Exh. EMA-6T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-200900

DOCKET NO. UG-200901

DOCKET NO. UE-200894

(Consolidated)

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

TABLE OF CONTENTS

I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs Department as Senior Manager of Revenue Requirements.

Q. Have you previously provided testimony in this consolidated case?

A. Yes. My direct testimony and exhibits[1] in this proceeding generally cover accounting and financial data in support of the Company's electric and natural gas rate request and the need for the proposed increase in base rates beginning October 1, 2021. In that testimony, first I summarized the Company's revenue increase requests for the period October 1, 2021 through September 30, 2022. I also discussed the Company's requests in this case associated with its Wildfire Resiliency Plan ("Wildfire Plan"), including recapping the Company's Wildfire Petition, Docket UE-200894,[2] requesting authorization to defer expenses associated with Avista's Wildfire Plan beginning January 1, 2021 until new rates go into effect on October 1, 2021. I also discussed the Company's proposal to establish a Wildfire <u>expense</u> balancing account to track wildfire expenses during the 10-year Wildfire Plan.

Finally, in my direct testimony, along with Company witness Mr. Krasselt, I discussed the Company's Tax Accounting Petition filed with this Commission (also filed concurrently with this GRC), requesting authorization to change its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant-basis adjustments, including tax

[1] See Exhs. EMA-1T through EMA-5.
[2] Consolidated with this general rate case ("GRC") by the Commission on December 23, 2020 in Order 04 / 01.

Industry Director Directive No. 5 ("IDD #5"), and meters.[3] In my direct filed testimony, I described Avista's proposal to begin amortization of the Washington portion of those benefits through separate tariff, concurrently with the effective date of this GRC. The proposed amortization by the Company of these benefits, beginning October 1, 2021, through separate "Tax Customer Credit" Tariff Schedules 76 (electric) and 176 (natural gas), is intended to offset the Company's base electric and natural gas rate relief requested in its entirety in this proceeding so that the result is <u>no billed impact to customers</u>. As proposed by the Company, the final tariff schedule amortizations would be dependent upon (and agree with) the final electric and natural gas revenue requirements approved by this Commission.

Q. What is the scope of your rebuttal testimony?

A. My testimony is provided to support the Company's electric and natural gas revenue requirement positions on rebuttal, and to respond to testimonies of Staff and other parties in this proceeding.[4] My rebuttal testimony explains that the Company's request for rate relief for both electric and natural gas have been adjusted <u>downward</u> to reflect actual information coming available during the process of this case, as well as certain adjustments included by Avista, attempting to find "common ground" with issues addressed by Staff and/or other intervening Parties.[5]

Next, I emphasize that the driver of the Company's need for rate relief is recovery of capital

[3] As discussed in Exh. EMA-1T, IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than $200.

[4] I will refer to each of the non-Company Parties in these Dockets as follows: the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Unit of the Washington Office of Attorney General (Public Counsel), the Alliance of Western Energy Consumers (AWEC), Sierra Club, and The Energy Project (TEP).

[5] My testimony discusses specific concerns or adjustment to the Company's filed case raised by Staff, Public Counsel and AWEC, collectively known as the "Parties".

additions – mainly related to 2020 capital already in-service for customers, as well as the proper treatment of expenditures (both capital and expense) related to the Company's Wildfire Plan, investment in the Western Energy Imbalance Market (EIM), its Advance Metering Infrastructure (AMI) project, and finally, Colstrip Unit 3 and 4 investment. It also speaks to the severe impact on the Company of regulatory lag, if rate year levels are not properly set – including the low return on equity (ROEs) if this Commission were to approve the rate base and revenue requirement levels proposed by Staff or intervening Parties. This testimony, like that of Company witness Mr. Christie, stresses the <u>importance going forward of setting the rate year revenue requirements at an appropriate level.</u>

Next, I will provide an explanation of the adjustments included in the electric and natural gas rebuttal revenue requirements per the Company's revised study results, after reflecting corrections and updates that have been identified through the process of this case, as well as discuss each contested adjustment by each party.

Lastly, I will provide Avista's response to each party: Staff, Public Counsel, and AWEC, who makes recommendations regarding expenditures associated with Avista's Wildfire Plan, as well as the return (or amortization) of electric and natural gas Tax Accounting Petition deferred balances and AFUDC deferred balances.

Q. Would you please summarize your rebuttal testimony?

A. Yes. Below is a summary of the principal topics discussed in my rebuttal testimony:

- On <u>rebuttal</u>, the Company is requesting <u>electric</u> base rate relief of $40.155 million effective October 1, 2021, or 7.57% (and 7.57% on a billed basis, prior to the impact of Tariff 76).

- On rebuttal, the Company is requesting natural gas base rate relief of $10.714 million, effective October 1, 2021, or 10.19% (6.64% on a billed basis, prior to the impact of Tariff 176).

- With the approval by all Avista jurisdictions (Washington, Idaho and Oregon) to change from normalization to flow-through accounting for certain tax adjustment (meters and IDD#5) and the deferral of associated tax credits of $150.5 million on a system basis, or $58.1 million for Washington electric operations and $28.2 million for Washington natural gas operations, the Company has recorded this credit as a regulatory liability for the period ending April 2021. The Company continues to support its proposed amortization of the accumulated tax credits beginning October 1, 2021 through separate Tax Customer Credit Tariff Schedules 76 (electric) /176 (natural gas) of $40.155 million for electric and $10.714 million for natural gas, resulting in an overall $0 bill impact to Avista's electric and natural gas customers. The amortization period of Tariff 76 (electric) would be approximately October 1, 2021 through early 2023. The amortization period of Tariff 176 (natural gas) would be approximately October 1, 2021 through September 30, 2023.[6]

- The main differences between Avista (rebuttal), Staff, Public Counsel and AWEC, proposed electric and natural gas revenue requirements, mainly reflect: 1) differences associated with Avista's 2020 pro forma rate base additions (supported by Public Counsel), inclusion of a full return of and on Avista's investment in AMI (supported by Staff), and inclusion of other capital investment associated with Avista's Wildfire Plan, EIM and Colstrip Units 3 and 4 investments (including SmartBurn); 2) Cost of Capital differences; and 3) use of 2020 actual expense levels.[7]

- Staff, Public Counsel and AWEC's proposed revenue requirement for electric would result in earned equity returns (ROEs) of 7.3%, 7.4% and 6.4%, respectively. These results reflect a reduction of between 200 to 300 basis points below that currently authorized (9.4%) and would not provide the Company with a reasonable opportunity to earn its authorized rate of return. Further degradation will occur as these ROE results only reflect the inclusion of capital and expenses as filed in the

[6] As discussed in direct testimony at EMA-1T, p. 97, ll. 9-14, "…because the return of the Tax Customer Credit benefits will have an impact on the Company's cash flow, weakening credit metrics tracked by the rating agencies, the Company requests that, regardless of the electric and natural gas base revenue increases approved in this case, the electric and natural gas tax benefit amortization does not go beyond base rate increases approved on an annual basis, and does not go beyond a two year amortization period. Any remaining balance after the two-year amortization period included in Tariff Schedule 176, for example, plus the on-going, incremental, annual deferred tax benefit recorded starting in January 2021 for both electric and natural gas, would be amortized over a 10-year period going forward."

[7] There is also the difference of AWEC including the amortization of deferred tax credit benefits and deferred AFUDC balances as a base rate amortization, rather than through a separate tariff, as proposed by Avista, Staff and Public Counsel. These large deferred balances are recorded on Avista's balance sheet and should be separately returned to customers without impacting base rates.

Company's case, and do not reflect further expenditures (capital and expenses) expected through the rate effective period ending September 30, 2022.

- Staff, Public Counsel and AWEC's proposed revenue requirement for natural gas would result in earned ROEs of 8.4%, 8.0% and 6.3%, respectively. These results reflect a reduction of between 100 to 310 basis points below that currently authorized (9.4%) and would not provide the Company with a reasonable opportunity to earn its authorized rate of return. Further degradation will occur as these ROE results only reflect the inclusion of capital and expenses as filed in the Company's case, and do not reflect further expenditures (capital and expenses) expected through the rate effective period ending September 30, 2022.

- Party recommended levels of rate base would result in electric rate base regulatory lag of between approximately $150 million and $290 million for Washington electric, and between approximately $48 million and $100 million for Washington natural gas, from that expected during the rate effective period. This would result in an overall Washington combined revenue loss of between $19 million and $38 million on return on investment alone. This goes well beyond merely providing an incentive to better manage costs; it cuts into the very marrow of cost recovery for prudent plant additions. In doing so, it precludes the Company from any reasonable opportunity to earn its authorized rate of return.

- Avista, for its part on rebuttal, has assumed the burden of Washington electric and natural gas rate base regulatory lag of $63.5 million for electric and $38.2 million natural gas, based on its filing. In and of itself, this translates into a combined Washington revenue requirement loss of approximately $10.0 million, or $6.2 million electric and $3.8 million natural gas. This, in and of itself, represents substantial regulatory lag.[8]

- AMI is essentially completed at this time and will be fully completed prior to the rate effective date of this case. The Company has met its burden of proof for full recovery of this project, as discussed by Company Joint witnesses Ms. Rosentrater and Mr. La Bolle, and supported by Staff, and should earn its full return on this investment, contrary to Public Counsel and AWEC testimonies.

- The risk of wildfires is a real threat across Avista's service territories, and as discussed by Company witness Mr. Howell, the Company's 10-year Wildfire Plan expenditures, both capital and expense, are necessary to protect lives and property, ensure emergency preparedness, align operating practices with fire threat

[8] These balances represent the revenue requirement on the return on net plant only, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net ratebase, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022.

conditions, and protect Avista's energy delivery infrastructure. As described below, the Company has included wildfire capital additions through December 2021 on an AMA basis of $11.2 million (excluding 2022 capital additions of $16.8 million planned for the 2022 calendar period), and O&M expenses of $4.3 million planned during the rate effective period.

- Approval of the Company's proposed Wildfire O&M expenses balancing account would allay any concerns by the Parties over the Company's wildfire expenses not "matching" that approved in this case, and would ensure customers pay no more, or no less than actual wildfire expenses incurred.

- The Commission should approve the Wildfire Deferred Accounting Petition, consolidated with this GRC by the Commission on December 23, 2020, requesting authorization to defer incremental <u>expenses</u> associated with Avista's Wildfire Plan beginning January 1, 2021, until new rates go into effect. Approval of Avista's petition would allow the Company to set these costs aside for an opportunity to recover these costs in a future rate proceeding.

- The Company supports return of the AFUDC Equity Tax Flow-Through deferral balances of $1.8 million electric and $0.5 million natural gas through a separate tariff over a one-year amortization, or combined with the Meters and IDD#5 Tax Flow-Through deferral balances and amortized by separate Tax Customer Credit Tariff Schedules 76 (electric) /176 (natural gas).

In addition to the specific main points summarized above, with regards to specific adjustments as proposed by the Parties, my testimony will show that the recommendations of Staff, Public Counsel and AWEC, do not lead to reasonable results.

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

A. Yes. I am sponsoring Exh. EMA-7 through Exh. EMA-11, which were prepared by me. Exh. EMA-7, page 1 provides the listing of Uncontested Adjustments, while page 2 provides the listing of Contested Adjustments. Pages 3 - 4 (electric) and 5 - 6 (natural gas), provides a reconciliation of revenue requirement positions of the Parties, including Avista on rebuttal, compared to the Company's direct case. Exh. EMA-8 (Electric) and Exh. EMA-9 (Natural Gas) present the results of the Company's Rebuttal Revenue Requirement Studies, effective October 1, 2021. Exh. EMA-10 provides copies of certain discovery responses which support the electric and natural gas adjustments included in the Company's revenue requirement models on rebuttal. Finally, Exh. EMA-11 provides electronic native files of the adjustments proposed on rebuttal and reflected in Exh. EMA-8 (Electric) and Exh. EMA-9 (Natural Gas).

II. SUMMARY OF REBUTTAL ELECTRIC AND NATURAL GAS REVENUE REQUIREMENT

A. Summary of Revenue Requirement – As-Filed versus Rebuttal

Q. Have you prepared a summary table that shows the Company's revenue requirement need for its electric and natural gas services proposed on rebuttal, compared to the Company's originally filed case?

A. Yes. In Avista's rebuttal filing, it has updated its electric and natural gas revenue requirement calculations based on current information, and in response to testimonies of the Parties. For this update, Avista started with its filed revenue requirement models and incorporated adjustments for known corrections and updates during the pendency of this case – mainly for known 2020 capital additions and expenses, as well as prepaid expenses for 2021.[9] The Company also, in response to testimonies, revised its position to include, within its Pro Forma Power Supply Adjustment (3.00P), EIM revenues to reflect expected benefits during the rate-effective period, offsetting the EIM capital and expenses pro formed by Avista in Pro Forma EIM Adjustment (3.18). The summary of those adjustments results in the level of revenue requirement proposed on rebuttal as shown in Table No. 1 below.[10]

---

[9] The Company has included pro forma 2021 prepaid insurance and information services/information technology (IS/IT) expenses.

[10] The adjusted rates of return (ROR) determined in Exh. EMA-8 and Exh. EMA-9, page 1 on rebuttal are 5.82% for electric and 5.6% for natural gas.

Table No. 1

Summary of Revenue Requirement - As-Filed versus Rebuttal (000s)	Electric		Natural Gas	
	Revenue Requirement[1]	Rate Base	Revenue Requirement[1]	Rate Base
As-Filed Revenue Requirement	**$ 44,183**	**$ 1,877,557**	**$ 12,790**	**$ 448,206**
Updates on Rebuttal:				
Expense [1]	$ (1,026)		$ (1,154)	
Capital and related expense [2]	$ (1,822)	$ (16,951)	$ (922)	$ (5,877)
Revenue [3]	$ (1,180)		$ -	$ -
Rebuttal Revenue Requirement	**$ 40,155**	**$ 1,860,606**	**$ 10,714**	**$ 442,329**
% Increase Base, prior to effect of Tariff Schedules 76 and 176	7.57%		10.19% [4]	

[1]The majority of expense adjustments reflect 2020 actual updates available after the filing of the Company's electric & natural gas filed cases.

[2]Capital and related expense amount reflects updates to Pro Forma Adjustments 3.11 - 3.19, the majority of which reflect 2020 actual transfer-to-plant updates available after the filing of the Company's electric and natural gas filed cases.

[3]Revenue amount includes the net increase to rebuttal revenues associated with lost "general business revenue," due to the closing of a large industrial customer (see TLK-4T), and inclusion of $2.323 million ($3.4 million system) of estimated EIM benefits added to base power supply net costs (See Exh. SJK-13T).

[4]The increase on a billed basis for natural gas is 6.64%, prior to effect of Tariff Schedules 76 and 176.

Details regarding the "Updates on Rebuttal," including the change in "Revenue" amounts in Table No. 1 above are discussed further in Section IV. "Uncontested Adjustments and Updates to Company Case," and provided in Exh. EMA-7, pages 3 - 6.

Q. How does the Company's revenue requirement need proposed on direct and rebuttal compare to that proposed by Staff and the other intervening Parties?

A. Included below in Table No. 2 is a summary of the revenue requirement positions by Staff, Public Counsel, and AWEC.

Table No. 2[11]

Summary of Proposed Revenue Requirement Positions (000s)	Electric	Natural Gas
Avista As-filed	$ 44,183	$ 12,790
Avista Rebuttal	$ 40,155	$ 10,714
Staff	$ 7,230	$ 5,619
Public Counsel	$ 8,500	$ 4,395
AWEC[1]	$ (18,177)	$ (6,706)

[1]AWEC proposed revenue requirement reflects the customer deferred benefit balances, that other parties, including Avista, propose to be returned through separate tariffs (AFUDC deferral and Tax Benefit deferral). Removing these items from base rates, would result in revised AWEC electric and natural gas revenue reductions of $4.174 million and $264,000, respectively. Amortization of these balances should only impact cash flow, not base rates.

[11] On May 24, 2021 Public Counsel filed revised exhibits for Ms. Crane (Exhs. ACC-3-8) showing revised revenue requirement amounts of $8.5 million for electric and $4.395 million for natural gas, reflecting increases in her proposed revenue requirement amounts as a result of updating for pro forma benefits as provided by Avista.

As shown in Table No. 3 below, approval of any of the recommended revenue increases proposed by Staff, Public Counsel, or AWEC in Table No. 2 above, would result in a return on equity (ROE) of over 200 to 300 basis points for electric and 100 to 310 basis points for natural gas, under that currently authorized (9.4%).

Table No. 3

Resulting ROE of Proposed Revenue Positions of Parties			
	ROE Electric	**ROE Natural Gas**	**Current Authorized**
Staff	**7.30%**	**8.40%**	
Public Counsel	**7.40%**	**8.00%**	
AWEC	**6.40%**	**6.30%**	

AWEC ROE calculations reflect revised AWEC electirc and natural gas revenue reductions of $4.174 million and $264,000, respectively. See Table No. 2 above.

B. Differences Between Avista & Staff/Intervening Parties Proposed Revenue Requirements

Q. What are the primary differences between Avista's proposed revenue requirements and that of the intervening Parties, including Staff?

A. As noted within Table No. 2 above, Staff, Public Counsel, and AWEC propose significantly less electric and natural gas revenue requirement than that proposed by Avista. The primary differences between Avista and the Parties are shown below in Table No. 4 (electric) and Table No. 5 (natural gas), summarized into several main categories:

Table No. 4 - Electric Reconciliation of Avista Rebuttal vs Parties Revenue Requirement

Line:	Electric Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s)	Staff	PC	AWEC	See Andrews (Section V.) Other Company Witnesses:
1	**Parties As Filed**	$ 7,230	$ 8,500	$(18,177)	
	Differences with Avista:				
2	**Separate Tariff (AFUDC / Tax Benefit)**			$ 14,003	Andrews (see Section V.)
3	**Miscellaneous Contested Adjustments:**				
i.	Expenses reflect Avista use of actual 2020/2021 vs Parties 2019/2020	$ 7,703	$ 5,661	$ 15,617	Andrews (see Section V.)
ii.	Avista reflects actual 2020 Capital Additions[1]	$ 8,278	$ 3,418	$ 7,276	Schultz (Exh. KJS-3T), DiLuciano/La Bolle (Exh. JD/LL-1T)
ii.	PF Power Supply (Normalized Revenue) / PF Transmission		$ 907	$ 1,464	Knox (Exh. TLK-4T) Schlect (Exh. JAS-3T)
4	**AMI Investment[2]**	$ 19	$ 6,568	$ 3,163	Rosentrater/La Bolle (Exh. HR/LL-1T)
5	**Wildfire Expenditures**	$ 3,824	$ 1,130	$ 3,610	Howell (Exh. DRH-8T) Andrews (see Section VII.)
6	**EIM (Capital, Expense, Benefits)**	$ 2,384	$ 2,384	$ 2,332	Kinney (Exh. SJK-13T) Kalich (Exh. CGK-9T)
7	**Colstrip / SmartBurn**	$ 1,893	$ 295	$ 583	Thackston (Exh. JRT-12T)
8	**Cost of Capital**	$ 8,824	$11,292	$ 10,284	Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T)
9	**Avista Rebuttal**	**$40,155**	**$40,155**	**$ 40,155**	

[1]Difference with Public Counsel mostly relates to 2019/2020 Grid Mod and Substation removal, as well as a small difference in cost of capital.

[2]Difference with Staff relates to cost of capital.

As can be seen in Table No. 4 above, for electric the main differences between Avista on rebuttal and that of Staff, Public Counsel and AWEC, reflect: 1) Avista including certain pro forma expenses using 2020 actuals, or in the case of insurance and certain IT expenses, prepaid 2021 expenses, versus Parties use of 2019/2020 levels (Line 3i); 2) Avista reflecting actual 2020 capital additions for the specific pro forma 2020 projects included in this case (Line 3ii); 3) inclusion of a full return of and on Avista's investment in AMI (otherwise supported by Staff) (Line 4); 4) inclusion of other capital investment associated with Avista's Wildfire Plan, EIM and Colstrip Units 3 and 4 investments (including SmartBurn) (Lines 5-7); 5) Cost of Capital differences (Line 8). The other items, AWEC's inclusion of the deferred tax flow-through liability balances as an amortization credit, rather than separate tariff as proposed by Avista and the other Parties (Line 2), as well as, impacts to Power Supply or Transmission revenues (line 3iii), also reflect differences between the Parties.

Table No. 5 – Natural Gas Reconciliation of Avista Rebuttal vs Parties Revenue Requirement

Line:	Natural Gas Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s)				
		Staff	**PC**	**AWEC**	**See Andrews (Section V.) Other Company Witnesses:**
1	**Parties As Filed**	**$ 5,619**	**$ 4,395**	**$ (6,706)**	
	Differences with Avista:				
2	**Separate Tariff (AFUDC / Tax Benefit)**			$ 6,442	Andrews (see Section V.)
3	**Miscellaneous Contested Adjustments:**				
i.	Expenses reflect Avista use of actual 2020/2021 vs Parties 2019/2020	$ 1,500	$ 1,039	$ 5,379	Andrews (see Section V.)
ii.	Avista reflects actual 2020 Capital Additions[1]	$ 1,443	$ 212	$ 2,163	Schultz (Exh. KJS-3T)
4	**AMI Investment[2]**	$ 7	$ 2,438	$ 981	Rosentrater/La Bolle (Exh. HR/LL-1T)
5	**Cost of Capital**	$ 2,145	$ 2,630	$ 2,455	Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T)
6	**Avista Rebuttal**	**$10,714**	**$10,714**	**$ 10,714**	

[1]Difference with Public Counsel relates to cost of capital.

[2]Difference with Staff relates to cost of capital.

For natural gas, Lines 2 – 5 reflect similar differences between Avista and that of Staff, Public Counsel and AWEC as described above for electric.

III. CAPITAL ADDITIONS & APPROPRIATE LEVEL OF RATE BASE ARE MAIN DRIVERS OF AVISTA'S NEED FOR RATE RELEIF

Q. As noted within the Company's direct case, capital additions are a main driver for the need for rate relief in this case, and therefore a main topic of consideration by the Parties. Please explain.

