately accounting for all

1 internal and external costs related to preparation, filing, and litigation of Washington  
2 general rate cases (GRCs), including but not limited to internal labor costs, administrative  
3 and production costs, and costs of outside services.

4 Electric and natural gas GRC-related internal and external costs included in the  
5 Company's test period (October 1, 2014 through September 30, 2015) which are related  
6 to the 2015 GRC, totaled approximately \$831,000 for electric and \$215,000 for natural  
7 gas. No additional GRC costs were pro formed in this case.

8 Additional electric and natural gas Washington GRC-related internal and external  
9 costs recorded by the Company during the period October 2015 through January 2016,  
10 which relate to both the 2015 and 2016 GRC filings, totaled approximately \$306,000 for  
11 electric and \$75,000 for natural gas. It is estimated that approximately \$127,000 electric  
12 and \$35,000 natural gas of these costs relate to the completion of the 2015 Washington  
13 GRC, whereas approximately \$180,000 electric and \$40,000 natural gas of these costs  
14 relate to the 2016 Washington GRC filing.

15 **Q. Does that conclude your pre-filed direct testimony?**

16 A. Yes, it does.