A. As discussed in my direct testimony and supported by multiple Avista witnesses' direct and rebuttal testimonies, the incremental 2019 test period and pro forma capital additions above existing base rates, are the main driver of the need for rate relief in this case. The overall level of rate base to be included during the subject rate period, therefore, is a major source of disagreement.

Included in the Company's case are 2020 capital additions that transferred to plant and are in-service serving customers as of December 31, 2020, on an actual basis. In addition, the Company included only four other specific large and distinct capital projects, including their actual transfers-to-plant at December 31, 2020, and their planned transfer to plant completed in 2021, prior to new rates going into effect, including the Company's investment in its AMI, EIM[12], Wildfire Plan, and Colstrip Units 3 and 4. Also included are specific "provisional" large and distinct capital projects planned for completion during the rate effective period, specifically, three months of Wildfire capital additions October 1, 2021 through December 31, 2021[13], as well as Colstrip Units 3 and 4 investment additions from October 1, 2021 to December 31, 2021, and one project to be complete as of July 2022. The Colstrip investments were included through the rate effective period to reflect short or accelerated depreciable lives. Taken together, these capital additions are the main driver of the Company's request for rate relief.

Q. What is the incremental total electric and natural gas capital additions pro formed by Avista in this case?

A. The total capital additions (gross transfers to plant) pro formed by the Company in this case, including actual 2020 capital additions, and the additional four specific large and distinct

[12] As discussed by Mr. Kinney at Exh. SJK-13T, Avista needs to complete all its EIM equipment upgrades/replacements and integrate all new software by July 1, 2021 per the CAISO implementation schedule. However, although the equipment-related projects will be complete by July 1, 2021, the software applications (while complete) will not officially transfer-to-plant until all testing is complete and the Company officially joins the EIM in March 2022.

[13] The wildfire capital additions in 2021 include additions through December 2021, - i.e., just three months of capital expenditures into the beginning of the rate effective period. This portion represent a minimal amount of revenue requirement after considering the impact of AD and ADFIT included by adjusting the total balance to an AMA basis for the rate effective period.

capital projects – i.e., AMI, EIM, Wildfire Plan, and Colstrip Units 3 and 4, total $199.1 million for Washington electric and $53.9 million for Washington natural gas.

Chart Nos. 1 and 2 below illustrate the gross plant additions by percentage and amount for the 2020 capital additions and each of the four specific projects included by the Company on rebuttal:

Chart No. 1 – Washington Electric Pro Forma Gross Plant Additions

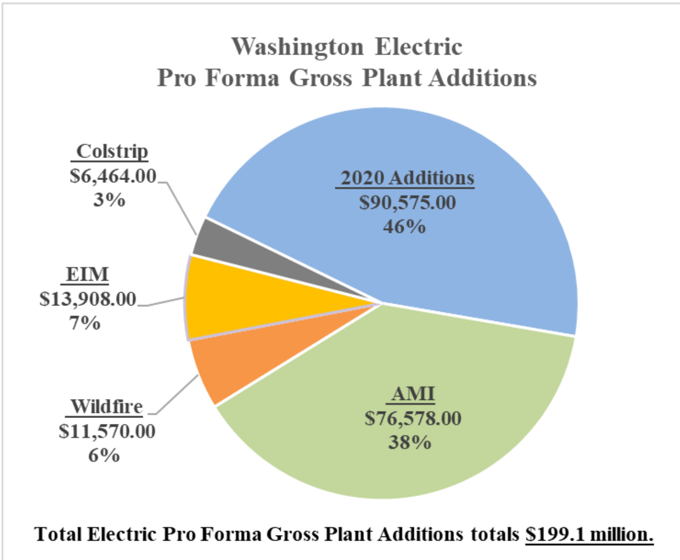
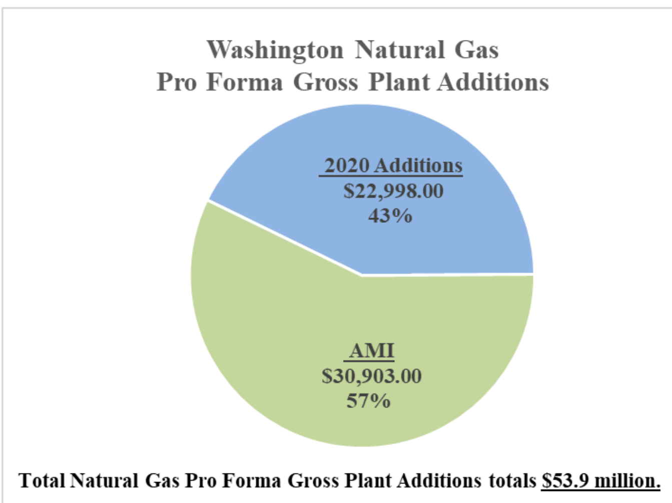


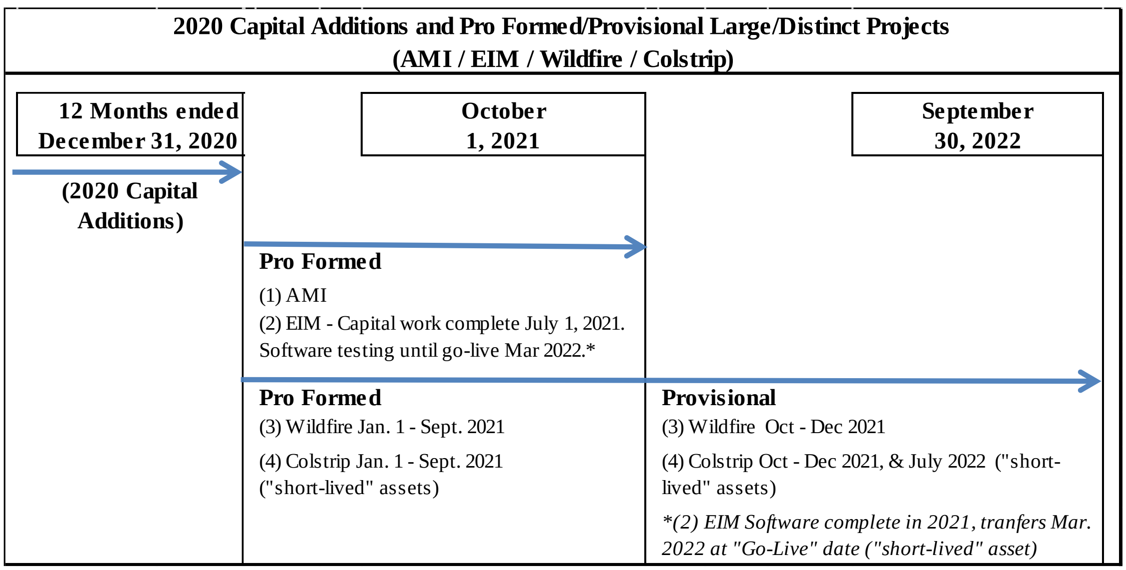
Chart No. 2 – Washington Natural Gas Pro Forma Gross Plant Additions



Q. Would you please illustrate how the various capital components are captured through "pro forming" and "provisional" process?

A. Yes, the illustration below depicts not only capital additions reflected through the year-end 2020, but also the 4 separately pro formed projects that come into service later (both prior to the rate effective date, and after the effective date, but still within the rate year):

Illustration No. 1 - 2020 Capital Additions and Pro Formed/Provisional Large/Distinct Projects[14]



Q. With regard to Avista's 2020 capital additions included in the Company's case, did Parties argue that any capital completed by Avista in 2020 was imprudent?

A. No. With the exception of the 2020 Grid Modernization and Substation Rebuild projects which are proposed by Public Counsel to be removed, no party has otherwise proposed to disallow, as imprudent, the projects proposed by the Company to be included in its requested

[14] Avista noted in its direct case starting at page 29 of Exh. EMA-1T, since provisional capital adjustments going into service during the rate year are limited, an actual prudency determination on such plant, can either occur immediately after the projects are complete, or can wait until the next general rate case.

rate relief [15/16] (Company Joint witnesses MR. DiLuciano and Mr. La Bolle take issue with Public Counsels' recommendation to remove these projects at Exh. JD/LL-1T). In fact, with regards to the 2020 capital additions as proposed by Avista, Public Counsel even supports Avista's updated actual 2020 capital adjustments (PF 2020 Capital Additions Adjustments 3.11 – PF 3.15) as filed on rebuttal.[17]

AWEC witness Mr. Mullins does not oppose any of Avista's 2020 capital additions, however, je proposes that the Commission should limit Avista's recovery to a 2020 average-of-monthly-averages (AMA) basis.[18] Ms. Schultz takes issue with Mr. Mullins' recommendation to use 2020 AMA at Exh. KJS-3T, so I will not discuss it here.

Staff, for its part, through witness Ms. Higby, also did not argue the prudency of specific 2020 capital additions, but rather significantly limits Avista's 2020 capital additions – projects that were complete and in-service by December 31, 2020. This position is based on an attempt to once again minimize capital additions that are known and measurable, by imposing an arbitrary definition of "major" to categorize and limit the number of projects this Commission should allow. She further reduces her selected "major" projects by incorrectly removing projects that she believes should have additional offsetting factors, or removes because of her prescribed definition of "programmatic investments."[19] Ms. Schultz, at Exh. KJS-3T, provides a more detailed approach to the issues raised by Ms. Higby's response testimony.

[15] Public Counsel proposes separate adjustments (labeled Substation Rebuild PC2 and Grid Modernization PC3 in my analysis at Andrews Exh. EMA-7, p. 3), removing 2019 and 2020 plant additions associated with Grid Modernization and Substation Rebuild. They otherwise accept Avista's Pro Forma 2020 Capital Additions Adjustments 3.11 – 3.15, with the exception of differences associated with cost of capital.
[16] The Parties also take issue with the Company's Colstrip SmartBurn investment which was completed in 2016 and 2017 and were not 2020 capital additions.
[17] Crane Exh. ACC-1T, p. 34, ll. 5-8.
[18] Mullins Exh. BGM-1T, p. 12, ll. 19-23.
[19] Higby Exh. ANH-1T, p. 3, ll. 23 – p. 5, ll. 1.

Q. In this case, has the Company provided ample support for its requested capital additions?

A. Yes. In the Company's filed case, Company witnesses, including Mr. Thackston, Ms. Rosentrater, Mr. Kinney, Mr. Howell, Mr. Magalsky, and Mr. Kensok, testify to the numerous projects that moved into-service before the rate effective date, and the few projects included after the rate effective date (certain Wildfire and Colstrip additions) that are necessary to deliver safe and reliable service to customers.[20] Each of the Company witnesses, for their respective areas, provided details of capital projects in progress, as well as planned projects, and address why they need to be done in the planned time frame, and what the risks and consequences are of not completing the projects in that time frame. On rebuttal, each of these same witnesses, with the exception of Mr. Kensok and Mr. Magalsky, sponsor rebuttal testimony in response to the Party testimony as it relates to Avista's investments.[21] In addition, the Company answered over a hundred data requests related to its capital investments, albeit most are not provided for the record, but they nevertheless provided information for the Parties to review Avista's capital additions.

Q. Before discussing your concerns with Staff and other Parties' overall rate base positions in this case, what introductory comments do you have?

A. The testimony that follows is mainly in direct response to Staff witness Higby's criticism of Avista's approach to including its 2020 capital additions included in Pro Forma 2020 Capital Additions Adjustments (3.11 - 3.15) within its filed case. The specific adjustments

[20]Exh. JRT-1T, Exh. HLR-1T, Exh. SJK-1T, Exh. DRH-1T, Exh. JMK-1T. Company witness Mr. Thies at Exh. MTT-1T also provides the Company's Infrastructure Investment Plan, which provides an explanation of Avista's six major capital investment drivers, and how the Company's capital investments are identified and prioritized across the Company.
[21]Exh. JRT-12T, Exh. HR/LL-1T, Exh. SJK-13T, Exh. DRH-8T and KJS-3T.

proposed by Parties with regard to Avista's limited distinct 2021 or 2022 projects (AMI, EIM, Wildfire and Colstrip), however, are discussed later in my testimony, and therefore are not discussed here. I do discuss, however, the impact of each of the Parties' overall proposed rate base positions and the regulatory lag the Company would experience if the Commission were to approve such positions.

In this section of my testimony, I first briefly discuss Avista's as-filed approach for including 2020 capital additions, and summarize the approach proposed by Staff witness Ms. Higby, Ms. Schultz discusses this in more detail. Next, I discuss the appropriate level of net rate base Avista is recommending on rebuttal versus that of Staff and other Parties; as well as the resulting regulatory lag from each position. In summary, the testimony that follows will explain that:

- The Company has included certain (not all) 2020 capital additions, updated with actual in-service balances as of December 31, 2020, following guidance per the Commission's Used and Useful Policy Statement (Docket U-190531), as well as the most recent PSE Order 08 in Dockets UE-190529 and UG-190530. All 2020 projects included are currently serving customers and "used and useful" nine (9) months prior to rates going into effect October 1, 2021 – and for some projects, several months to one year in advance.

- The projects beyond 2020, were limited to the investments for four specific investments (AMI, EIM, Wildfire and Colstrip), mainly occurring in 2021 projects, with two occurring in 2022 (EIM March 2022 project, and Colstrip June 2022 project), even though the rate effective period ends September 2022. For the four specific investments, again Avista followed the guidance per the Commission's Used and Useful Policy Statement (Docket U-190531), as well as the most recent PSE Order 08 in Dockets UE-190529 and UG-190530 related to short-lived assets.

- The rate base level proposed by Staff and other intervening Parties would impose a significant regulatory lag of between two and four years relative to plant that will be in service serving customers through the rate effective period ending September 30, 2022. This lag if imposed, would represent a combined Washington electric and natural gas lost revenue of $19.4 million (Staff), $24.3 million (Public Counsel) and $38.3 million

(AWEC)[22]. This represents excluded net plant investment of between $197.5 million (Staff) and $389.4 million (AWEC). This level of "regulatory lag" will be detrimental to the Company's financial position, preventing it from realizing the opportunity to earn the authorized rate of return approved by this Commission.

- The Company, for its part, already absorbs regulatory lag on a combined Washington electric and natural gas basis of $101.6 million net rate base, or $10.0 million in lost revenue.[23] This lag represents the difference in net plant investment from that included in the Company's case on rebuttal, compared to that actually expected as of December 31, 2021. This reflects a return on net rate base only and is conservative in that this does not reflect the additional regulatory lag associated with the nine months investment through September 30, 2022.

A. <u>Avista As-Filed Approach For Including 2020 Capital Additions</u>

Q. Before discussing Staff witness Higby's criticism of Avista's approach to including 2020 capital additions, please summarize Avista's approach for pro forming capital additions in its direct case.

A. As noted in the Company's direct case, the Company typically has approximately 150 plus projects (business cases) completed on an annual basis which represent the approximate $405 million of capital spending for any given year, on a system basis. In order to determine the projects requested in this case for calendar 2020, the Company used the Commission's recent Used and Useful Policy Statement (Docket U-190531), as well as the recent PSE Order 08 in Dockets UE-190529 and UG-190530, for guidance in establishing the projects it selected for inclusion in this proceeding. This guidance was also used with regards to the very limited pro forma 2021

[22]These balances represent the revenue requirement on the <u>return on net plant only</u>, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net ratebase, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022.

[23] Avista's Washington system amounts represent a rate base lag for electric of $64.5 million and for natural gas of $38.2 million, resulting in lost revenue of $6.2 million for electric and $3.8 million for natural gas.

projects associated with AMI, EIM[24], Wildfire and Colstrip, as well as the "provisional" adjustments proposed in this case for Wildfire and Colstrip Units 3 and 4 short-lived additions.

1. In its guidance, the Commission made it quite clear that it would consider projects proposed for recovery that were "used and useful," "known and measurable" and prudently incurred. The Commission also noted it would take special consideration of the impact of "short-lived" assets on regulatory lag when deciding capital projects to include for recovery in rates.[25]

2. Second, the Commission's guidance around types of projects it would consider for inclusion in rates (albeit for "provisional" capital adjustments completed during the rate-effective period), defined proposals related to three broad types of investments: 1) specific - clearly defined, identifiable or discrete investments (e.g., generating asset); 2) programmatic - investments by their very nature are made according to a schedule, plan or method; and 3) projected.[26] Using this guidance, the Company focused on specific capital projects (identifiable and distinct), as well as programmatic investments (on-going programs or scheduled investments), completed by year-end 2020, and certain 2021 and 2022 projects to include. In addition, the Company focused on certain short-lived assets to be completed by year-end 2020.[27]

3. Third, the Company then grouped its 2020 selected capital additions into either "large and distinct" or "programmatic" groupings or categories. This resulted in the groups pro formed into the 2020 Capital Additions Adjustments 3.11 – 3.15, sponsored by Ms. Schultz.[28] As discussed by Ms. Schultz, when deciding on the 2020 projects, to reduce the projects selected for recovery in this case, and to ease the auditing burden, she eliminated smaller projects that were generally less than $500,000 for electric and $200,000 for natural gas.

4. Lastly, as described above, the Company included four additional pro forma adjustments for individual specific large and distinct capital projects planned for completion in 2021:

---

[24] See footnote 12 above regarding the March 2022 EIM project.

[25] The Commission also noted it would not establish a one-size-fits-all approach, but rather review projects proposed by a utility in each GRC on a case-by-case basis. It also made clear it would not be reliant on a "materiality threshold", the timing, or the number of projects when considering what projects will be included in rates.

[26] Used and Useful Policy Statement (Docket U-190531), para. 11, p. 5. The Company did not include "projected" projects for consideration in this proceeding, as all 2020 "categorized" project actual transfer-to-plant data would be available by year-end 2020.

[27] Short-lived assets were included because if the 2020 short-lived assets were not included, as Avista would otherwise absorb approximately 40% to 60% of those investments before its inclusion in the next GRC.

[28] As discussed in my direct testimony, and also sponsored by Ms. Schultz, Pro Forma Capital Addition Adjustments included: (PF 3.11) 2020 Customer-At-Center; (PF 3.12) 2020 Large and Distinct projects; (PF 3.13) 2020 Programmatic; (PF 3.14) 2020 Mandatory and Compliance; and (PF 3.15) 2020 Short-Lived investments. A summary description of the groupings or categories, and examples of capital investment in each category can be found in my direct testimony at Exh. EMA-1T, pages 27 and 28.

AMI (PF 3.16), Wildfire Plan (PF 3.17), EIM (PF 3.18)[29] and Colstrip Units 3 and 4 (3.19). Wildfire (PF 3.17) and Colstrip (PF 3.19) adjustments also include the limited 2022 "provisional" portions included in this case. I sponsor these adjustments (PF 3.16 – PF 3.19). Other Company witnesses: Mr. Kinney (EIM), Mr. Howell (Wildfire Plan), Ms. Rosentrater[30] and Mr. DiLuciano (AMI), and Mr. Thackston (Colstrip Units 3 and 4) provided more specific information on each of these projects.

B. Staff Approach to Recovery of Avista 2020 Capital

Q. How does Ms. Higby's approach to including 2020 capital additions compare to Avista's?

A. Ms. Higby significantly reduced the 2020 capital additions pro formed by the Company by using an arbitrary threshold, that she argues meets a "…reasonable definition of 'major'," based off actual transfers to plant, further reduced by projects she argued did not have offsetting factors, and again reduced by projects Ms. Higby argued did not meet definition of "programmatic investments".[31] While I focus below on Staff's use of "major" thresholds, review of projects and overall level of net plant included, Ms. Schultz provides further opposition to Ms. Higby's discussion on project definitions, offsetting factors, and "programmatic" investments (Exh. KJS-1T).

Q. Is Ms. Higby's use of a "major" threshold to establish which projects to include in the Company's 2020 pro forma capital additions adjustments reasonable?

A. No, it is not. First, Ms. Higby points to prior Avista (2017) and PacifiCorp (2014) GRC orders in which the Commission sided with Staff at that time, and did limit the number of

[29] As discussed above, although the Company has pro formed its EIM software project transferring into service in March 2022, this project will be complete as of July 2021, but will not transfer-to-plant until the "go-live" date.
[30] Ms. Rosentrater and Mr. La Bolle jointly discuss the AMI project on rebuttal.
[31] Higby, Exh. ANH-1T, p. 3, ll. 23 – p. 4, ll. 3.

projects it allowed for recovery in those cases.[32] Although, this was true at that time, the Commission has since provided more recent guidance with respect to the use of "thresholds" or "materiality", as follows at page 4-5 of PSE order 08[33]:

> We decline to adopt Staff's proposed materiality threshold, instead examining each proforma adjustment individually and allowing or disallowing recovery on the basis of established standards of prudency, including whether the individual capital additions are used and useful, and whether the costs are known and measurable prior to the rate effective date. We also consider the life of the asset to appropriately capture investments that are at risk of under-recovery. (emphasis added)

In PSE Order 08, the Commission also declined to adopt a broad standard or "bright-line" threshold, and did not establish a number of projects or "minimum size" acceptable for pro forma adjustments in a given case:

> We find that applying a strict materiality threshold as Staff proposes would unnecessarily limit the Commission's flexibility, particularly in light of recent changes to RCW 80.04.250 that clarify the Commission's discretion for determining how, when, and by which methods utilities may recover investments … we ultimately determine that adopting a bright-line threshold is not an appropriate solution. (para. 556, p. 162) (emphasis added)

> … we decline to adopt any broad standard for establishing materiality, instead evaluating pro forma adjustments on a case-by-case basis for inclusion in rates. As Staff's analysis of its proposed materiality threshold highlights, **materiality is a regulatory concept that has become increasingly arbitrary and less relevant over time. Because technology evolves rapidly, adopting any broad standard would likely require constant exceptions to effect just results.** The Commission prefers to remain flexible so that when unique circumstances arise, our evaluation is not unnecessarily constrained by self-imposed restrictions. (emphasis added) (para. 444, p. 128)

> From an historical standpoint, PSE correctly observes the Commission "has not established bright-line standards governing the timing or the number of adjustments that can be accepted in a given case, and has not

[32] *Id*, p. 9, ll. 11-16, and p. 10, ll. 7-10.
[33] Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.

> established a minimum size for pro forma adjustments to be recognized." (emphasis added) (para. 557, p. 162)

Further, also since the timing of the prior GRCs cited by Ms. Higby, the Commission has recognized in its own Policy Statement, at para. 6, p. 3,[34] that the 2019 legislation session clarified the Commission's ratemaking authority by enacting E2SSB 5116, which provides, in relevant part, that:

> (2) The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state *by or during the rate effective period* and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. …
>
> (3) The commission may provide changes to rates under this section for *up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation* reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. *The commission must establish an appropriate process to identify, review, and approve* public service company property that becomes used and useful for service in this state after the rate effective date. (footnotes omitted) (emphasis in original)

Additionally, the Commission's January 1, 2020 Policy Statement does not even contemplate the effect of the subsequent 2021 Senate Bill 5295 on utility recovery of net plant investment, as discussed by Company witness Ms. Christie. Senate Bill 5295 is premised on the need to move forward, not moving backwards with respect to cost recovery of investments, as Staff would otherwise have this Commission do.

[34] Docket No. U-190531, WUTC "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), provided January 31, 2020.

Q. Ms. Higby also argues that a "major" threshold must be used to determine projects included for recovery because it is "not reasonable to expect Staff and other Parties to perform a comprehensive review of them all".[35] Do you agree?

A. I agree, but only in part. I agree it is not reasonable to expect Staff and other Parties to perform a "comprehensive review" of each and every capital project included by the Company. Nor is an accountant who audits the books of any other Company expected to count every nut or bolt or "widget" in yearly inventory. Standard and accepted auditing practices in the industry use techniques for "sampling" and otherwise focusing on important or representative items. That is the only way <u>any</u> audit can be made manageable. For its part, however, a company is expected to freely open up its books and records for audit and assist in providing documentation. And that is what Avista has done in this case. It started by providing 63 business cases[36] in its direct case and responded to 659 discovery requests (over 1,200 itemized questions or parts), that drilled down into specific items.

This is also true whether talking about the approximately 120 business cases Avista completed in 2020, or the specific projects in any given business case. No one expects <u>every</u> project to be reviewed. For example, in the case of line extensions, that would mean every project installed for a customer, totaling thousands of line extensions in any given year. Or another example would be every wood pole replaced in a year. This is not practical. This said, there is a difference, however, between using a threshold for reviewing a project versus using a threshold to <u>exclude</u> completed property for recovery, as proposed by Ms. Higby.

[35] Higby, Exh. ANH-1T, p. 12, ll. 3-9.
[36] Ms. Schultz discusses that the Company included 59 business cases for 2020 in her testimony (Exh. KJS-3T), excluding the 4 distinct business cases for AMI, EIM, Wildfire and Colstrip.

Q. When then would the use of a "major" threshold be useful?

A. The use of a "major" threshold, per se, would be entirely reasonable when deciding on a reasonable list of projects for review, or to narrow a large group of all projects to a sample of projects to review for prudency, as would be done in an audit. Said another way, where a review of all projects is not practical, what is practical, is to review a sampling of projects, especially ones similar in nature, or recurring, which can be sampled and projected onto a larger basis. That sampling could be done for a group of projects in a certain Expenditure Request (ER)[37], or a sampling of similar ERs in a group of Business Cases. A first group of sampling could be done to review all large and distinct projects, and then a secondary sampling could be done to randomly select a number of other projects in the remaining projects. Until the Commission provides guidance to the Staff and other parties to employ standard auditing practices employed elsewhere, we will never solve this quandary and the Company will not recover used and useful rate base benefitting customers (often the least controversial "nuts and bolts" of providing service).

Q. Is this the approach used by other Commissions or agencies that regularly review Avista's expenditures?

A. Yes. This, or a similar approach, is used by the Idaho and Oregon Commission Staffs when auditing Avista's capital additions, and other expenditures, included in any given case. Over the last several years, both have reviewed the Company's pro formed investments, and approved net plant investments right up to the rate effective date of each GRC. In the case of Idaho, this has also included (and ultimately approved) projects that will be in-service right up to

[37] Ms. Schultz discusses that 95% of the Business Cases included by Avista reflect one Expenditure Request (ER).

the rate effective date of the second year of a two-year rate plan. More to the point, they do not include an arbitrary "materiality" threshold in which to limit projects for recovery.

As mentioned above, this is also the approach taken by every accounting and auditing firm in the Unites States, including Avista's own auditing firm Deloitte and Touche (D&T), who complete a review of all Avista's expenditures on an annual basis. D&T typically do their audit in the first quarter annually for each preceding year. They too could not possibly do their job if a "comprehensive" review of every capital addition, or transaction, was expected of them.

Therefore, Avista is not opposed to the use of a "major" threshold to establish a level of plant to <u>review and audit,</u> with opportunity to randomly "sample" other lesser plant. It is, however, unreasonable to use this threshold as a means to simply exclude projects from recovery – especially Avista's pro forma 2020 capital additions, which are in service, meeting the "used and useful" and "known and measurable" standards of this Commission, nine months or more prior to new rates in effect.

C. <u>Party Rate Base Positions versus Avista, and Resulting Regulatory Lag</u>

Q. Based on each Parties' position, please compare the level of rate base proposed by Avista, versus that proposed by Staff and intervening Parties.

A. Table No. 6 shows the different Washington electric and natural gas net rate base positions of Avista versus Staff, Public and AWEC as proposed in this case.[38]

[38] Given that the Parties have accepted Avista's working capital, regulatory debits and credits, inventory, and other regulatory adjustments, unrelated to net plant after ADFIT balances, the differences between Avista and the Parties, reflect differences between net plant (gross plant net of AD and ADFIT).

<u>Table No. 6 – Comparison of Proposed Rate Base – Avista versus Parties</u>[39]

Proposed Rate Base - Avista versus Parties				
	Avista Rebuttal	Staff	PC	AWEC
Electric	$ 1,860,606	$1,774,223	$1,741,807	$1,634,615
Difference with Avista		**$ (86,383)**	**$ (118,799)**	**$ (225,991)**
Natural Gas	$ 442,329	$ 432,870	$ 416,198	$ 380,588
Difference with Avista		**$ (9,459)**	**$ (26,131)**	**$ (61,741)**
Total Washington		**(95,842)**	**(144,930)**	**(287,732)**

As can be seen in the table above, <u>compared to Avista on rebuttal</u>, the Parties have significantly understated the level of rate base proposed for recovery (imposed regulatory lag) in this proceeding, by a combined Washington basis of $95.8 million (Staff), $144.9 million (Public Counsel) and $287.7 million (AWEC).

It is important to remember, that for its part, this is in addition to <u>Avista's "self-imposed" regulatory lag</u> from that expected during the rate effective period ending September 2022. This is because the Company limited its plant additions included in this case to less than the overall projects completed in 2020; 2021 additions of only 4 distinct project investments (i.e., AMI, EIM, Wildfire and Colstrip); and only two projects completed in 2022 (EIM[40] March 2022 project, and Colstrip June 2022 project).

Q. Based on the positions of Avista and each party in this case, how do each level of rate base compare, just considering the expected net rate base <u>as of December 31, 2021</u>?

A. The expected net rate base as of December 31, 2021, is $1.9 billion electric and

[39] As can be seen in Table No. 7 below, where Table No. 6 shows the difference between Avista and the Parties only, Table Nos. 7 - 9 shows the <u>overall regulatory lag</u> expected during the rate period based on the position of each Party and Avista.
[40] See footnote 12 above regarding the March 2022 EIM project.

$480.5 million for natural gas. Chart Nos. 1 and 2 below show the differences between Avista's (on rebuttal), Staff's and the intervening Parties' electric and natural gas rate base, compared to that expected as of December 31, 2021.

Chart No. 1 – Electric Proposed Rate Base Comparison with Expected 12/31/2021

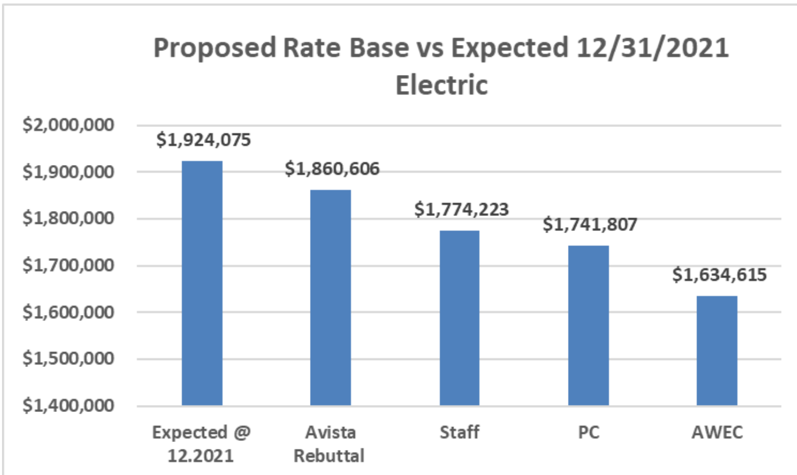
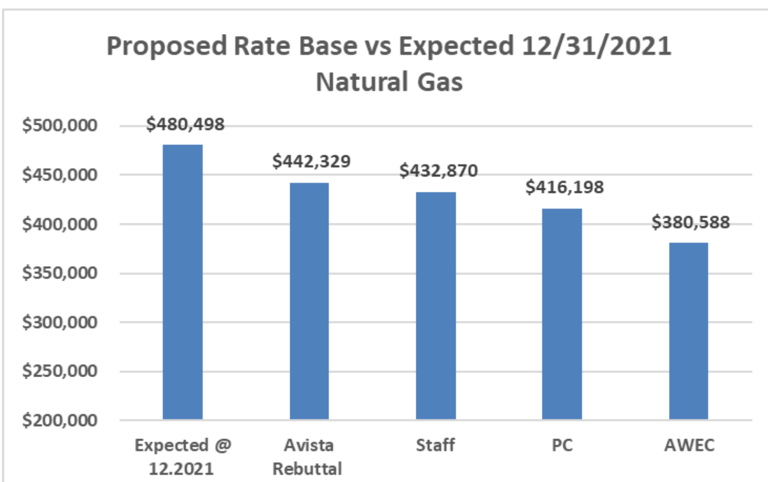


Chart No. 2 – Natural Gas Proposed Rate Base Comparison with Expected 12/31/2021



Q. How does this difference translate into regulatory lag and lost revenue for the Company?

A. If the Commission approved the levels as proposed by the Parties, this will create a regulatory lag, and lost revenue, of a significant nature, even just comparing to the rate base expected by Avista as of December 31, 2021, before taking into account the additional nine months of investment through September 30, 2022. Table Nos. 7 and 8 show the "regulatory lag" introduced by each party, including Avista, charted above, and adds the lost revenue associated with this lag on a Washington electric and natural gas basis.

Table No. 7 - Electric Rate Base – Regulatory Lag

Rate Base - Regulatory Lag				
Washington Electric				
Expected @ 12/31/2021	**Avista**	**Staff**	**PC**	**AWEC**
$ 1,924,075	$ 1,860,606	$ 1,774,223	$ 1,741,807	$ 1,634,615
Difference:	**$ (63,469)**	**$ (149,852)**	**$ (182,268)**	**$ (289,460)**
Revenue Impact - "Return On" only	**$ (6,244)**	**$ (14,741)**	**$ (17,930)**	**$ (28,475)**

As can be seen in Table No. 7, if the Commission were to accept the positions of Staff, Public Counsel or AWEC, the electric regulatory lag imposed on Avista on rate base would range from $149.9 million to $289.5 million, and lost associated revenue would range from $14.7 million to $28.5 million. This compares to the regulatory lag built in by Avista ("self-imposed) of $63.5 million of rate base, and $6.2 million of lost revenue.

Table No. 8 – Natural Gas Proposed Rate Base – Regulatory Lag

Rate Base				
Washington Natural Gas				
Expected @ 12/31/2021	**Avista**	**Staff**	**PC**	**AWEC**
$ 480,498	$ 442,329	$ 432,870	$ 416,198	$ 380,588
Difference:	**$ (38,169)**	**$ (47,628)**	**$ (64,300)**	**$ (99,910)**
Revenue Impact - "Return On" only	**$ (3,755)**	**$ (4,685)**	**$ (6,325)**	**$ (9,828)**

For natural gas, as can be seen in Table No. 8, if the Commission were to accept the positions of Staff, Public Counsel or AWEC, the natural gas regulatory lag imposed on Avista on rate base would range from $47.6 million to $99.9 million, and lost associated revenue would range from $4.7 million to $9.8 million. This compares to the regulatory lag built in by Avista of $38.2 million of rate base, and $3.8 million of lost revenue.

Adding the results of Table Nos. 7 and 8 together, this results in an overall Washington regulatory and associated lost revenue as shown in Table No. 9 below.

<u>Table No. 9 – Washington Combined – Regulatory Lag and Lost Revenue</u>

Total Washington Rate Base - Regulatory Lag				
	Avista	**Staff**	**PC**	**AWEC**
Total Regulatory Lag @ 12/31/2021	**$ (101,638)**	**$(197,480)**	**$ (246,568)**	**$ (389,370)**
Net Revenue Impact - "Return On" only	**$ (9,998)**	**$ (19,427)**	**$ (24,255)**	**$ (38,303)**
Approximate Lag - Years	**1+ Year**	**2+ Years**	**2.5+ Years**	**4 Years**

Table No. 9 shows that on a combined Washington electric and natural gas basis, if the Commission were to approve any one of the Parties positions, the net Washington lag on rate base would range from Staff's "lag" of approximately $200 million, and $20 million in lost revenue, all the way up to as high as proposed by AWEC of approximately $390 million in regulatory lag, and $38 million in lost revenue. Party positions, would result <u>in a regulatory lag of between 2 and 4 years</u> before the Company could request recovery after September 30, 2022.[41]

As noted, the Company has already built in a significant (:self-imposed") rate base regulatory lag of $101.6 million, resulting in lost revenue of approximately $10 million on a Washington combined system. This lag represents the difference in net plant investment from that

[41]These balances represent the revenue requirement on the <u>return on net plant only</u>, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net ratebase, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022.

included in the Company's case on rebuttal, compared to that expected as of December 31, 2021, and even this is conservative in that it does not reflect the additional regulatory lag associated with the nine months investment through September 30, 2022.

Given the level of regulatory lag and lost revenue that would be suffered, the positions of Staff, Public Counsel and AWEC would not provide Avista with a reasonable level of rate relief during the effective period, and would preclude Avista from any reasonable opportunity to earn its authorized rate of return or return on equity, as approved by this Commission. No amount of additional efficiencies, managing of costs or cost-cutting measures could make up for the lag as proposed by other parties. This lag explains the expected ROEs ranging from 6.4% (AWEC) to 7.4% (PC) for electric, and 6.3% (AWEC) to 8.4% (Staff) for natural gas, as shown in Table No. 3 above.

IV. UNCONTESTED ADJUSTMENTS AND UPDATES TO COMPANY CASE

Q. Before discussing the updates to the Company's case, are there some adjustments that are uncontested by all Parties?

A. Yes. Provided as page 1 of Exh. EMA-7, is a listing of 23 electric and 22 natural gas adjustments filed by the Company and uncontested by all Parties.

Q. Please explain the updates by Avista on rebuttal to update its as-filed revenue requirement.

A. Table No. 10 below provides a listing of electric and natural gas restating and pro forma adjustments proposed by Avista to its as-filed case, producing Avista's revised revenue requirement on rebuttal.[42]

[42] See also Exh. EMA-7 page 2.

<u>Table No. 10 Electric and Natural Gas Updates by Avista on Rebuttal</u>

	Electric and Natural Gas Updates By Avista on Rebuttal (Reflected only by Parties as noted).					
Item	**Adjustment # Electric**	**Adjustment # Natural Gas**	**Adjustment Name**	**Avista Update / Party Included**	**See Exh. EMA-10 & Exh. EMA-11 DR Update***	**Exh. EMA-10 page #**
a)	2.04	2.04	Regulatory Expense	Avista	Staff-059 Supplemental	**1-6**
b)	2.19		Restate 2019 AMA Rate Base to EOP	Avista / PC Accepted	Staff 039	7-11
c)	3.00P (a)		Pro Forma Power Supply - EIM Revenues	Avista	Proposed on Rebuttal	NA
d)	3.00P (b) 3.01		Pro Forma Power Supply - Expenses Pro Forma Revenue Normalization	Avista 3.00P & 3.01 (Staff combined with 3.01	Staff-156	12-14
e)	3.03	3.03	Pro Forma ARAM DFIT	Avista / Accepted by Staff & PC	Staff-038 Supplemental	15-17
f)	3.06	3.06	Pro Forma Employee Benefits	Avista / PC Supports	Staff-016 / PC-315	18-22
g)	3.07	3.07	Pro Forma Insurance Expense	Avista / Accepted by AWEC, PC	Staff-044 Supplemental	23-28
h)	3.09	3.09	Pro Forma Property Tax	Avista / Accepted by Staff & PC	Staff-049 Supplemental 2	29-38
i)	3.11-3.15	3.11-3.15	Pro Forma 2020 Capital Additions	Avista / Accepted by PC	Staff-107 Supplemental	39-46
j)	3.16	3.16	Pro Forma AMI Capital	Avista / Accepted by Staff	Staff-107 Supplemental	
k)	3.17		Pro Forma WildFire Plan	Avista / Staff / PC	Staff-107 Supplemental	
l)	3.18		Pro Forma EIM Capital & Expenditures	Avista	Staff-107 Supplemental	
m)	3.19		Pro Forma Colstrip Cap & Amort	Staff / PC	Staff-107 Supplemental	
n)	3.20		Pro Forma Normalize CS2/Colstrip Major Maint	Avista	Staff-125	47-50

*Updated during process of case through discovery. See Exh. EMA-10 for copies of discovery response covers and certain detail data. See Exh. EMA-11 for elctronic native files provided.

Q. Before you begin with an explanation of the following adjustments, are there any general statements regarding these updates you would like to make?

A. Yes. The following adjustments, with the exception of that made for Adjustment 3.00P (a), (Power Supply / EIM benefits), which I will discuss later, were made as “updates” or “corrections” that were recognized by Avista based on continued review of its <u>actual</u> capital and expenses during the process of the case. In each case, Avista’s revenue requirement is based on restating and pro forma adjustments to its actual historical test period (i.e., twelve-months ending December 31, 2019 in this proceeding), reflecting the best information it has at the time of the preparation of the Company’s direct case. During the process of the case, the Company provides <u>updates</u> to its capital and expenses, as necessary, to reflect <u>actual</u> information that becomes available to it through final review of information and through the discovery process.

This case is no exception. During this case, Avista learned of actual costs and expenditures available to it through December 31, 2020. Through responses to discovery, Avista provided this updated information to the Parties, and reflected these actual amounts, both capital and expense, within the Company's rebuttal electric and natural gas revenue requirements, as discussed in this testimony. The Company's final proposed revenue requirement in this proceeding on rebuttal, is meant to be reflective of updated and corrected expenses and capital in effect during the rate effective period beginning October 1, 2021.

Q. Please now explain each electric and natural gas update or correction to the Company's filed case shown in Table No. 10 above.

A. The following adjustments, as shown in Table No. 10 above, reflect all known updates available to Avista during the process of this case – i.e., those identified in the Company's direct filing, as well as all other items known to Avista, <u>mainly updating for actual 2020 data</u>, at the time of finalizing the Company's rebuttal revenue requirement. A reconciliation of Avista "As-Filed" to its "Rebuttal" revenue requirement, showing the change to revenue requirement and rate base for each adjustment described below is available at Exh. EMA-7, pages 3 (electric) and 5 (natural gas). The revised rebuttal revenue requirement models reflecting each adjustment are provided as Exh. EMA-8 (electric) and Exh. EMA-9 (natural gas). In addition, referenced discovery documents supporting each adjustment are available at Exh. EMA-10 and electronic detail files of each adjustment, based on the specific discovery request responses, are provided with Exh. EMA-11.

a) <u>2.04 – Regulatory Expense (Electric and Natural Gas)</u>

<u>Correction to 2019 Restating Commission Basis Adjustment filed in error</u>: As described in data request Staff 059 Supplemental, when reviewing the Company's filed case adjustments during discovery, Avista identified an error with its regulatory fees as-filed adjustment, in which it inadvertently used in inaccurate query of the actual 2019 data properly included in its Results of Operations (accrual of regulatory fees), to compare to actual regulatory fees expense, as required in this restating annual Commission Basis adjustment. The as-filed adjustment understated the regulatory fees that the Company paid in Washington by $407,918 for electric service and $62,011 for natural gas service in error. A summary of the filed adjustment compared to the corrected adjustment follows in Table No. 11: (See Exh. EMA-10, pages 1-6)

<u>**Table No. 11 – Corrected Regulatory Fee Adjustment**</u>

	WA Electric	WA Natural Gas
AS-Filed Regulatory Fee Adjustment	$ (371,000)	$ (58,000)
Corrected Regulatory Fee Adjustment	**$ 37,000**	**$ 4,000**
Difference In Expense Increase / (Decrease)	$ 408,000	$ 62,000
Increase / Decrease in Revenue Requirement	$ 428,000	$ 65,000

This information was discovered in late April and supplemented on April 21, 2021, too late for Staff or other intervening Parties to recognize this correction within their response testimonies.

<u>**2.19 Restate 2019 AMA Rate Base to EOP (Electric)**</u>

<u>**Correction to 2019 Restating Adjustment**</u>: As described in data request Staff 039 Supplemental provided on February 2, 2021, and as noted in my direct testimony at Exh. EMA-1T, page 50, footnote 37, after completion of the Company's revenue requirement it was discovered that the transfer-to-plant balance included in the 2019 historical test period for the Cabinet Gorge Gantry Crane Replacement project completed in 2019, was overstated by approximately $1.4 million (system) in costs that should have been recorded to expense. Correcting for this in electric (2.19) Restate 2019 AMA Rate Base to EOP adjustment reflects: 1) an increase in operating expense of $913,000; 2) a decrease in depreciation expense of $10,000; and 3) a decrease in net rate base of $904,000, resulting in an increase in overall revenue requirement of $862,000.

<u>Public Counsel recognized this correction to expense and rate base, with a difference only related to cost of capital</u>.[43] Staff and AWEC did not make note of this adjustment within their respective responsive testimonies. (See Exh. EMA-10, pages 7-11)

b) <u>**3.00P (a) Pro Forma Power Supply (revenue) (Electric)**</u>

<u>**Proposed Change to include EIM Benefits**</u>: As discussed by Mr. Kinney (Exh. SJK-13T), in recognition of Parties' concerns, on rebuttal the Company is proposing to include estimated EIM benefits of $3.4 million system, or $2.323 million Washington share, within the Company's Pro Forma Power Supply Adjustment (3.00P), and reflect this increased

[43] Exh. ACC-1T, p. 13, ll. 1-15.

revenue within its Power Supply proposed authorized Energy Recovery Mechanism (ERM) baseline. This amount is reflective of annualized EIM benefits of $5.8 million, in effect for seven months from "Go-Live" March 1, 2022 through the rate effective period September 30, 2022.[44]

As discussed by Company witness Mr. Kalich (Exh. CGK-9T), on or before August 1, 2021, the Company will file a 60-day update to its Pro Forma Power Supply Adjustment (3.00P) for updates to natural gas and electric market prices, non-natural gas fuel prices, incremental short-term contracts for natural gas and electricity, power and transmission contracts affecting the rate year, and any additional corrections or updates as noted by Mr. Kalich. The Company is manually including this amount within Pro Forma 3.00P Pro Forma Power Supply at this time, but this amount will be included with the 60-day update overall Power Supply Adjustment 3.00P, including updating Exh. CGk-6 (Annual ERM Authorized Expense and Retail Sales).

c) 3.00P (b) Pro Forma Power Supply (expense) (Electric) & 3.01 Pro Forma Revenue Normalization (Electric)

Actual update, to remove known lost load revenue, and impact on production expense: As described in response to Data Request Staff 156, and further discussed by Company witness Ms. Knox in her rebuttal testimony (Exh. TLK-4T), in January 2021, the Company learned that Triumph Composite Systems, a large industrial (non-decoupled) customer of Avista will close its airplane parts factory in 2022, resulting in permanent lost margin to Avista. Removing this customer and its actual load from the period of January 1, 2019 through December 31, 2019, results in a decrease to present revenue of $1,143,142. For its part the Company removed $1.143 million of revenues from Pro Forma Revenue Normalization Adjustment (3.01).

Normally this reduction in load would go through the Pro Forma Power Supply Adjustment (3.00P), however, the Company calculated the decreased production and transmission expenses of $225,700, which is the reduction in load (14,684,447-kilowatt hours) multiplied by the proposed Retail Revenue Adjustment rate for the ERM of $15.37/MWh in Exh. CGK-6 and noted this as an overall impact to the Pro Forma Revenue Normalization Adjustment. The net change in revenue requirement due to the closure of this major customer is an increase of $907,000 above the Company's filed case. Staff witness Jordan discusses and supports inclusion of both these adjustments within Pro Forma Revenue Normalization Adjustment 3.01 at Exh. ELJ-1T, pp. 5-6.

For its part, the Company has reduced other power supply expense in Pro Forma Power Supply Adjustment 3.00P by $226,000 (resulting in a decrease in revenue requirement of $236,000). The net impact of the two adjustments is an increase to revenue requirement of $907,000, consistent with the adjustment supported by Staff. The Company has chosen to

[44] EIM benefits included reflect annualized EIM benefits of $5.8 million system, for 7 months (March 1, 2022 through September 30, 2022) at the 0.6564 Production/Transmission (P/T) ratio for Washington share of $2.221 million.

split these two components into the two adjustments (PF 3.00P and PF 3.01), so that when the Company files its 60-day Power Supply update noted above, the power supply modeling will reflect the corrected historical load, resulting in lower power supply expense. At that time, Avista will also file a revised Electric Revenue Requirement model, removing the Pro Forma Power Supply Adjustment 3.00P included here, and the $226,000 in other expense, and replacing it with the 60-day updated Pro Forma Power Supply Adjustment. This will ensure no double counting of this adjustment, and will properly reflect the actual expense, and the need to only update and replace Adjustments 3.00P (Pro Forma Power Supply). The Pro Forma Revenue Normalization Adjustment (3.01), as updated here by the Company, can remain unchanged after the 60-day update, as it will not be affected, or double count any reduction in expense after the 60-day update has been completed. (See Exh. EMA-10, pages 12-14)

d) 3.03 Pro Forma ARAM DFIT (Electric and Natural Gas)

Actual update, to reflect approved Tax Petition: As noted in my direct testimony at Exh. EMA-1T, page 54, footnote 41, with the approval by the Washington, Idaho and Oregon Commissions of the Company's Tax Accounting Petitions, authorizing Avista to change its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant-basis adjustments (meters and IDD#5), certain excess DFIT tax balances will be reclassified as non-protected and removed from the ARAM calculation. With this final approval by each Commission, these balances are now available to be returned to customers over a shorter period as discussed in the Company's Tax Accounting Petition (Dockets UE-200895/UG-200896). As provided in Data Request Staff 038 Supplemental, the Pro Forma ARAM DFIT Adjustment (3.03) includes the updated ARAM DFIT amortization to reflect this change. The overall impact of correcting the annual ARAM tax amortization decreases deferred income taxes (and net income) for electric by $16,000 and increases deferred income taxes (and net income) for natural gas by $46,000. The effect on the proposed revenue requirement is an increase of $20,000 for electric service, and reduction of $61,000 for natural gas service. Staff and Public Counsel both support this adjustment[45], while AWEC did not address. (See Exh. EMA-10, pages 15-17)

e) 3.06 Pro Forma Employee Benefits (Electric and Natural Gas)

Actual update, to reflect actual December 31, 2020 expense: The Company updated its electric and natural gas Pro Forma Employee Benefit Adjustments (3.06) to reflect actual year end 2020 pension and medical benefits expenses. In the Company's direct case it had provided an estimate of expected pension and medical costs and stated it would update its proposed balances with information in the first quarter of 2021 after receipt of its final reports from its independent consultants to determine the appropriate level of expense for both the Retirement Plans (Willis Towers Watson) and the Medical Plans (Mercer). This information is not yet available. The Company, however, based on responsive testimony

[45] Public Counsel Exh. ACC-1T, p. 13, ll. 17 – p. 14, ll. 1-4; Staff Exh. BAE-1T, p. 10-17.

of Staff and Public Counsel have revised its 3.06 Pro Forma Employee Benefit Adjustment to reflect actual 2020 pension and medical benefit expense. The effect of this adjustment increases employee benefit expense by $100,000 for Washington electric and $30,000 for Washington natural gas, from that included in the Company's direct case, resulting in an increase to the Company's electric and natural gas revenue requirements by $105,000 and $32,000, respectively. (See Exh. EMA-10, pages 18-22)

This information was provided in response to Data Request PC 315 (and Staff 016 Supplemental) on April 15, 2021, too late for Staff or other Parties to recognize this update within their responsive testimonies. However, Ms. Crane's testimony stated she was supportive of using actual 2020 employee benefit costs to determine the Company's revenue requirement in this case.[46] On May 24, 2021 Public Counsel filed revised Crane Exh. ACC-5r and Exh. ACC-8r reflected this update, increasing her overall revenue requirement. Avista discusses Staff's proposal in Section V. below.

f) <u>3.07 Pro Forma Insurance Expense (Electric and Natural Gas)</u>

<u>Actual update, to reflect actual 2021 prepaid expense:</u> I previously described in my direct testimony, starting at page 63 of Exh. EMA-1T, initial 2021 estimates as of September 14, 2020 were subject to extreme variability over time given the significant rate increases across most lines of insurance in 2020 (the largest increase related to wildfire risk premiums), combined with the fact that we were several months away from some policy renewals. The Company stated it would provide updated information when available in the first quarter of 2021 for property and general liability insurance premiums, and after March 31, 2021 for D&O insurance premiums. As our policies began to renew for the 2021 period, our insurance costs for each line were able to be more accurately assessed. The Company provided the first available information to the Parties on January 1, 2021 in response to Data Request Staff 044, which revealed actual property and general liability insurance premiums invoiced were <u>significantly lower</u> than initial communications with insurance brokers, <u>reducing insurance expense</u> overall by $2.96 million on a system basis, or <u>Washington electric by $1,031,000 and natural gas by $785,000</u>. This initial response also reflected a reallocation of wildfire premiums to electric operations only, rather than allocated to all service and jurisdictions, as filed in the Company's direct case, having the largest impact (reduction) on Avista's as-filed natural gas insurance expense. (<u>Mr. Mullins includes this adjustment per Staff 044 within his responsive testimony</u>.[47]) Ms. Crane supports the use of information in Staff 044 to reduce insurance expense[48], however, makes additional adjustments for D&O insurance that Avista does not agree is appropriate, as

[46] Public Counsel Exh. ACC-1T, p. 24, ll. 11-13. Ms. Crane states, as of the preparation of her testimony she did not have actual 2020 costs by employee benefit category, "However, I have no objection to the Commission utilizing the actual 2020 employee benefit costs once the actual costs are provided…" Avista has since provided this information in response to Data Request PC 315. On May 24, 2021 Ms. Crane filed revised revenue requirement amounts for electric and natural gas incorporating the effect of the updated benefit information in Exh. ACC-5r and Exh. ACC-8r.
[47] Mullins testimony at Exh. BGM-1T, p. 44, ll. 22 – p. 45, ll. 2.
[48] Public Counsel Exh. ACC-1T, p. 25, ll. 8-13.

discussed further below in Section V.[49] I also address in Section V. below, Staff's proposed insurance adjustment.[50]

Supplemental to the Parties' response testimonies, on April 26, 2021, the Company provided the Parties with a response to Staff 044 Supplemental (See Exh. EMA-10, pages 23-28), reflecting the Company's insurance expense for the D&O Insurance premium invoices received in April 2021. These final invoices reflect an incremental reduction in system insurance expenses of $52,000 electric and $16,000 natural gas from that previous provided. As can be seen in Table No. 12 below, the revised actual 2021 premium costs of $8.794 million on a system basis, are 92% above those in 2019 of $4.591 million (71% of this increase is due to higher premiums associated with wildfire exposure).

Table No. 12 – Updated Insurance Expense

	TOTAL INSURANCE COSTS								
	12/31/2019			12/31/20 - Actual			12/31/21 - Based on ACTUAL Invoices		
Line of Insurance	premium with cc (1)	premium without cc	basis	premium with cc	premium without cc	basis	premium with cc	premium without cc	basis
General Liability	$2,259,774	$2,704,244	Actual	$2,749,608	$2,981,117	Actual	$5,529,138	$5,788,307	Actual (a)
Directors & Officers Liability	$850,468	$1,221,598	Actual	$894,646	$1,279,676	Actual	$1,029,578	$1,391,964	Actual (b)
Property	$1,480,696	$1,503,777	Actual	$1,765,375	$1,792,539	Actual	$2,235,720	$2,283,779	Actual (a)
TOTAL INSURANCE COSTS	4,590,939	5,429,619		5,409,629	6,053,333		8,794,436	9,464,051	
	IA-1			IA-1			IA-1		
Less 10% D&O	-			89,465			102,958		
Adjusted for 10% D&O Removal	4,590,939			5,320,164			8,691,478		
							(a) Actual, received in Dec. 2020		
Notes:							(b) Actual, received in April 2021		

Also included in this adjustment (consistent with Avista's as-filed adjustment) is a reduction to D&O Insurance of 10% per Dockets UE-090134 and UG-090135. Therefore, after reflecting the overall impact of both updates, and the reduction of 10% D&O Insurance, actual pre-paid insurance expense for the 2021 period results in $2,456,000 for Washington electric and $279,000 for Washington Natural Gas ($8.69 million on a system basis). The overall impact of the change in this adjustment reduces insurance expense from that filed, by $1.083 million electric and $801,000 for natural gas, or a reduction to revenue requirement of $1,133,000 electric and $837,000 natural gas.

g) 3.09 Pro Forma Property Tax (Electric and Natural Gas)

Actual update, to reflect Washington and Idaho revised property tax assessments:

[49] Public Counsel does use the January updated insurance information from Staff 044, however proposes a 50% allocation of D&O insurance be allocated to shareholders. Avista opposes this recommendation, as I discuss below. Crane Exh. ACC-1T, p. 25, ll. 14-16.

[50] Staff does not use the actual data from the response to Data Request Staff 044 provided in January 2021, but rather inappropriately adjusts insurance to 2019 levels. Avista oppose this recommendation, as I discuss further below. Huang Exh. JH-1T, p. 24, ll. 7-13.

Avista has updated its Pro Forma Property Tax Adjustment 3.09 to reflect property tax assessments Avista received in December 2020 (Idaho) and April 2021 (Washington). This information was provided in response to Data Request Staff 049 Supplemental (See Exh. EMA-10, pages 29-38). As noted in its filed case, the increase in property taxes in 2021 over the 2020 actual expense level is due to property additions taxed at existing rates. After reflecting the Idaho and Washington tax assessments, the increase in property expense above 2019 test period levels is $635,000 for electric and $126,000 for natural gas. The result of reflecting data request Staff 049 Supplemental information in the Company's rebuttal case, reduces the as-filed revenue requirement by $1.123 million electric and $353,000 natural gas. Staff witness Ms. Huang[51] and Ms. Crane[52] accept the property tax adjustment originally provided in Staff 049, prior to the supplemental response provided to all Parties in May 2021, after the filing of the response testimonies. Mr. Mullins did not address property taxes. Avista's adjustment on rebuttal reduces property tax expense further from Staff and Public Counsel to reflect the April update. Below in Section V., in response to Ms. Huang's criticism of the Company's pro forma property tax expense adjustment, I discuss further the changes to property tax expense from that as filed.

h) <u>3.11 – 3.15 Pro Forma 2020 Capital Additions (Electric and Natural Gas)</u>

<u>Actual update, to reflect actual transfers-to-plant for the 2020 capital projects included as of December 31, 2020:</u> As discussed further by Ms. Schultz the Company updated its 2020 Capital Additions Adjustments 3.11 – 3.15 to reflect actual information for each adjustment through December 31, 2020. Details of each adjustment are reflected in response to Data Request Staff 107 Supplemental 3, which has been provided in Exh. EMA-10, pages 39-46.

Table Nos. 13 and 14 below summarize the electric and natural gas "As Filed" versus the "Updated" balances per Staff 107 Supplemental 3, including the change in rate base, <u>net income</u> and revenue requirement on an individual adjustment basis for each Pro Forma Adjustment 3.11 – 3.15, and in total.

<u>Table No. 13 - Electric 3.11 – 3.15 PF 2020 Capital Additions As Filed versus Updated</u>

Washington Electric (000s)	As Filed			Updated - Staff DR 107			Net Change in	Net Change in Revenue
Pro Forma Adjustment Summary	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement	Rate Base	Requirement
3.11 Customer at the Center	$ 9,316	$ (1,404)	$ 2,775	$ 10,279	$ (1,559)	$ 3,075	**$ 963**	**$ 300**
3.12 Large Distinct Projects	$ 23,308	$ (238)	$ 2,608	$ 18,005	$ (95)	$ 1,897	**$ (5,303)**	**$ (711)**
3.13 Programs	$ 51,538	$ (749)	$ 6,062	$ 47,479	$ (423)	$ 5,231	**$ (4,059)**	**$ (831)**
3.14 Mandatory and Compliance	$ 35,584	$ (375)	$ 3,997	$ 36,826	$ (337)	$ 4,069	**$ 1,242**	**$ 72**
3.15 Short-Lived Assets	$ 10,886	$ (1,496)	$ 3,052	$ 10,180	$ (1,465)	$ 2,941	**$ (706)**	**$ (110)**
Total 2020 Capital Adjustments	$ 130,632	$ (4,262)	$ 18,493	$ 122,769	$ (3,879)	$ 17,213	**$ (7,863)**	**$ (1,280)**

[51] Huang Exh. JH-1T, p. 33, ll. 9-11.
[52] Crane Exh. ACC-1T, p. 27, ll. 10-14.

Table No. 14 - Natural Gas 3.11 – 3.15 PF 2020 Capital Additions As Filed versus Updated

Washington Natural Gas (000s)	As Filed			Updated - Staff DR 107			Net Change in Rate Base	Net Change in Revenue Requirement
Pro Forma Adjustment	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement		
3.11 Customer at the Center	$ 2,923	$ (441)	$ 871	$ 2,994	$ (449)	$ 889	$ 71	$ 18
3.12 Large Distinct Projects	$ 7,191	$ (110)	$ 853	$ 7,251	$ (55)	$ 786	$ 60	$ (66)
3.13 Programs	$ 7,194	$ (143)	$ 897	$ 6,629	$ (79)	$ 757	$ (565)	$ (140)
3.14 Mandatory and Compliance	$ 13,123	$ (150)	$ 1,489	$ 10,469	$ (104)	$ 1,167	$ (2,654)	$ (322)
3.15 Short-Lived Assets	$ 3,408	$ (489)	$ 983	$ 2,967	$ (424)	$ 854	$ (441)	$ (129)
Total 2020 Capital Adjustments	$ 33,839	$ (1,333)	$ 5,093	$ 30,310	$ (1,111)	$ 4,452	$ (3,529)	$ (640)

As can be seen from the tables above, the overall reduction in revenue requirement on rebuttal versus the Company's original filing, for Pro Forma Capital Additions Adjustments 3.11 through 3.15 for electric total $1.280 million and a reduction of $640,000 for natural gas. The overall reduction to rate base on rebuttal, from that as originally filed, is a reduction of $7.863 million electric and $3.529 million for natural gas.[53]

i) 3.16 Pro Forma AMI Capital (Electric and Natural Gas)

Actual update, to reflect actual AMI transfers-to-plant through December 31, 2020, and revised 2021 additions: The Company updated its Pro Forma Advanced Metering Infrastructure (AMI) Adjustment 3.16 to reflect actual transfers-to-plant through December 31, 2020, as well as updates to 2021 capital additions and expenses. As discussed by Ms. Rosentrater and Mr. La Bolle (see Exh. HR/LL-1T), reductions to pro forma AMI natural gas rate base in 2021, are due to the Company's decision to read the meters of approximately 17,500 natural gas customers served in our "natural gas only" areas using mobile field collectors, instead of the planned deployment of AMI fixed network communications. Details of the AMI Adjustment 3.16 are reflected in response to Data Request Staff 107 Supplemental 3 provided in Exh. EMA-10, pages 39-46.

Table No. 15 below summarizes the electric and natural gas AMI Adjustment 3.16 "As Filed" versus the "Updated" balances per Staff 107 Supplemental 3, including the change in rate base, expense and revenue requirement.

[53] As discussed later in my testimony, Ms. Crane recommends the Commission approve Avista's electric and natural gas actual 2020 plant additions for the five categories in Adjustments 3.11 – 3.15 updated per response to Data Request Staff Supplemental 3. Exh. ACC-1T, p. 34, ll. 5-8.

<u>Table No. 15 – AMI Adjustment 3.16 – As Filed versus Updated</u>

Adjustment 3.16 - Advanced Metering Infrastructure						
	WA - Electric			WA - Natural Gas		
In 000's	Filed	Revised	Revision to PF Adj. 3.15	Filed	Revised	Revision to PF Adj. 3.15
Plant in Service	$ 81,198	$ 76,578	$ (4,620)	$ 33,271	$ 30,903	$ (2,368)
A/D	$ (28,009)	$ (27,819)	$ 190	$ (9,266)	$ (9,173)	$ 93
ADFIT	$ (14,370)	$ (14,330)	$ 40	$ (4,241)	$ (4,222)	$ 19
AMI Regulatory Asset	$ 53,345	$ 53,155	$ (190)	$ 15,668	$ 15,576	$ (92)
Rate Base	$ 92,164	$ 87,584	**$ (4,580)**	$ 35,432	$ 33,084	**$ (2,349)**
Regulatory Amortization	$ 10,133	$ 10,134	$ 1	$ 3,491	$ 3,491	$ -
Operating Expense	$ (2,986)	$ (2,833)	$ 153	$ (995)	$ (944)	$ 51
Depreciation Expense	$ 2,515	$ 2,326	$ (189)	$ 965	$ 851	$ (114)
Expense	$ 9,662	$ 9,627	$ (35)	$ 3,461	$ 3,398	$ (63)
Revenue Requirement Impact			**$ (456)**			**$ (280)**

As can be seen from the table above, the <u>overall impact of the change in this adjustment</u> reduces the AMI rate base from that filed, by $4.58 million electric and $2.349 million for natural gas, or a <u>reduction to revenue requirement of $456,000 electric and $280,000 natural gas</u>.

As discussed below, Staff witness Ms. White supports the full recovery of the Company's AMI investment, as adjusted above, including a return.[54] Whereas, while Public Counsel accepts the revised AMI figures as discussed above, Ms. Crane includes a reduction in revenue requirement associated with their proposal of <u>no return on</u> investment.[55] Mr. Mullins did not address the updated AMI amounts, but proposed a return on debt only.[56]

j) <u>3.17 Pro Forma Wildfire Plan Capital and Expenses (Electric)</u>

<u>Actual update, to reflect actual Wildfire transfers-to-plant through December 31, 2020 and revised 2021 additions:</u> The Company updated its Pro Forma Wildfire Capital and Expense Adjustment 3.17 to reflect actual transfers to plant through December 31, 2020 and updated planned 2021 additions. Mr. Howell supports the Company's Wildfire Plan capital and expenses in his direct and rebuttal testimonies (Exh. DRH-1T and DRH-8T). I also discuss the Company's Wildfire plan expenditures in Section VII. "Wildfire Plan Expenditures, O&M Balancing Account, 2021 Deferral and Mechanisms" below.

Table No. 16 below summarizes the electric Wildfire Adjustment 3.17 "As Filed" versus the "Updated" balances per response to Data Request Staff 107 Supplemental 3 (provided

[54] White Exh. AIW-1T, p. 10, ll. 6-10. Any difference between Avista and Staff with regards to the AMI investment relates to cost of capital differences only.
[55] Ms. Crane incorporates Public Counsel witness Ms. Bauman's recommendation to exclude a return <u>on</u> the net book value of the new AMI meters. See Exh. ACC-1T, p. 35, ll. 11-19.
[56] Mullins Exh. BGM-1T, p. 66, ll. 17-19.

as Exh. EMA-10, pages 39-46), including the change in rate base, expense and revenue requirement.

Table No. 16 – Wildfire Adjustment 3.17 – As Filed versus Updated

Adjustment 3.17 - Wildfire			
	WA - Electric		
In 000's	Filed	Revised	Revision to PF Adj. 3.17
Plant in Service	$ 13,536	$ 11,570	$ (1,966)
A/D	(244)	(268)	(24)
ADFIT	(166)	(117)	48
Rate Base	$ 13,126	$ 11,185	**$ (1,941)**
Operating Expense	$ 4,025	$ 4,025	$ -
Depreciation Expense	313	316	3
Expense	$ 4,338	$ 4,341	$ 3
		Revenue Requirement Impact	**$ (174)**

As can be seen from the table above, the overall impact of the change in this adjustment reduces the Wildfire Adjustment 3.17 electric rate base from that filed, by $1.941 million, and reduces the electric revenue requirement by $174,000.

k) 3.18 Pro Forma EIM Capital and Expenditures (Electric)

Actual update, to reflect actual EIM transfers-to-plant through December 31, 2020; updated 2021 planned additions, and revised labor expense: The Company updated its Pro Forma Energy Imbalance Market (EIM) Capital and Expense Adjustment 3.18 to reflect actual transfers to plant through December 31, 2020, and updated planned 2021 additions, as well as corrected labor expenses through the rate effective period. This adjustment was provided in Data Request Staff 107 Supplemental 3. Mr. Kinney supports the Company's EIM capital and expenses in his direct and rebuttal testimonies (Exh. SJK-1T and SJK-13T). In response to Party testimonies, Mr. Kinney discusses the Company's inclusion of EIM benefits, as discussed in "item c.) 3.00P (a) Pro Forma Power Supply (revenue)" above, reflecting a matching of benefits, with Company Pro Formed capital and expenses.[57]

As discussed by Mr. Kinney at Exh. SJK-13T, starting at page 4, in order to meet all requirements to join the EIM in March 2022, Avista needs to complete all of its equipment upgrades/replacements and integrate all new software by July 1, of 2021 per the CAISO implementation schedule. Between July 1, 2021 and March 2, 2022 Avista will conduct market simulation testing and parallel operations per the CAISO schedule. Since Avista needs to be prepared for market operations well in advance of market "go-live" date, all capital projects will be completed prior to new rates going into effect. However, although the equipment related projects will all be complete by July 2021, the software applications

[57] Mr. Kinney describes in his rebuttal testimony Exh. SJK-13T.

(while complete) will not officially transfer-to-plant until all testing is complete and the Company officially joins the EIM in March of 2022. In addition, all expenses associated with EIM, such as the Utilicast consulting costs, hardware/server costs and software license costs, vendor professional services, hosting fees, and support fees are also known per terms of the contracts, but the actual payments are tied to passing different testing milestones and will be paid accordingly through the EIM go-live date. Finally, all budgeted new positions to support on-going market operations will be hired by September 2021 to support market testing as indicated in the EIM Resource Plan, so the associated costs of incremental labor to support testing are also known. Therefore, the costs associated with EIM integration will be known and measurable (can be reviewed by the Parties), and all but the software application plant addition (transferring to plant in March 2022), will be in-service prior to new rates going into effect. In response to party testimonies, I also discuss the Company's EIM expenditures in Section V. below.

Table No. 17 below summarizes the electric EIM Adjustment 3.18 "As Filed" versus the "Updated" balances per Staff 107 Supplemental 3 (provided as Exh. EMA-10, pages 39-46), including the change in rate base, expense and revenue requirement.

Table No. 17 – EIM Adjustment 3.18 – As Filed versus Updated

Adjustment 3.18 - EIM			
	WA - Electric		
In 000's	Filed	Revised	Revision to PF Adj. 3.18
Plant in Service	$ 10,775	$ 13,908	$ 3,132
A/D	(1,100)	(1,150)	(50)
ADFIT	(317)	(181)	136
Rate Base	$ 9,358	$ 12,576	**$ 3,218**
Operating Expense	$ 1,386	$ 1,691	$ 305
Depreciation Expense	1,409	1,709	300
Expense	$ 2,796	$ 3,400	$ 604
		Revenue Requirement Impact	**$ 926**

As can be seen in Table No. 17 above, the overall impact of the change in this adjustment increased the EIM Adjustment 3.18 electric rate base from that filed, by $3.218 million, and O&M operating expense related to incremental labor costs increased $305,000, resulting in an overall increase to the electric revenue requirement of $926,000.

l) 3.19 Pro Forma Colstrip Capital and Amortization (Electric)

Actual update, to reflect actual Colstrip transfers-to-plant through December 31, 2020 and revised 2021 and 2022 additions: The Company updated its Pro Forma Colstrip Capital and Amortization Adjustment 3.19 to reflect actual transfers to plant through December 31, 2020 and updated planned 2021 and 2022 additions. This information was provided in response to Data Request Staff 107 Supplemental 3 (see Exh. EMA-10, pages 39-46). The overall impact of the change in this adjustment reduces the Colstrip

Adjustment 3.19 electric rate base from that filed, by $4.9 million, and reduces revenue requirement by $837,000. No Party took issue with the adjustments included by the Company for the Colstrip Regulatory Asset and regulatory amortization expense. However, in response to Party testimonies, I discuss the Company's Colstrip capital adjustment update in detail below, including the Company's SmartBurn investments completed in 2016 and 2017, in Section V. below. Mr. Thackston supports the Company's Colstrip capital (including its SmartBurn investment) and expenses in his direct and rebuttal testimonies (Exh. JRT-1T and JRT-12T).

m) 3.20 Pro Forma Normalize CS2/Colstrip Major Maintenance (Electric)

Actual update, to reflect actual December 31, 2020 expense: Avista has updated its Pro Forma Normalize CS2/Colstrip Major Maintenance Adjustment 3.20 to reflect actual expenses as of December 31, 2020. This information was provided in response to Data Request Staff 125 (provided as Exh. EMA-10, pages 47-50). In the Company's direct case, the Pro forma Adjustment 3.20 (CS2-Colstrip Major Maintenance) normalized the Colstrip and Coyote Springs II major (overhaul) O&M expense based on the period 2018-2020, using estimated 2020 amounts. This update captures actual 2020 Colstrip major (overhaul) O&M expense. (CS2 did not have overhaul expense in 2020.) The overall impact of this adjustment increases major O&M expense $33,000 (Washington share) from the restated 2019 level included as a result of Restating Adjustment 2.18 – or an overall total CS2/Colstrip normalized expense of $1.188 million, Washington share for the pro forma period. As shown on Staff-DR-125 (provided as Exh. EMA-10, pages 47-50), the impact of this update for 2020 actual expense, increases the Company's major O&M expense by approximately $49,000, and revenue requirement $51,000, from the Company's direct case.

V. CONTESTED ADJUSTMENTS

Q. Please explain the contested adjustments opposed by the Company on rebuttal.

A. Table No. 18 below provides a listing of adjustments opposed by Avista that are proposed by various Parties.

Table No. 18 – Contested Adjustments

Exh. EMA-6T Item	Adjustment # Electric	Adjustment # Natural Gas	Adjustment Name	Party Contesting
	Electric and Natural Gas Contested Adjustments by Parties			
	Restating (Commission Basis) Adjustments			
a)	COC	COC	Cost of Capital (Equity % and ROE)	Staff / PC / AWEC
	2.14	2.14	Restate Debt Interest	Staff / PC / AWEC
b)	2.05		Injuries and Damages	PC
c)	2.13	2.13	Restate Incentives	PC
	Pro Forma Adjustments			
d)	3.00T		Pro Forma Transmission	AWEC
e)	3.04	3.04	Pro Forma Labor Non-Exec	Staff / PC / AWEC
f)	3.05	3.05	Pro Forma Labor Exec	Staff
g)	3.06	3.06	Pro Forma Employee Benefits	Staff
h)	3.07	3.07	Pro Forma Insurance Expense	Staff / PC
i)	3.08	3.08	Pro Forma IS/IT	Staff / PC / AWEC
j)	3.09	3.09	Pro Forma Property Tax	Staff / PC
k)	3.11	3.11	Pro Forma 2020 Customer At Center	Staff / AWEC
	3.12	3.12	Pro Forma 2020 Large & Distinct	Staff / AWEC
	3.13	3.13	Pro Forma 2020 Programmatic	Staff / AWEC
	3.14	3.14	Pro Forma 2020 Mandatory & Compliance	Staff / AWEC
	3.15	3.15	Pro Forma 2020 Short Lived	Staff / AWEC
	AWEC7.01	AWEC7.01	2020 AMA Capital	AWEC
l)	3.16	3.16	Pro Forma AMI Capital	Staff / AWEC
m)	3.17		Pro Forma WildFire Plan Expenditures	Staff / PC / AWEC
n)	3.18		Pro Forma EIM Capital & Expenses	Staff / PC / AWEC
o)	3.19		Pro Forma Colstrip Cap & Amort	Staff / PC / AWEC
	PC1		SmartBurn Removal	PC
p)	PC2		Substation Rebuild	PC
	PC3		Grid Modernization	PC
q)		3.17	Pro Forma LEAP Deferral Amortization	AWEC
r)	AWEC7.02	AWEC7.02	O&M Expense	AWEC
s)	AWEC7.03	AWEC7.03	Inter-Corporate Cost Allocation	AWEC
t)	AWEC7.04	AWEC7.04	AFUDC Deferral	AWEC
u)	4.00T	4.00T	Tax Accounting Change	AWEC

Q. Please provide a description of each adjustment shown in Table No. 18.

A. The descriptions that follow explain the individual adjustments and Avista's opposition to each as proposed by the contesting party. Exh. EMA-7, page 3 - 4 (electric) and page 5 - 6 (natural gas) summarized each contested adjustment by the individual Parties and the impact of each adjustment on their specific revenue requirement positions.

a) Cost of Capital /Restate Debt Interest 2.14 (Electric and Natural Gas)

Q. What are the Party positions with regards to Cost of Capital?

A. The Cost of Capital and Capital Structure included in the Companies Pro Forma Studies, include: 1) 50% Common Equity / 50% Debt capital structure ; 2) Return on Equity (ROE) of 9.9%; and 3) cost of debt of 4.97%, resulting in an overall Rate of Return (weighted average cost of capital) of 7.43%.

Staff, Public Counsel and AWEC witnesses each propose a different overall cost of capital of 7.07% (Staff), 6.92% (PC) and 7.01% (AWEC), respectively. However, the components of their proposed cost of capital vary individually, except each proposed a capital structure of Common Equity 50% and Debt 51.5%.[58]

Specifically, party positions on ROE are 9.3% for Staff, 9.0% for Public Counsel and 9.4% for AWEC.[59] Finally, Staff and Public Counsel support the Company's overall cost of debt of 4.97%, whereas AWEC witness Mr. Mullins proposes a cost of debt of 4.75%.[60]

Q. What is the impact on revenue requirement of each Parties' position on cost of capital?

[58] Staff at Huang Exhs. JH-2, p. 3 and JH-3, p.4; Public Counsel at Crane Exh. ACC-1T, p. 9, Table 2; and AWEC at Mullins Exh. BGM-1T, p. 6 Table 3. As shown by Ms. Huang, at Exhs. JH-2, p. 3 and JH-3, p.4, Staff supports a short-term and long-term debt structure of 2.48% and 49.02%, respectively, which equates to an overall debt structure of 51.5%.

[59] *Ibid*

[60] *Ibid*. As shown by Ms. Huang, at Exhs. JH-2, p. 3 and JH-3, p.4, Staff supports a cost of debt of 3.26% for short-term debt and 5.05% for long-term debt, which equates to an overall cost of debt of 4.97% as proposed by the Company.

A. The impact of each Party's position on the Company's proposed revenue requirement is threefold: 1) it impacts the overall return included on each investment (net rate base) and the debt interest expense calculated, in each individual adjustment impacting rate base, due to a lower return and change in average debt cost, 2) it impacts restating electric and natural gas Adjustment 2.14 Restate Debt Interest on existing rate base at 2019; and 3) it impacts the overall revenue requirement based on a revised rate of return that is not otherwise in items 1) and 2). Table No. 19 summarized below shows the impact of items 2) and 3) as provided by the Parties.[61] (The additional impact of item 1), is reflected in individual party adjustments that impact rate base and is not included here):

Table No. 19 – Cost of Capital / Debt Interest Adjustments by the Parties

Cost of Capital / Debt Interest Adjustments				
	Staff	Public Counsel	AWEC	Addressed By Company Witness
Electric				
Cost of Capital	$ (8,442)	$ (10,925)	$ (10,441)	Thies / McKenzie
Restate Debt Interest	$ (382)	$ (367)	$ 157	Flow Through
Natural Gas				
Cost of Capital	$ (2,055)	$ (2,542)	$ (2,418)	Thies / McKenzie
Restate Debt Interest	$ (90)	$ (88)	$ (37)	Flow Through

The Company opposes the common Equity/Debt capital structure proposed by each of the Parties, and the cost of debt proposed by Mr. Mullins, as discussed by Company witness Mr. Thies at Exh. MTT-6T. The Company also opposes the individual ROE values as proposed by each Party, as discussed by Mr. Thies, and Company ROE expert consulting witness Mr. McKenzie.[62]

[61] See Andrews Exh. EMA-7, pages 3 (electric) and 5 (natural gas); Party testimony at Huang Exh. JH-2 and JH-3, p. 1; Crane, Exh. ACC-5 and ACC-8; Mullins, Exh. BGM-3 and BGM-4, pages 1-2, (Mullins workpapers provided separate cost of debt flow through amounts).

[62] The Company, therefore, opposes the overall rate of return as proposed by each Party.

Restate Debt Adjustment 2.14, is a by-product (flow-through) of the cost of capital approved by the Commission, and therefore is dependent on the final cost of debt, and capital structure approved.

b) <u>Injuries and Damages 2.05 (Electric)</u>

Q. Public Counsel recommends a five-year average be used for the Company's Injuries and Damages Adjustment 2.05, rather than a six-year average as utilized by the Company, reducing electric expense by $28,000, although this has no impact to natural gas expense.[63] Please explain Ms. Crane's reasoning and if the Company agrees with this methodology?

A. Public Counsel argues that injuries and damages can vary significantly from year to year, and the purpose of a normalization adjustment is to smooth out fluctuations that occur from year to year so that a "normal" level of injuries and damages can be reflected in rates. Ms. Crane then argues that the six-year period used by Avista, representing the period 2014 – 2019, was not reasonable, because the 2014 level of electric injuries and damages was an abnormal or extraordinary year versus the other years included in the average, and that a five-year average should be used instead.[64]

The Company disagrees with Ms. Crane's proposed adjustment for two reasons. First, the Company does not believe an amount of approximately $295,000 is "extraordinary." Second, and more importantly, as described in my direct testimony at Exh. EMA-1T, p. 43, ll. 18 - 22, the Commission approved this methodology in 1988 in Docket U-88-2380-T, requiring Avista to change to the reserve method of accounting for injuries and damages not covered by insurance.

---

[63] Crane Exh, ACC-1T, p. 14, ll. 5 – p. 16, ll. 8.
[64] *Id*. ll. 8-14.

In Docket U-88-2380-T Tenth Supplemental Order, p. 21, par. 11 describing this adjustment, the Commission explains that in 1985 a gas explosion occurred in the Company's service area, with significant effect. This long-standing, Commission Basis restating adjustment, was established to create "a six-year rolling-average to allow recovery for injuries and damages," and it did not describe it as "normalizing" these costs. While it is true that this six-year rolling average normalizes the actual amounts over time, this methodology was established to deal with an extraordinary event. To specifically "cherry pick" this one year to remove, after this methodology has been consistently applied since its inception, is not warranted. Furthermore, when true "extraordinary" injuries and damages events have occurred, e.g., Avista's "Ice Storm" and "Fire Storm" in past years, the cost of these events have been excluded from the six-year average and dealt with separately, not just excluded, preventing recovery.

c) Restate Incentives 2.13 (Electric and Natural Gas)

Q. Before discussing Public Counsel's proposed adjustment to the Company's Commission Basis Restate Incentive Adjustment 2.13, please first briefly describe the Company's incentive compensation included for recovery in this case.

A. As discussed in my direct testimony at Exh. EMA-1T, p. 47, starting at ll. 12, the Company restates actual O&M incentive compensation expense recorded in 2019 to reflect a six-year average (2014-2019) of actual payouts. The use of a six-year average of payouts is consistent with Staff's methodology approved by the Commission in Dockets UE-170485 and UG-170486. The non-executive Short-Term Incentive Plan (STIP) components and weighting are based on 100% utility operational components split as follows: 50% O & M Cost-Per-Customer, 20% Customer Satisfaction, 20% Reliability Index and 10% Response Time. The Executive STIP

Incentive Plan's metrics are split with utility operational components of 40% - split further as follows: 20% O&M Cost-Per-Customer, 8% Customer Satisfaction, 8% Reliability, and 4% Response Time. The Consolidated Diluted EPS components account for the remaining 60% of the executive plan of their total opportunity. Only the operational components (40%) for the executive STIP are proposed to be included in retail rates. The remaining 60% related to performance-related EPS targets is borne by shareholders and is excluded from the Company's case.

Q. Public Counsel states that incentive program costs are not appropriate to be passed back to ratepayers for three primary reasons: these individuals are already well compensated, performance-based compensation is more prevalent due to tax code, and finally this form of compensation is not as transparent as base salary programs. Do you agree ratepayers should not pay for incentive compensation?[65]

A. No, I do not. First, Ms. Crane's assertion that incentive compensation should not be recovered entirely by rate payers because these individuals are already highly compensated does not take into consideration that Avista operates in a very complex, multi-jurisdictional, multi-service territory and compensates their employees according to the value of the work they perform, and is based on competitive market comparisons. The process of setting compensation is not as simple as "they already make enough" and requires a process that takes into consideration several internal and external factors. I will discuss the setting of base pay later in my testimony. Second, Ms. Crane's assumptions that changes in tax law may have impacted the structure of the executive STIP is inaccurate. The STIP compensation structure has been consistent for several years and has

[65] Crane Exh. ACC-1T, p. 18, ll. 7-20.

not changed in response to any tax law changes. Finally, incentive compensation is as transparent as base salary for at least our executive group given it is publicly disclosed in annual Proxy statements and is reviewed via the Shareholder 'Say and Pay' proposals. Further, the metrics in the Short Term Incentive Plan are not confidential in nature and therefore are readily accessible to internal and external groups, whereas an individual's base salary is based on several internal and external factors, as previously noted, which is kept confidential in order to protect the privacy of our employees.

Q. Ms. Crane goes on to recommend a disallowance of 50 percent incentive for non-executive employees reflecting the O&M component of the STIP, and 100% of the executive compensation, <u>reducing revenue requirement</u> by $2.1 million for electric and $617,000 for natural gas.[66] Is this an appropriate adjustment?

A. No, it is not. Incentive compensation is just one component within overall compensation and does not represent additional compensation over and above what is competitive. Rather, incentive compensation is a method to provide the appropriate competitive level of cash compensation, while controlling costs and keeping employees motivated and focused on measures which provide long-term customer benefits. As such, incentive compensation should not be subject to a different standard than the base salary component of cash compensation, unless the incentive compensation is tied to stock price performance or earnings per share measures. Given that Ms. Crane proposes to allow the 2019 and 2020 labor increases, the restatement of the incentive plan should also be allowed in order to align the components of the cash components of the overall compensation policy. Further, those components with the executive STIP which are

[66] Crane Exh. ACC-5, p. 1 and Exh. ACC-8, p. 1.

tied to stock price or earnings per share are already excluded. The O&M incentive compensation proposed to be removed is not related to these types of measures. The incentive pay at issue in this case is tied to measures such as customer satisfaction, reliability of service, and the level of success by employees at keeping costs low for customers and therefore should be included in this case.

Q. What benefit does the STIP incentive plan provide?

A. Having an at-risk component of the overall compensation plan creates focus for all employees, because a portion of the overall earning opportunity is at risk. Employees, including executive officers, must achieve the goals of the incentive plan for the plan to payout. This tension in plan design helps incentivize and focus all employees on the stated goals of the Company. In order to achieve this pay-at-risk compensation, employees must keep focused on cost control, customer satisfaction and reliability within the system. Avista's existing total compensation plan is designed to retain current employees, while remaining competitive enough to attract new employees. The pay-at-risk component of compensation is not designed to pay out the full incentive opportunity every year, nor is it designed to have no payout for an extended period of time. Pay-at-risk plans are designed to help focus employees on stated goals that benefit the Company and its customers, while at the same time functioning as an integrated component of total compensation.

The costs associated with the Company's incentive plan included in Avista's case, however, is based entirely on metrics related to ratepayers – O&M cost per customer, customer satisfaction, reliability, and response time. None of the metrics included in the Company's adjustment are based on performance metrics such as earnings per share results or common stock performance. Any incentive compensation related to financial results or common stock performance is already recorded as non-utility and is excluded from this case by the Company and borne by shareholders.

Q. Ms. Crane asserts that using benchmarking studies results in "spiraling executive compensation costs".[67] Are benchmarking studies the sole determining factor in incentive compensation?

A. No. The Company does not rely solely on benchmarking data when setting base salaries or incentive compensation. Several internal factors such as individual performance, succession planning, job complexity, experience, and breadth of knowledge are all considered when determining the appropriate level of wages and incentives. It is not always a process based on a scientific step-by-step approach, but often is attributed to factors which cannot be directly quantified such as the value inherent in the "investment" in an executive who has been here for a long period of time, or the value in preserving Company culture by promoting from within. In addition to these internal factors, the Company does utilize external peer group analysis to benchmark against a group of companies with similar business profiles. These companies can reasonably be assumed to be companies with which we compete for talent.

Q. Has the Company consistently been utilizing this methodology?

A. Yes, it has. Since the 2017 general rate case, the Company has used a six-year average of actual incentive payout expense as the basis for the incentive adjustment. Prior to that, for several years, the Company used a six-year average percentage payout. Regardless of the average methodology, this Commission, and parties to each Avista proceeding, have reviewed the

[67] Crane, Exh. Acc-1T, p. 19, ll. 8 – 14.

Company's incentive plans for both executives and non-executives for many years, approving an appropriate level of average incentives, without an arbitrary exclusion as proposed by Ms. Crane. Ms. Crane has provided no evidence in this case to support a change now, and the Commission should deny her unreasonable and unwarranted adjustment to incentives.

d) <u>Pro Forma Transmission 3.00T (Electric)</u>

Q. AWEC witness Mr. Mullins recommends forecasting short-term and non-firm wheeling revenues for the Company based solely upon actual revenues recognized in the 2019 test year[68], rather than using a three-year average as proposed by Company witness Mr. Schlect, increasing <u>system</u> wheeling revenues $811,411, reducing the Company's Washington electric revenue requirement $557,000. Is this adjustment justified?

A. No, it is not. As discussed by Mr. Schlect at Exh. JAS-3T, the Company has consistently included in past general rate cases, pro forma adjustments to OASIS revenues based upon a three-year average, thereby appropriately recognizing volatility in the Company's OASIS revenues, which can be driven by a number of regional load and resource factors including - in this case, a major restriction to the region's natural gas supply impacting 2018 and 2019 revenues.[69] Mr. Schlect further explains that this pipeline restriction was a "unique operational issue that impacted generation resources and electricity markets in the Pacific Northwest, ...resulting in elevated OASIS revenues," and "any recommendation to single out the Company's 2019 test year OASIS revenues as being appropriately representative of the Company's forecasted

[68] Mullins Exh. BGM-1T, p. 33, ll. 4-8.

[69] Schlect Exh. JAS-3T, starting at p. 1, ll. 17. Mr. Schlect explains that on October 9, 2018, a 36-inch natural gas pipeline owned and operated by Enbridge ruptured near Prince George, British Columbia, resulting in pipeline repairs and restrictions that extended for a 14-month period into December 2019. This pipeline rupture and its following restrictions impacted natural gas availability in the Pacific Northwest, including fuel for natural gas generation resources. As a result, immediately following this incident, the Company experienced dramatically increased levels of short-term firm and non-firm (OASIS) transmission service usage.

OASIS revenues during the 2021-2022 rate period would be, respectfully, completely misplaced".[70] Finally, Mr. Schlect quantifies that absent the October 2018 natural gas pipeline rupture, if the wheeling revenue for the impacted months were restated using the maximum revenue ever experienced for each such month going back ten years, the estimated 2019 test year system OASIS wheeling revenues would be only $3,809,137 as compared to 2019 system actuals of $5,473,825 (details are provide in Exh. JAS-4).[71] Therefore, the system three-year average of approximately $4,662,384, as proposed by the Company is reasonable.[72]

e) Proforma Labor Non-Exec 3.04 (Electric and Natural Gas)

Q. Ms. Huang recommends disallowance of the three percent wage increase to the pro forma level of union employee wages and salaries for 2021 due to the status of the union contract. Do you agree with Ms. Huang's adjustment to Pro Forma Labor Non-Executive Adjustment 3.04, removing labor expense of $608,000 electric and $185,000 natural gas?[73]

A. No, I do not. The Company is currently in active negotiation with the IBEW Local #77 on the Collective Bargaining Agreement (CBA) with an expectation for the contract to be out for ballot in early fourth quarter 2021. The Company expects that with ratification, retroactive pay for bargaining unit members will occur upon ratification, as has historically occurred. We have included a similar increase for Union labor in this case, consistent with the salary increases for non-union employees that went into effect March 1, 2021.

Contract negotiations are a careful balance of all compensation components, including salary, incentive, and benefits. The goal of the Company's overall compensation policy is to

[70] Schlect JAS-3T, p. 2, ll. 23 – p. 3, ll. 13.
[71] *Id*. p. 3, ll. 19 – p. 4, ll. 1.
[72] Schlect JAS-2, p. 1.
[73] Huang Exh. JH-1T, p. 12, ll. 5-8.

ensure employees are +/- 15% of the market median when including all components of compensation. Rejecting only one component of compensation is cherry-picking one of the many items contained within the overall contract. Should union wages be lower than market, benefits or incentive would need to be adjusted to ensure comparability with our peers. If Staff is to recommend a disallowance of salary increases, a corresponding increase should be made to benefits in order to ensure a balanced overall compensation package. The 2021 union expense included by the Company totaled $608,000 electric and $185,000 for natural gas. As this pay increase is expected to be approved in early fourth quarter 2021, it is appropriate for the Commission to approve for the rate effective period. Ms. Huang supports the remaining increases in non-executive labor, e.g., 2019 annualized amounts and 2020 increases, for both union and non-union employees, as well as the 2021 non-union labor expense in effect as of March 2021.[74]

Q. Ms. Crane recommends a disallowance for the <u>2021 payroll increases</u> as it extends too far from the test period and thereby violates the matching principle,[75] resulting in a decrease to electric and natural gas <u>expense</u> of $1,510,530 electric and $452,000 natural gas. Does the Company agree with this adjustment?

A. No, it does not. Wage increases of 3% for 2021 for Non-Executives, Non-Union totaling $902,000 electric and $439,000 natural gas were approved by the Board and <u>have been in effect as of March 1, 2021</u>, well in advance of the rate effective period. Therefore, these increases are known and measurable and contrary to Ms. Crane's assertion are consistent with the matching principle in that these expenses are already in effect and therefore revenue would be consistent

[74] See Huang Exh. JH-1T, p. 12, table at ll. 14. The only difference between Ms. Huang and Company non-executive labor expense is 2021 union contract labor increases.
[75] Crane Exh. ACC-1T, p. 22, ll. 10-16.

with those expenses.[76] With regards to union wage <u>expense</u> increases, as described immediately above, totaling $608,000 electric and $185,000 natural gas, they are expected to be approved in early fourth quarter 2021, just prior to the rate effective period, and therefore are appropriate for the Commission to approve for the rate effective period

Further, The Commission has previously held that board-approved non-union wage increases, and union contract increases fulfill the "known and measurable" standard in WUTC rules and therefore should be allowed. The Commission stated in Order 10, in Dockets UE-090134 and UG-090135, p. 44, para. 105, that:

> Staff and Public Counsel generally agree that known and measurable company obligations, such as union wage increases resulting from collective bargaining agreements or <u>non-union wage increases approved by the board of directors, are proper adjustments. (emphasis added).</u>

Moreover, Staff witness Ms. LaRue previously stated in that Docket's hearing transcripts (Dockets UE-090134 and UG-090135 TR. Vol. IX, p.685, ll. 5-11) that union and non-union wage increases approved by the board are obligations of the Company:

> **Q. <u>[Company]:</u>** So the only non-executive wage expense that you've recognized as being an obligation, if you will, of the company is the union, the increases approved in the union collective bargaining agreement which has been approved by the board as well?
> **<u>[Ms. LaRue]</u>**: Correct, and the non-union increases that were approved by the board.

Q. Lastly, Mr. Mullins recommends a disallowance for all non-executive labor increases beyond the 2019 test period, removing $3,267,000 electric and $978,000 natural gas labor expenses resulting from this approximate two-year period, stating wages increases that

[76] The Compensation Committee Board minutes approving the non-union increases were provided to the Parties through discovery by the Company in response to Staff_DR_156C Confidential Attachment A.

have not yet been approved and extend beyond the rate effective date is not reasonable.[77] Do you agree with his assertions regarding non-executive labor?

A. No, I do not. First, as noted above, all but the 2021 union wage increases have been approved well in advance of this rebuttal testimony, and as noted above, the union labor contract for 2021 is expected to be out for ballot in early fourth quarter 2021, and that historically, retroactive pay for bargaining unit members occur upon ratification.

Q. Mr. Mullins further asserts that the accounting data for 2020 does not support Avista's proposal for wage increases in 2020, and references his testimony regarding expenses charged to O&M accounts where he erroneously argues that "most of the wages of union employees are being charged, declined in 2020." He also asserts A&G labor increases charged to FERC account 920 declined by 14% for electric and 20% for natural gas.[78] What do you say about his assertions.

A. Mr. Mullins makes these assertions <u>in error</u>. As discussed in further detail below in response to Mr. Mullins' proposed adjustment "item q.) O&M Expense AWEC 7.02," which the Company also opposes, his analysis is fraught with errors and is incomplete as to the required data necessary to compare 2019 and 2020 data – O&M or otherwise.

In summary, so as to not fully repeat here the explanation below, his analysis of operating and maintenance (O&M) changes excluded certain accounts, double counted others, and excluded administrative and general (A&G) expenses, which resulted in misleading results that the Company's O&M expenses had declined. Similarly, he reviewed FERC account 920 – labor expenses, and assumed labor expenses also declined between 2019 and 2020. This decline in both

[77] Mullins Exh. BGM-1T, p. 50, ll. 6 - 19.
[78] *Ibid*.

O&M expense and in FERC Account 920 - labor expense, can be explained by the fact that in 2019, all labor loadings, including pension and payroll taxes, followed the labor and were expensed in the same account. This means, labor charged to O&M, would also incur all loadings associated with that labor in the same account. Similarly, labor charged to FERC Account 920 (A&G), would also incur all loadings associated with that labor as a charge to 920. However, beginning on January 1, 2020, due to FERC requirements, the Company recorded all pension costs in FERC Account No. 926 – Employee Pension and Benefits and recorded all payroll taxes in FERC Account No. 408115 – Taxes Other than FIT-A&G. Overall, when reviewing the correct complete set of O&M and A&G balances between 2019 and 2020, one can see that Avista's expenses, did indeed, increase.[79] Therefore, Mr. Mullins electric and natural gas non-executive labor adjustments are completely unfounded, and should be rejected.

f) Pro Forma Labor Exec 3.05 (Electric and Natural Gas)

Q. Before responding to Staff testimony related to executive pay, please summarize the Company's Pro Forma Labor Executive Adjustment 3.05.

A. As discussed in my direct testimony at Exh. EMA-1T, starting at p. 57, ll. 16, the Company's executive labor adjustment reflects the change in overall executive labor expense from the 2019 test year to actual salaries in effect beginning March of 2020. No increases for executive labor were included in the pro forma for actual increases that occurred in 2021, or expected in 2022, impacting the rate effective period ending September 30, 2022.

[79] See Table No. 30 – 2019 versus 2020 Expenses, below, comparing Avista O&M and A&G expenses for the 2019 test period versus actual 2020.

Furthermore, since executive salary levels were impacted by the retirement of three executives[80] and subsequent promotion of three other executives,[81] salary levels were based on the actual salaries of <u>active</u> executives at time of filing based on their March 2020 salary levels approved. This salary level was allocated between Utility and Non-Utility based on measured timesheet levels for the 2019 test period (92% utility /8% non-utility), consistent with guidance in Order No. UE-170485. For those Executives who were new in 2020, the union/non-union percentages were estimated based on the previous employee's actual allocation. This resulted in a decrease in the overall level of executive salary expense included in the 2019 test period, by $318,000 for electric and $97,000 for natural gas.

Q. Ms. Huang recommends that the Commission rejects all increases for executive officers between 2019 and 2020, based on lack of "sufficient documentation"[82], resulting in a decrease to electric and natural gas expense of $466,000 and $142,00.[83] Do you believe Ms. Huang's recommendation is reasonable?

A. Not at all. Ms. Huang's assertion that the Company did not provide sufficient support for its executive labor adjustment is inaccurate. The Company responded to all data requests (approximately ten) concerning executive compensation. Specific to job descriptions, given that the Company does not maintain formal job descriptions, Avista was not able to provide such formal documents, as explained in Avista's responses.

---

[80] Scott Morris, Former President and CEO, retired March 30, 2020; Karen Feltes, Former Senior Vice President of Human Resources, retired on March 31, 2020; and Marian Durkin, Former Senior Vice President, Chief Legal Counsel and Corporate Secretary, retired on December 31, 2020.
[81] Dennis Vermillion was promoted to President and CEO on October 1, 2019; Brian Cox was promoted to Vice President, Safety and Human Resources; and Greg Hesler was promoted to Vice President, General Counsel & Chief Compliance Officer in 2020.
[82] Huang Exh. JH-1T p. 13, ln 16
[83] Huang Exh. JH-2, p. 8 and Exh. JH-3, p. 9.

Nevertheless, the Company did provide an overview of the setting of executive compensation in Andrews Exh. EMA-1T which includes the evaluation of internal factors such as individual and Company performance goals, succession planning, job complexity and breadth of knowledge.[84] The Company also provided the external third party compensation consultant benchmarking report[85] prepared by, Meridian Partners LLC (Meridian) which compares our executives against a group of companies with similar business profiles, similar revenue size and market capitalization. These companies were reasonably assumed to be the companies with which we compete for talent. Meridian considers both market data from Willis Towers Watson's Energy Services Executive Salary Survey in tandem with Proxy data from our peer group. This report clearly provides background, analysis and competitive market evaluation on base salary, target annual incentive and long-term incentive. The information is specific to each executive officer and job titles which include well-known, industry standard, responsibilities including for example Chief Executive Officer, Chief Financial Officer, and Vice President of Safety and Human Resources. In addition to the analysis performed by Meridian, the 2020 Proxy data is a publicly available document which contains very detailed information on what is the basis for our executive compensation for 2020, including the top 5 Named Executive Officers. The Proxy contains a "Say on Pay" component which provides an avenue for shareholders to weigh in on the overall compensation structure, including salaries, of our top five Named Executive Officers, providing additional support for the level of wages 2020.[86]

---

[84] The approval was memorialized in the Board Compensation Committee notes provided in the Company's response to Staff Data Response 033. Additionally, in response to AWEC Data Request 057, Avista provided an organization chart demonstrating the level of responsibility for each of the Executives included in the case.
[85] The final analysis / report created by Meridian which benchmark our executives was provided in response to Staff Data Response 08.
[86] In addition, each executive officer responsibilities are described at Avista Corporate's website.

Q. Not only does Ms. Huang recommend rejecting any increases for existing officers who were in leadership roles in both 2019 and 2020, but she also does not take into account the impact of any changes in leadership between 2019 and 2020 – arguing increases of up to 43% were not reasonable.[87] Were there specific changes in the Company's executive labor makeup between 2019 and 2020 that warranted these changes in executive salary levels?

A. Yes, there were several changes in executive leadership between 2019 and 2020. As follows:

1. Scott Morris retired from the Company and was replaced by Mr. Vermillion, who was promoted to President & CEO of Avista Corp, from President of the Avista Utilities. This is a significant increase in responsibility as he is now the top executive at Avista and reports directly to Avista's Board of Directors instead of reporting to the Chairman and CEO. He was significantly below market in pay at the time of his promotion on October 1, 2019, and his pay was increased significantly in 2020 to account for this promotion. He was still well below market on base pay even with the approved increase in 2020. It is also worth noting that Scott Morris retired on March 1, 2020 and his 2019 salary was $861,001 when he was the CEO of Avista Corp. Mr. Vermillion's increased salary at $750,000 was still well below the salary of his predecessor whose salary was deemed justifiable in the previous rate cases.

2. Ms. Rosentrater was promoted from Vice President of Energy Delivery to Senior Vice President of Energy Delivery and Shared Services. Instead of reporting to the President of Avista Utilities, she now reports to the President & CEO. Not only was the breadth of her role increased with the addition of shared services including Human Resources and Safety, but also her level of responsibility increased with the promotion to Senior Vice President. She was also promoted on October 1, 2019, but pay was not adjusted until February 2020. This increase is based on the Meridian market data described above, the same methodology was utilized to determine her 2020 salary increase as Mr. Vermillion.

3. Mr. Cox, Vice President, Safety and Human Resources, responsibilities changed with the retirement of Ms. Feltes, former Senior Vice President of Human Resources. Mr. Cox is now solely and fully responsible for all Safety and HR related strategies, policies and business plans. Mr. Cox was significantly below market and needed an adjustment to get him close to market. He is still below market with the 2020 adjustment. Again,

[87] Huang Exh. JH-1T, p. 14, ll. 9-12.

> the same methodology was utilized to determine market pay for this position as described above for Mr. Vermillion. It is also worth noting that the previous Sr VP of HR had a salary of approximately $378,000 which was previously included and deemed justifiable in the previous rate cases. Mr. Cox's 2020 salary is significantly below his predecessor.

Therefore, as discussed above the reductions as proposed by Ms. Huang, are unfounded, unreasonable and should be rejected. The executive salaries reflected by the Company, however, reflecting 2020 actual levels, are reasonable, reflect the appropriate level for <u>existing</u> officers, and resulted in a reduction from 2019 test period levels of $318,000 for electric and $97,000 for natural gas. The Commission should accept Avista's executive labor as reflected in the Company's direct and rebuttal case.

g) <u>Pro Forma Employee Benefits 3.06 (Electric and Natural Gas)</u>

Q. Before responding to Party testimony related to employee benefits, please summarize the Company's Pro Forma Employee Benefit Adjustment 3.06.

A. The Pro Forma Employee Benefit Adjustment 3.06 proposed by the Company is a summation of individual estimates specific to Pension and Post-Retirement Medical, 401(K) expense, and medical/health insurance expense. The Company bases these estimates on information obtained through consultation with independent third-party evaluators for medical expense (Willis Towers Watson and Meridian) and retirement expenses (Willis Towers Watson). As discussed above in Section IV. item "f) 3.06 Pro Forma Employee Benefits," consistent with previous general rate cases, the Company updated its proposed benefit adjustment during the process of its case. This case is no exception. As discussed above, Avista has revised its employee expenses to reflect 2020 actual benefit expense as this final information is known and measurable.[88] The Company has consistently utilized the same methodology in estimating the pro forma benefit expense in general rate cases in its last several rate case (at least since 2012). The net impact of the benefit adjustment, as updated to actual 2020 expenses on rebuttal, is an increase to expense of $1.2 million electric and $372,000 natural gas above 2019 test period levels. The explanation of the cause of these increases is discussed in my direct filed testimony at Exh. EMA-1T, pages 58 - 62.

Q. Ms. Huang recommends the Commission disallow the Company's pro forma benefits adjustment based on the fact "projections have resulted in overestimating of its employee benefits expense in every one of its general rate cases since its filing in Docket No. UE-140188 and UE-140189."[89] Is there a consistent overstatement of pro-forma estimates?

A. No, there is not. Ms. Huang's analysis is inaccurate given it is based on the initial pro forma estimates, rather than the <u>final approved pro forma</u> levels in previous general rate cases. Pro forma estimates are based on the <u>best information available at the time</u> of filing its direct case. Through the pendency of the case, the Company updates the pension and post-retirement medical portion of the benefit adjustment to reflect any updates received. This update is anticipated and is noted in direct testimony in each of our general rate cases. Therefore, there is an <u>expectation by the Company</u>, and I would <u>expect by the Parties as well</u>, that as information becomes available during the process of the case, Avista would update its case adjustments up or down to reflect any known and measurable information. For example, Avista finalized its revenue requirement in late September 2020 for filing on October 31, 2020, twelve months in advance of its proposed effective

[88] The Company provided this update in response to Public Counsel Data Request 315, as well as provided similar information in response to Data Request Staff Supplemental 016. See Exh. EMA-10, pages 18-22.
[89] Huang Exh. JH-1T, p. 16, ll. 1 - 3.

date of October 1, 2021, and over four months prior to receiving final 2020 actual results of operations for its Washington jurisdiction. Nonetheless, it has updated its benefit results to actual 2020 prior to the filing of this rebuttal.[90]

Q. Did Avista recognize the fact that certain data was not available to it at the time of filing its direct case?

A. Yes. In several instances, I or other witnesses noted within their testimony that data was not yet available, and that the Company would update its adjustments as additional information became available during the process of the case, such as in my direct testimony supporting the Company's Pro Forma Employee Benefits (3.06), Pro Form Insurance Expense (3.07) adjustments, and certain capital storm costs included in Pro Forma 2020 Capital (3.12), for example.[91] I, or other witnesses, also footnote, when it occurs, where a correction becomes known prior to filing, but after completion of the Company's revenue requirement, that the Company will correct such items during the process of the case, such as the Gantry Crane correction identified in electric Restate 2019 AMA Rate Base to EOP Adjustment (2.19) discussed above.[92] This is consistent practice with each general rate case I have participated in over the last twenty-one years, and I believe is expected by the Commission.

[90] Ms. Huang's analysis is also flawed in that she is doing an apples-to-oranges comparison - not comparing the same time periods. For instance, for Case No. UE-140188, she is comparing the Company's pro-forma for the calendar year 2015 to the test period actuals 12-months ending September 30, 2014 included in UE-150204. Huang Exh. JH-1T, p. 16, ll. 8-12.
[91] Examples in Andrews direct, see Exh. EMA-1T, page 62, lines 12-14, and 20-21; page 65, lines 19-22; page 70, footnote 49.
[92] See Andrews direct, Exh. EMA-1T, page 50, footnote 37.

Q. Ms. Huang compares year-over-year proposed employee benefits expense levels versus actual levels, and argues based on her analyses, that "the takeaway from these pro forma versus actual employee benefits expenses" is that "Avista has overestimated its employee benefits by a total of $16.8 million. Therefore, Avista's rate payers have overpaid $16.8 million since its 2014 general rate case."[93] Is this statement accurate?

A. No, it is not. As noted above, where the Company files its direct case, it discusses in testimony that it will update its benefit information during the process of the case, and does so. That said, there still may be differences in the Company's <u>as-filed</u> balances, from that <u>updated</u> during the pendency of its case <u>and approved</u> by the Commission, and different again still from the <u>actual</u> balances that take place during the rate effective period set by those new rates. This is evident by the data shown in Table No. 20 below.

<u>Table No. 20 – Annual System Benefit Costs – Approved versus Actual</u>

Annual System Benefit Costs - Approved versus Actual					
Rate Case	Pro-Forma Year	System Approved Pro Forma	Actual	(under)/over	Estimated O&M 57%
140188	2015	$ 57,021,009	$ 62,819,163	$ (5,798,154)	$ (3,304,948)
150205	2016	$ 62,892,000	$ 70,405,510	$ (7,513,510)	$ (4,282,701)
160228	2017	$ 62,892,000	$ 66,083,301	$ (3,191,301)	$ (1,819,042)
170485	2018	$ 69,090,986	$ 63,276,059	$ 5,814,927	$ 3,314,508
no case	2019	$ 69,090,986	$ 67,378,252	$ 1,712,734	$ 976,258
190485	2020	$ 70,650,000	$ 69,382,074	$ 1,267,926	$ 722,718
Net over (under) collected from customers 2015 - 2020 (System)					$ (4,393,205)

The Table No. 20 above, shows two important facts: First, the Company did not over collect, and rate payers did not overpay "$16.8 million since its 2014 general rate case" as professed by Ms. Huang. In fact, although the balances have varied both over and under between

[93] Huang, Exh. JH-1T, p. 17, ll. 10-16.

approved and actual levels in any given year, the net effect is an under collection from customers over the six-year period 2015 – 2020 of approximately $4.4 million on an O&M expense level.[94]

The second important fact is that balances approved in each case for the rate-effective period may be based on actuals of the historical test period, or even the next year expected balances before rates go into effect (based on third party actuarial reports); and therefore, no matter how accurate the estimates or even actual balances used to set the pro forma benefit amount, approved benefits will inevitably vary from actual expense levels in the rate effective period. That is the consequence of regulatory lag, which in some years, can work either for or against, the customer. The only way to prevent such a difference in approved amounts set by the Commission, and actual expenses recovered from customers, is to create a pension and post-retirement medical tracker that tracks these costs, and charges customers accordingly. Ms. Huang's proposed removal of Avista's benefit adjustment, therefore, is not supported.

Q. Have other Parties to the case proposed revisions to the Company's Benefit Adjustment?

A. Yes. As noted above, Ms. Crane recommends the Commission accept the 2020 actual employee benefit costs. Ms. Crane did not have our response to Data Request PC 315 at the time of her testimony; however, she noted that once provided she was not opposed to the Commission utilizing the actual 2020 employee benefit costs.[95] Mr. Mullins made no recommendation in regard to the Company's pro forma benefits adjustment.

[94] For simplistic purposes, Avista used a consistent approximate estimate of 57% expense / 43% capital.
[95] Crane Exh. ACC-1T, p. 24, ll. 11-19.

h) <u>Pro Forma Insurance Expense 3.07 (Electric and Natural Gas)</u>

Q. Before responding to Party testimony related to Pro Forma Insurance Expense Adjustment 3.07, please remind us of Avista's position on rebuttal.

A. As discussed above, the Company, in response to Data Request Staff 044 Supplemental (provided as Exh. EMA-10, pages 23-28), has updated its pro forma insurance expense to reflect actual 2021 prepaid invoices (reduced by 10% of D&O Insurance per Dockets UE-090134 and UG-090135), resulting in an increase in insurance levels above 2019 test period levels of <u>$2,456,000 for Washington electric and $279,000 for Washington natural gas ($8.69 million on a system basis).</u> As described in my direct filed testimony (Exh. EMA-1T, starting at p. 63), the largest drivers of increased insurance expense are a result of large jury settlements and increased wildfire exposure risk driving premiums higher.

Q. Starting with Ms. Huang, she recommends removal of the Company's Pro Forma Insurance Adjustment 3.07 in its entirety because "As with employee benefits expense, Avista has a history of overestimating its level of insurance expense."[96] Is her recommendation reasonable?

A. No, it is not. Consistent with her review of employee benefits, Ms. Huang's analysis of prior case activities is inaccurate and once again uses as-filed estimates, ignores updated information by the Company during the process of those cases and what was approved by the Commission, and mismatches year-to-year comparisons. More importantly, she ignores my direct testimony <u>in this case</u> describing the drivers of estimated increases, ignores that insurance

[96] Huang, Exh. JH-1T, p. 20, ll. 1-3.

brokers were warning the Company of pending significant insurance premium increases expected for 2021, and ignores the actual information provided by the Company during discovery.

As discussed above, the Company made it very clear in its direct testimony, that the Company would update its balances after actual invoices had been received in December 2020 and after March 31, 2021, which it did on January 1, 2021 in response to Data Request Staff 044 - for all but an incremental $107,000 of additional reductions related to D&O insurance, which was later provided to Parties on April 26, 2021 in Staff 044 Supplemental. The Company's intent was not to purposefully overstate its insurance premium expense, but it had to project some level of these costs based on what it knew at the time it prepared its filed adjustment in September 2020, a full three months prior to receiving its main invoices in December 2020.

While it is true the estimated premiums as filed by the Company were less than had been expected, actual policy premium invoices prepaid for 2021 were 89% higher than 2019 levels. Ms. Huang, however, ignores this fact, and instead argues that since a six-year average of the past 6 years of insurance premiums (2014-2019) were similar to 2019 levels, 2019 test year levels is more representative of rate year insurance expense.[97] This makes no sense. Actual invoices already prepaid for 2021, which are known and measurable, are reflective of current insurance markets today, and are more representative to rate year insurance expense.

Adding to Ms. Huang's table[98] of actual insurance expense, one can see in Table No. 21 below, that insurance expense increased by 18% between 2019 and 2020, and an incremental 61% in 2021, or 89% from 2019 to 2021.

[97] Huang Exh. JH-1T, p. 23, ll. 14 – p. 24, ll. 13.
[98] Huang, Exh. JH-1T, p. 23, ll. 15.

Table No. 21 – Actual Prepaid Insurance Expense 2014 - 2021

System Insurance Expense - 2014 - 2021 (000s)								
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Annual Prepaid	$4,999	$5,106	$4,971	$4,714	$4,589	$4,591	$ 5,409	$8,691
Annual Change		2%	-3%	-5%	-3%	0%	18%	61%
							2021 versus 2019	89%

Q. Have other Parties to the case proposed revisions to the Company's Insurance Adjustment?

A. Yes. Both Mr. Mullins[99] and Ms. Crane[100] adjusted insurance expense by the data provided in the original data response to Staff 044, prior to the supplemental response provided in April 2021. So, both results would be slightly overstated compared to Avista's, which reflect the incremental reduction to expense of $52,000 electric and $16,000 natural gas for revised D&O insurance. Ms. Crane also applies a second adjustment, removing 50% of D&O Insurance, rather than the 10% reduction already removed by Avista.

Q. Is it reasonable for Ms. Crane to remove 50%, rather than 10% of D&O insurance?

A. No, it is not. Ms. Crane argues that she removes 50% of D&O insurance to be consistent with the Company's adjustment to exclude 50% of Directors fees and other related Director's costs, and that D&O insurance provides significant benefit to the Company's shareholders and should therefore have a more reasonable allocation.[101] This, however, is not reasonable and is an arbitrary reallocation of utility costs to shareholders, who already absorb the

[99] Mullins Exh. BGM-1T, p. 44, ll. 22 – p. 45, ll. 2.
[100] Crane Exh. ACC-1T, p. 25, ll. 8-13.
[101] Crane Exh. ACC-1T, p. 25, ll. 14 – p. 26, ll. 5.

appropriate allocation percentage as decided by this Commission in Dockets UE-090134 and UG-090135.

The Company has consistently applied the reduction of 10% for D&O insurance since ordered by the Commission in Docket Nos. UE-090134 and UG-090135, Order 10, where in reference to a 90/10 sharing for D&O insurance, the Commission stated:

> D&O insurance is a benefit that is part of the compensation package offered to attract and retain qualified officers and directors. Accordingly, it makes sense to split the costs in the same manner we require other elements of their compensation to be shared. Based on the formula currently used to allocate officer compensation between ratepayers and shareholders, this results in 90 percent of the costs being included for recovery in rates. (emphasis added) (Order No. 10, p. 56, para. 137)

Whereas, in this same Order No. 10, at p. 58, para. 141-142, the Commission also ordered the 50% / 50% split for Director Fees and meeting costs, as follows:

> *Commission Decision.* This disputed issue is similar in some respects to the disagreement over D&O insurance adjustments. The evidence of record regarding Directors' fees and Directors' meetings also supports the conclusion that the activities of the Board are essential to the function of the utility and its access to capital markets and therefore serve to benefit both shareholders and ratepayers. Both Staff and Public Counsel agree with the Company that the Board is necessary and that its expenses are a necessary cost of doing business.
>
> The Company asserts that all of these costs should be borne by ratepayers or that, at most, there should be a 90/10 sharing. In our analysis of D&O insurance costs, we focused on the point that it is part of the officers' and directors' compensation package, necessary to attract and retain qualified management. In contrast, our focus here is on Board activities and expenses incurred during the year, many of which are shown by the record to not provide ratepayer benefit. The record supports a finding that the Board of Directors provides services that benefit shareholders to the same extent those activities benefit ratepayers. Therefore, we determine Directors' Fees and Meetings costs should be shared equally between shareholders and ratepayers. (footnotes omitted; emphasis added)

As noted above, this Commission fully vetted this issue in Docket Nos. UE-090134 and UG-090135. Nothing has changed to warrant Public Counsel's proposed change from 90/10 sharing to a 50/50 sharing.

i) Pro Forma IS/IT Expenses 3.08 (Electric and Natural Gas)

Q. Before responding to Party testimony related to Pro Forma IS/IT Expense Adjustment 3.07, please remind us of Avista's level of IS/IT expense included by the Company.

A. As discussed in my direct testimony, the Company increased Information Services / Information Technology (IS/IT) expenses above 2019 test period levels, by including incremental costs primarily associated with contractual agreements in place, pre-paid costs, or the continuation of costs for products and services that have increased beyond the 2019 historical test period associated with products and services, licensing and maintenance fees, and other costs for a range of information services programs. These incremental expenditures are necessary to support Company cyber and general security, emergency operations readiness, electric and natural gas facilities and operations support, and customer service. Mr. Kensok sponsors this adjustment and discussed these increased expenses within his direct testimony at Exh. JMK-1T. The incremental expenses as pro formed by the Company reflect an increase in system expenses of $1.963 million for 2020 and $1.913 million for 2021 of known and measurable expenses – reflecting contractual changes, including prepaid items, or known inflation adjustments built into existing contract. The impact to expense for Washington electric and natural gas totaled $2,013,000 and $624,000 respectively.

Q. Have the Parties to the case proposed revisions to the Company's Pro Forma IS/IT Expense Adjustment 3.07?

A. Yes. The Parties propose to reduce Pro Forma IS/IT expenses as follows:

1. Ms. Crane accepts Avista's 2020 incremental expenses. However, she excludes the 2021 incremental expense, arguing the Company had reached too far beyond the 2019 test period.[102]

2. Mr. Mullins accepts the Company's 2020 incremental expenses, since as he notes, per Avista's response to AWEC Data Request 80, Avista provided detailed IS/IT expense information showing Avista's actual 2020 IS/IT expenses were higher than included in its pro forma adjustment. However, he reduces the 2020 expenses for invoices associated with the vendor "Salesforce" of $414,087, which he states may have been for the benefit of a subsidiary, and he was unable to tie a purpose for benefiting customers. He also explains he removes all 2021 incremental expenses arguing they are forecasted and do not meet the known and measurable standard.[103]

3. Ms. Huang proposes to use 2019 test period levels, because she believes Avista "habitually overestimates IS/IT expenses" and "rate payers then overpay for something that was never implemented."[104]

I will discuss each of these concerns in turn, below.

Q. With regards to Ms. Crane, are these expenses too far beyond the 2019 test period?

A. No. the Company limited its pro forma expenses to known and measurable expenses that were contractual or prepaid well before the rate effective date. To exclude the 2021 expenses would significantly understate the IS/IT expenses, especially when the Company did not

[102] Crane Exh. ACC-1T, p. 26, ll. 15-17. Ms. Crane's adjustment reduced her revenue requirement by $1,000,000 electric and $305,000 natural gas.
[103] Mullins Exh. BGM-1T, p. 45, ll. 15 – p. 47, ll. 3. Mr. Mullins' adjustment reduced his revenue requirement by $1,028,000 electric and $356,000 natural gas.
[104] Huang, Exh. JH-1T, p. 28, ll. 8-15. Ms. Huang's adjustment reduced her revenue requirement by $2,105,000 electric and $653,000 natural gas.

include further expenses expected, but not contractual at this time, during the rate period ending September 30, 2022.

Q. With regards to Mr. Mullins, please discuss your concerns with his pro forma IS/IT adjustment.

A. With regards to 2021 increased expenses, similar to my comments directed at Public Counsel, the 2021 expenses added were for known and measurable expenses - they were not forecasted balances. With regards to the vendor Salesforce, if Mr. Mullins would have reviewed Mr. Magalsky's direct testimony at Exh. KEM-1T, starting at page 21, he would have learned that Salesforce was the vendor selected through a request for proposal (RFP) that was conducted to select the systems, including the underlying technology to accomplish the objectives of the Company's overall Customer Experience Platform (CXP) project. The master agreement with Salesforce was signed in October 2018. Clearly, this project is not related to an Avista subsidiary, and directly benefits Avista's utility customers.

Q. Turning now to Ms. Huang's criticisms. Is her argument that Avista "habitually overestimates IS/IT expenses" and "ratepayers then overpay for something that was never implemented," credible?

A. No, it is not. Consistent with her review of employee benefits, insurance and property taxes, Ms. Huang's analysis of prior case activities is inaccurate, and uses as-filed estimates from different GRCs which use different methods and time periods between cases, mismatching year to year comparisons. More importantly, she ignored my direct testimony <u>in this case</u> explaining that the incremental increases were specific to known and measurable contractual increases. Finally, she ignores the <u>actual</u> information provided by the Company during discovery.

Without outlining all her arguments, I will highlight my concerns with her analysis, as follows:

1. Ms. Huang compares different as-filed (pro forma) amounts from one GRC or point in time, that does not align with the actual data period she then uses to compare, i.e., does not produce accurate "apples" to "apples" of year-over-year comparisons.
2. Ms. Huang's analysis does not take into consideration the information in prior filings based on filed analysis and testimony, nor otherwise understands the differences between filed cases and actual circumstances that occurred during the "actual" period in question. This also leads to a "mismatch" of data compared.
3. Ms. Huang's analysis fails to recognize that in early years (prior to 2019), the Company used comparisons of total IS/IT costs from test period levels to rate period levels, to show the overall growth in IS/IT costs, but only projects the non-labor increases.[105] However, in later years (2019 and 2020 GRCs), based on criticism of Parties of its methods, the Company to use a subset of data focusing on contracts and other prepaid arrangements that would be known and measurable, excluding labor, and non-labor budgeted items. Changes over time, both in the adjustment themselves, or within the make-up of the IS/IT expenses, make her analysis difficult at best without fully understating the data being compared.

Specific examples of the issues with her analyses are as follows:

[105] Labor IS/IT expenses are typically excluded from pro forma IS/IT adjustments because all labor is separately pro formed in Pro Forma Non-Exec Labor adjustments in each case, unless, as occurred in certain years, there were supportable incremental labor bodies for a specific major IT project that were added beyond the test period. There were a few years when this occurred, and the Commission approved those increased labor expenses.

First, in the 2014 GRC, test period ending June 2013, the Company pro formed increases for the 2015 rate period, using an attrition study (based on historical actuals), with a pro forma study provided as additional support of its costs. The pro forma study provided estimated non-labor IS/IT expense amounts for the 2015 time period – providing 2014 and 2015 increases.[106] In the 2015 GRC, test period ending September 2014, the Company pro formed increases for the 2016 rate period, using an attrition study (based on historical actuals), with a pro forma study provided as additional support of its costs. The pro forma study provided estimated non-labor IS/IT expense amounts for the 2016 time period – providing a 2016 increase only.[107]

In both these cases she references[108], there is a mismatch of comparing the pro forma estimates, which she assumed was approved by the Commission, versus actual costs. What Ms. Huang does not even attempt to do is to reconcile the non-calendar test period results with what the Commission approved, versus actual IS/IT costs in either year. Nevertheless, the balances she uses for comparison between cases do not compare with what actually happened. For example, as can be seen in Table No. 22 below, Ms. Huang assumes there was an overstatement of IS/IT expenses of $861,099 approved by the Commission compared to what she says actually happened for calendar 2014, based on information provided in the above cases.

[106] Dockets UE-140188 and UG-140189, Exhibit No. EMA-1T.
[107] Dockets UE-150204 and UG-150205, Exhibit No. EMA-1T.
[108] Huang Exh. JH-1T, p. 25, ll. 13-20.

Table No. 22 – Comparison of Ms. Huang 2014 IS/IT Costs versus Actual

UE-140188		2014
Huang	Pro Forma UE-140188	$ 1,693,445
(Exh. JH-8)	2014 Actual	$ 832,346
	Huang difference - assumed overstated	$ 861,099
Actual	Pro forma Incremental Non-Labor UE-140188	$ 1,693,445
	Actual incremental Non-labor 7/2012-6/2014	$ 3,231,095
	Avista Actual Under Recovered Non-Labor	$ (1,537,650)

However, when one compares the 2014 pro forma IS/IT adjustment expense versus actual IS/IT expenses for the comparable time period ending June 2014 as shown in Table No. 22 above, the results are quite different – an understatement of $1.5 million. The actual difference, however, of that collected from customers is not actually known as the approved balance was based on an historical attrition analysis, and therefore is not shown here. The point here, is that Ms. Huang is comparing the pro forma amount to an incorrect actual data set, resulting in inaccurate results.

In the next example, the 2016 GRC[109], the Company pro formed increases for the 2017 and 2018 rate periods, using an attrition study (based on historical actuals), with a pro forma study provided as additional support of its costs. Whereas in the 2017 GRC[110], the Company pro formed increases for the rate period effective May 2018, using an attrition study (based on historical actuals), with a pro forma study provided as additional support of its costs. Again Ms. Huang attempts to compare years of data between cases that do not necessarily line up properly, and therefore shows inaccurate results.[111] Since Ms. Huang chose to do this historical review, if she had reviewed not only the IS/IT adjustments, but also the testimony provided in the prior cases,

[109] Dockets UE-160228 and UG-160229, Exh. EMA-1T.
[110] Dockets UE-170485 and UG-170486, Exh. EMA-1T.
[111] Huang Exh. JH-1T, p. 26, ll. 1, p. 27, ll. 3.

she would have known that to do a proper annual comparison would have required a review of total IS/IT labor and expense annually from year-to-year. Instead, Ms. Huang fails again to compare "apples" to "apples" data when making her criticism of Avista's prior case pro forma adjustments.

In the last example, Ms. Huang compares Avista's 2017 GRC, which pro formed adjustments to the 2018 rate period, with Avista's 2019 GRC that was based on a 2018 test period. In this example, she cites that in Avista's 2017 GRC, Avista pro formed a 2018 rate period level of $20,503,092. Whereas, in Avista's 2019 GRC, Avista's actual test period level results showed IS/IT expenses of only $11,440,101.[112] However, the Company's data sets did not match between the two GRCs. Ms. Huang's analysis fails to recognize that in the 2017 GRC the Company provided total IS/IT costs from test period levels to rate period levels, to show the overall growth in IS/IT costs, but only projects the non-labor increases.[113] However, in later years (2019 and 2020 GRCs), based on criticism of Parties of its methods, the Company used a subset of data focusing on contracts and other prepaid arrangements that would be known and measurable, excluding labor, and non-labor budgeted items.[114] Changes over time, both in the adjustment themselves, or within the make-up of the IS/IT expenses, make her analysis unusable and difficult to follow, and evidences a clear lack of understating of the data being compared. This can be shown in Table No. 23 which compares Ms. Huang's analysis, with the actual analysis of total IS/IT non-labor expenses in 2018.

[112] Huang Exh. JH-1T, p. 27, ll. 4 - 15.
[113] UE-170485 and UG-170486, Exh. EMA-1T.
[114] UE-190334 and UG-190335, Exh. EMA-1T.

Table No. 23 – Comparison of Ms. Huang 2014 IS/IT Costs versus Actual

		2018	
Huang	Pro-Forma Non-Labor for 2018 outer year	$ 20,503,092	UE-170485
(Exh. JH-8)	Claimed actuals provided in 2019 case (a subset of actuals)	$ 11,440,101	UE-190335
	Huang difference - assumed overstated	$ 9,062,991	
Actual	Pro-Forma Non-Labor for 2018 outer year	$ 20,503,092	
	Actual 2018 total Non-Labor Actuals	$ 21,945,889	
	Avista Actual Under Recovered Non-Labor	$ (1,442,797)	

As can be seen in the table above, rather than an overstatement of IS/IT expenses Ms. Huang argues Avista over collected from customers in 2018 over $9 million, whereas the Company actually under collected it's IS/IT expenses from customers by approximately $1.4 million. Ms. Huang mistakenly uses this same inaccurate analysis to arrive at Avista's pro formed level of expenses in this case.

Ms. Huang during her "analysis" used incomplete data, with no thought to circumstances that occurred in each case, or circumstances in each actual year for which she compares prior period filed case information, to what she inaccurately outlines as the actual period data in the future. Furthermore, when a Company files its case, it is ascertaining expected costs based on comparisons from one period - the historical test period, to two years forward – the rate period. Whether actual test period data is used, or pro formed data is used (to represent rate period expense), there will be differences – sometimes up, sometimes down. In the case of IS/IT expenses, with the cost pressures on IS/IT the utility industry is experiencing, those differences are almost always up year-to-year. Ms. Huang does not accurately represent the IS/IT expenses activity over the time period and her analysis should be rejected.

j) Pro Forma Property Tax 3.09 (Electric and Natural Gas)

Q. Before responding to Parties' testimony related to Pro Forma Property Tax Expense Adjustment 3.09, please remind us of Avista's position on rebuttal.

A. As discussed above, the Company, in response to Data Request Staff 049 Supplemental (provided as Exh. EMA-10, pages 29-38), has updated its pro forma property tax expense to reflect property tax assessments Avista received in December 2020 (Idaho) and April 2021 (Washington). As noted in its filed case, the increase in property taxes in 2021 over the 2020 actual expense level is due to property additions taxed at existing rates. After reflecting the Idaho and Washington tax assessments, the increase in property expense above 2019 test period levels is $635,000 for electric and $126,000 for natural gas.

Q. Have the Parties to the case proposed revisions to the Company's Property Tax Adjustment 3.09?

A. Yes. Both Ms. Huang[115] and Ms. Crane[116] adjusted property tax expense by the data provided in the original data response to Staff 049, prior to the supplemental response provided on May 10, 2021. So, both their results would be overstated compared to Avista's, which reflect the incremental reduction to expense of $361,000 electric and $131,000 natural gas for revised property tax expense.

Q. Ms. Huang also criticizes Avista for having a pattern of overestimating its property tax expense when the case is filed and then drastically reduces it during the process of the case and uses the last rate case and this rate case as examples. Do you agree?

[115] Huang Exh. JH-1T, p. 33, ll. 9-12.
[116] Crane Exh. ACC-1T, p. 27, ll. 10-14.

A. Ms. Huang is correct that for the most recent two rate cases, Avista's revised estimates used in the final revenue requirement calculation approved by the Commission were less than the original estimate filed in the case. However, Avista takes exception to any suggestion that it purposefully inflates its property tax expense estimates when filing rate cases. Because Avista has always provided updated estimates using the best information available several months after the case was filed, Avista would have nothing to gain by inflating the original estimate.

Q. Please explain the process used to determine the estimates used with filing rate cases.

A. First, it is important to understand the process used by the States to determine Avista property taxes that it will ultimately pay. In general, the annual state property tax assessments are not related to changes in plant investment, financial earnings and cash flows generated by the Company, but Avista's property tax levels are determined by professional assessors performing central assessment analysis for the various Departments of Revenue in the States of Washington, Idaho, Oregon and Montana, where we have physical property. The professional assessors run various economic trending models using published financial information, generally FERC Forms 1 and 2 and SEC 10-K information, as well as cost of capital information from national services. The assessors also incorporate professional judgement during their interpretation of the results of their economic modeling to produce annual assessed values. The central assessments are then allocated down to individual States, and then further down to individual Counties, where numerous tax levy rates are applied to produce the property tax amounts that we are then required to pay those individual county offices. Each State in which Avista operates has its own process and timeline for providing Avista with these assessments.

Avista is continually updating its property tax estimates using the information that each State provides throughout the year. While Avista makes every effort to estimate future changes to property tax expense, the fluctuations are not always determinable, due to the process the States use to determine the tax. When Avista prepares a general rate case, the estimates use the most current information at that time, knowing that new information will be received during the pendency of the case.

Q. What other factors have impacted Avista's determination of the estimates provided in the last two cases?

A. The States in which Avista operates have had some material fluctuations over the past several years of assessed taxes Avista has paid. Table No. 24 below shows the actual expenses between 2016 and 2020 for each State, by service.

Table No. 24: Avista Property Taxes

YEAR ASSESSED	2016		2017		2018		2019		2020	
in $000s	Actual	% Change	Actual	% Change	Actual	% Change	Actual	% Change	Actual	% Change
ELECTRIC:										
WASHINGTON	$12,678	-3%	$14,081	10%	$12,863	-9%	$14,134	9%	$13,971	-1%
IDAHO	$5,675	-1%	$6,132	7%	$6,201	1%	$5,979	-4%	$6,157	3%
MONTANA	$9,751	17%	$10,423	6%	$11,168	7%	$11,538	3%	$11,817	2%
OREGON - Transm line only	$11	0%	$11	7%	$13	15%	$13	-4%	$13	5%
OREGON - Coyote Springs II	$2,515	-8%	$2,956	15%	$3,479	15%	$3,281	-6%	$3,517	7%
SUBTOTAL ELECTRIC	$30,629	4%	$33,604	9%	$33,724	0%	$34,944	3%	$35,475	1%
NATURAL GAS:										
WASHINGTON	$2,723	-2%	$3,019	10%	$3,358	10%	$3,564	6%	$3,490	-2%
IDAHO	$1,470	5%	$1,641	10%	$1,766	7%	$1,656	-7%	$1,707	3%
OREGON	$3,184	17%	$3,678	13%	$4,412	17%	$4,225	-4%	$4,564	7%
SUBTOTAL NATURAL GAS	$7,377	7%	$8,338	12%	$9,536	13%	$9,445	-1%	$9,762	3%
TOTAL PROPERTY TAX	$38,007	4%	$41,942	9%	$43,260	3%	$44,389	3%	$45,237	2%

It can be seen that for Washington electric, there was a 10% increase in taxes in 2017 over 2016. Then, there was a drop of 9% in 2018 over 2017. In 2019, there was an increase of 9% over the 2018 level. In 2020, there was reduction of 1% over the 2019 levels. These fluctuations make estimating future property tax levels more difficult.

Q. Based on the information described above, does Avista believe its level of property taxes used in its rebuttal case is appropriate?

A. Yes, we do. Using the most recent estimates with the best information available (that was provided in response to Data Request Staff 049 Supplemental) provides a reasonable level of taxes that it is appropriate to use for setting customers' rates in this case.

Q. Because of the comments made by Staff, does Avista have a proposal to address their concerns?

A. Yes. Avista is proposing that the Commission allow Avista to use a Property Tax Tracker, similar to the method used by Puget Sound Energy (PSE) to recover its property tax expenses. The Commission, in its Final Order in PSE's 2010/2011 general rate case, directed PSE to bring forward a proposal that would allow for property taxes—no more and no less—to be recovered in rates by means of a rider[117]. PSE's Property Tax Tracker, as provided in the Commission's Order 07 (Final Order Granting Petition) in Dockets UE-121697 and UG-121705 (consolidated) and the Commission's Order 07 (Final Order Authorizing Rates) in Dockets UE-130137 and UG-130138 (consolidated) ("Order 07"), includes a mechanism for adjusting rates annually, both up and down, to pass through the cost of property taxes consistent with amounts

[117] 2011/2012 PSE GRC Order ¶143.

PSE pays. Avista would like the Commission to direct Avista to bring forward a proposal for a similar tracker mechanism in its next filed general rate case.

k) Pro Forma 2020 Capital Additions 3.11 – 3.15 (Electric and Natural Gas) / Mullins 2020 AMA Capital (AWEC 7.01) (Electric and Natural Gas)

Q. Before responding to Parties' responsive testimony related to Pro Forma 2020 Capital Additions Adjustment 3.11 – 3.15, please remind us Avista's position on rebuttal.

A. As discussed further by Ms. Schultz, and in response to Data Request Staff 107, the Company updated its 2020 Capital Additions Adjustments 3.11 – 3.15 to reflect actual information for each adjustment through December 31, 2020. The details of each adjustment are reflected in response to Staff 107 Supplemental 3 and have been provided in Exh. EMA-10, pages 39-46.

Specifically, Ms. Schultz sponsors the five Pro Forma 2020 Capital Additions adjustments, reflecting additions that fall into the following categories: Customer at the Center (PF 3.11); Large and Distinct (PF 3.12); Programmatic (PF 3.13); Mandatory and Compliance (PF 3.14); and Short-Lived Assets (PF 3.15). As discussed by Ms. Schultz on rebuttal, these pro formed capital additions, reflect capital projects completed by year-end December 2020 – nine months or more prior to the October 1, 2020, rate effective date. Each of these adjustments reflect the increases in 2020 capital additions, together with associated A/D, ADFIT, and depreciation expense. Ms. Schultz also reflects 2020 retirements on plant-in-service at December 31, 2019, on similar assets, and other O&M savings, as an offset to expense, reducing the overall impact of these adjustments. The overall effect of reflecting these offsets in each 2020 Pro Forma Capital Additions adjustment, reduces the incremental depreciation and O&M expense included in those adjustments by 21% for electric and 16% for natural gas. Further, detailed information supporting these capital additions are included in the direct testimony and exhibits of witnesses Mr. Magalsky (Exh. KEM-1T), Mr. Thackston (Exh. JRT-1T), Ms. Rosentrater (Exh. HLR-1T) and Mr. Kensok (Exh. JMK).

Table Nos. 13 and 14 provided above, summarize the electric and natural gas "As Filed" versus the "Updated" balances per Data Request Staff 107 Supplemental 3 on rebuttal, including the change in rate base, net income and revenue requirement on an individual adjustment basis for each Pro Forma Adjustment 3.11 – 3.15, and in total. The overall reduction in revenue requirement on rebuttal versus the Company's original filing, for Pro Forma Capital Additions Adjustments 3.11 -3.15 for electric total $1.280 million and a reduction of $640,000 for natural gas. The overall reduction to rate base on rebuttal, from that as originally filed, is a reduction of $7.863 million electric and $3.529 million for natural gas.

Q. Have the Parties to the case proposed revisions to the Company's Pro Forma 2020 Capital Additions Adjustment 3.11 – 3.15?

A. Yes. Summary Table No. 25. below recaps the impact to revenue requirement and rate base as proposed by each of the Parties: Avista on Rebuttal; Staff; Public Counsel; and AWEC.

Table No. 25 – Pro Forma 2020 Capital Additions Adjustment 3.11 – 3.15 By Party

Pro Forma 2020 Capital Additions Adjustments 3.11 - 3.15 By Party / AWEC 7.01								
(000s)	Avista Rebuttal		Staff		Public Counsel		AWEC[1]	
	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base
Electric	$ (1,281)	$ (7,862)	$ (9,559)	$ (68,171)	$ (2,134)	$ (7,863)	$ (8,557)	$ (117,900)
Natural Gas	(640)	(3,529)	(2,082)	(12,988)	(851)	(3,529)	(2,803)	(28,126)

[1]Mr. Mullins proposes through separate adjustment AWEC 7.01 to include AMA 2020 capital additions. AWEC balances above reflect his removal of Avista Pro Forma Adjustments 3.11-3.15, and addition of AWEC 7.01.

First, Public Counsel recommends the Commission approve Avista's electric and natural gas actual 2020 plant additions for the five categories in Adjustments 3.11 – 3.15 updated per response to data request Staff Supplemental 3.[118] Any differences between Ms. Crane and Avista with regards to these adjustments reflect differences in proposed cost of capital.

Ms. Higby, however, for Staff, as discussed in Section III. "Capital Additions & Appropriate Level of Rate Base Are Main Drivers of Avista's Need for Rate Relief", part B. above, recommends a substantial reduction to these five adjustments, resulting in a reduction to electric and natural gas revenue requirement of $9.6 million and $2.1 million respectively. Ms. Higby's reduction to electric and natural gas rate base totals <u>$68.2 million</u> and <u>$13.0 million</u>, respectively.[119]

Mr. Mullins, however, proposes the Commission deny Avista's Pro Forma Adjustments 3.11 – 3.15, removing them entirely, and include AWEC Adjustment 7.01 "2020 AMA Capital" instead, resulting in what he believes is total plant on an AMA basis for the 2020 calendar period.[120] The net result of Mr. Mullins' removal of Avista's Pro Forma 2020 Capital Additions Adjustment 3.11 – 3.15, and adding AWEC Adjustment 7.01, on <u>revenue requirement</u> results in an overall reduction of $8.6 million for electric and $2.8 million for natural gas. The impact in net rate base is a reduction of $117.9 million electric and $28.2 million for natural gas.

Ms. Schultz (Exh. KJS-3T) discusses the adjustments as proposed by Staff witness Ms. Higby and AWEC witness Mr. Mullins, explaining that they unreasonably reduce the Company's revenue requirement and rate base in this case related to actual 2020 capital investment, investment that is used and useful and serving customers today, and those adjustments should be denied. As I discuss above in Section III, these adjustments as proposed by Staff and AWEC, if approved by

[118] Crane Exh. ACC-1T, p. 34, ll. 5-8.
[119] Higby Exh. ANH-1T, p. 3, ll. 23 – p. 5, ll. 1.
[120] Mullins Exh. BGM-1T, p. 12, ll. 19-23.

the Commission would preclude the Company from any reasonable opportunity of earning its allowed returns, and go against the Commissions' own policies and recent guidance.

l) Pro Forma AMI Capital 3.16 (Electric and Natural Gas)

Q. Before discussing the Party positions, has the Company proposed a change in its Pro Forma AMI Capital 3.16 Adjustment from that in its direct case?

A. Yes, as discussed above (see Section IV. item j.), the Company updated its AMI adjustment to reflect actual AMI transfers-to-plant through December 31, 2020, and revised 2021 additions, as well as a reduction to natural gas meters as discussed by Mr. Rosentrater and Mr. La Bolle (Exh. HR/LL-1T), resulting in a reduction to revenue requirement of $456,000 electric and $280,000 natural gas. Staff and Public Counsel have accepted these updated adjustments, AWEC did not address this.

Q. As described by Company witness Mr. DiLuciano (Exh. JDD-1T) in his direct testimony and Company witnesses Ms. Rosentrater and Mr. La Bolle in their Joint rebuttal testimony (Exh. HR/LL-1T), the Company has completed its AMI project and has included full recovery in this case. Do other Parties agree?

A. Staff, Public Counsel and AWEC agree that the project is complete, and prudency should be determined in this case, with varying proposals on how the Company should earn on its investment. A summary of those proposals follows:

1. Ms. White (Exh. ALW-1T) supports the Company earning its full rate of return of and on its investment.[121]

[121] White Exh. AIW-1T, p. 10, ll. 6-10. Any difference between Avista and Staff with regards to the AMI investment relates to cost of capital differences only.

2. Mr. Mullins (Exh. BGM-1T) recommends the Commission limit the Company's return on its AMI investment in this case to the cost of debt, until such time more benefits can be demonstrated.[122]

3. Public Counsel witness Ms. Bauman (Exh. SB-1T) recommends the Commission approve <u>no return on</u> the Company's investment in new AMI meters (which includes all new AMI investment), but allows the Company to earn its full rate of return on the deferred costs, until such time that Avista can demonstrate all of the benefits. The deferred costs include the old retired electric meters and natural gas modules and all of the depreciation expense that has been deferred on the new AMI investment over the past several years.[123]

Q. What is the impact of AWEC's and Public Counsel's proposals?

A AWEC removes $3.62 million electric revenue requirement and $1.26 million natural gas revenue requirement. Public Counsel removes $7.02 million electric revenue requirement and $2.72 million natural gas revenue requirement.

Q. What rationale is used to support AWEC's and Public Counsel's proposals?

A. Both Parties indicate that because Puget Sound Energy (PSE) was not allowed to earn a return on its AMI investment in its most recent completed general rate case because maximized benefits had not been demonstrated, Avista should have a similar result.

Q. Do you agree?

A. No, I do not. First, as acknowledged by the Parties, PSE was not anywhere near completion of their meter installation. Avista has virtually completed installing its meters. Second, PSE was not disallowed from earning a return on its AMI investment installed prior to the project being completed. Rather, they were allowed to defer the return, which at least provides them the opportunity to actually earn that return in the future. By way of comparison, <u>Avista was</u>

[122] Mullins Exh. BGM-1T, p. 66, ll. 17-19.
[123] Ms. Crane incorporates Public Counsel witness Ms. Bauman's recommendation (see Exh. SB-1T) to exclude a return on the net book value of the new AMI meters. See Exh. ACC-1T, p. 35, ll. 11-19.

denied the chance to earn a return on its investment the entire four to five-year period Avista was installing the meters, even though the installed meters were used and useful over this time. Avista estimates that, after factoring lower O&M costs and other benefits of the project during this four to five-year period, Avista was denied the return of approximately $17.6 million for electric and natural gas service combined, as shown in Table No. 26.[124]

Table No. 26: AMI Project Lost Return on Investment

AMI Investment Returns During Project Implementation ($000s)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Electric Return on Investment	$ -	$295	$1,785	$4,656	$7,354	$6,141	$20,232
Natural Gas Return on Investment	-	90	561	1,751	2,709	2,245	7,357
Total Return on Investment	-	385	2,347	6,408	10,063	8,386	27,588
Annual Offsetting Benefits	329	420	945	2,449	6,282	6,512	16,937
Less Pro Rated Offsets in Test Period	-	(329)	(329)	(740)	(2,073)	(3,445)	(6,916)
Annual Offsets Excluded from Test Period	329	91	616	1,710	4,208	3,067	10,021
Lost Return, Net of Offsets	$ (329)	$294	$1,730	$4,698	$5,854	$5,319	$17,567

Lastly, Ms. Rosentrater and Mr. La Bolle have demonstrated that, unlike PSE, Avista has demonstrated that it is “optimizing” AMI across multiple “use cases.”

m) Pro Forma Wildfire Plan Expenditures 3.17 (Electric)

See Section VII. “Wildfire Plan Expenditures, O&M Balancing Account, 2021 Deferral and Mechanisms” below, which separately discusses Party positions on pro formed Wildfire Plan capital and expenses, the Company’s Wildfire O&M Balancing Account, and proposed Deferral of Wildfire Plan expenses.

---

[124] Avista recognizes that in Dockets UE-170327 and UG-170328, Avista through an Amended Petition requested deferred accounting treatment that did not include a return on investment. Avista’s Amended Petition was made after receiving feedback (and a Staff memo) that informed the Company that no deferral would be supported if return on investment was included.

n) <u>Pro Forma EIM Capital & Expenses 3.18 (Electric)</u>

Q. Before discussing the Party positions, has the Company proposed a change in its Pro Forma EIM Capital & Expenses Adjustment 3.18 from that in its direct case?

A. Yes. As discussed above (see Section IV. item l.), provided in response to Data Request Staff 107 Supplemental 3 (Exh. EMA-10, pages 39-46), the Company updated its Pro Forma Energy Imbalance Market (EIM) Capital and Expense Adjustment 3.18 to reflect actual transfers-to-plant through December 31, 2020, and updated planned 2021 additions, as well as corrected labor expenses through the rate-effective period. Mr. Kinney supports the Company's EIM capital and expenses in his direct and rebuttal testimonies (Exh. SJK-1T and SJK-13T). The overall impact of this update to EIM Adjustment 3.18 <u>from that filed</u>, increased electric rate base by $3.218 million, and O&M operating expense related to incremental labor costs increased $305,000, resulting in an overall increase to the electric revenue requirement of $926,000.

Q. What position do each of the Parties take with respect to the Company's EIM Expenditure Adjustment 3.18?

A. Staff witness Mr. Gomez[125], Public Counsel witness Ms. Wilson[126], and Mr. Mullins[127] each filed testimony in this case with regards to the Company's proposed recovery of costs associated with joining the EIM and the treatment of potential benefits, recommending removal of the Company's capital and expenses included in adjustment 3.18. Mr. Gomez and Ms.

[125] Gomez Exh. DCG-1T, p. 65, ll. 10-13. Mr. Gomez recommends the Commission implement the same EIM capital and expenses recovery methodology in place for both PSE and PacifiCorp.
[126] Wilson Exh. RSW-1T, p. 3, ll. 8-16. Ms. Wilson states the Commission should mandate that EIM costs be included as a line-item in the annual ERM alongside commensurate benefits, and "Alternatively, if EIM costs are to be recovered in this proceeding, they should be accompanied by an offsetting adjustment to the power cost baseline based on projected EIM benefits."
[127] Mullins Exh. BGM-1T, p. 30, ll. 17-23. Mr. Mullins recommends removal of all EIM expenditures, arguing these costs are too far beyond the end of the test period to be considered as a pro forma adjustment and would be inconsistent with Commission policy without considering corresponding benefits.

Wilson recommend these costs be reflected within the Company's Energy Recovery Mechanism (ERM) in order to match the costs of participating in the EIM with offsetting benefits. The overall impact of removing this adjustment for each party, reduces their proposed net rate base by $9.4 million, and approximately $3.8 million, the variability dependent on their individual proposed cost of capital.[128]

Q. In response to Parties' criticism, what does the Company recommend with regards to EIM benefits on rebuttal?

A. In response to Party testimonies, Mr. Kinney at Exh. SKJ-13T discusses the Company's inclusion on rebuttal of EIM benefits within the Company's pro forma power supply adjustment, reflecting a matching of benefits with Company pro formed capital and expenses.[129]

Because of the uncertainty associated with initial market performance, the Company was not comfortable initially proposing a "benefit" amount to include in the rate period. However, Avista recognizes that it will begin to receive some level of EIM benefits in March of 2022, during the rate period. Upon further review of actual benefits received by other EIM participants, specifically during their first months of operations, the Company now feels it is appropriate to include some EIM benefits as an offset to Power Supply expense in its rate filing. Therefore, the Company proposes to include a $3.4 million (system) value of EIM benefits, representing a pro-rata share of the annual $5.8 million benefits for the seven-month period of market participation.

[128] See Andrews Exh. EMA-7, p. 3 for recap of party revenue requirement and rate base by issue.
[129] I discuss above, in Section IV. item "c.) 3.00P (a) Pro Forma Power Supply (revenue)", the inclusion of the EIM benefits within Pro Forma Power Supply Adjustment 3.00P of $2.221 million Washington share reduces the Company's revenue requirement by $2.323 million.

Q. Does the Company believe the incremental capital and expense associated with joining the EIM are uncertain as suggested by the testimony of Mr. Mullins?[130]

A. No. As discussed by Mr. Kinney at Exh. SKJ-13T, all costs associated with upgrading equipment including meters replacements, measurement transformers replacements, communication network upgrades and generation controls upgrades <u>will be completed and transferred to plant by the end of June 2021</u>. This is required in order to begin marketing testing with CAISO in mid-July. Approximately three-quarters of the equipment upgrades/replacements have been completed, all remaining project designs are completed, and field implementation of remaining projects is on schedule.

In addition, all new market software applications will also be installed by the end of June of 2021 to ensure market testing can begin in July of 2021. Even though the software applications will not transfer to plant until "market go-live" in March 2022, all the application integrations will be complete and functioning prior to market testing beginning in July of this year. The remaining software application costs from July 2021 to market go-live in March 2022, are associated with labor to support market testing, Utilicast consulting costs, hardware/server costs, license costs and vendor professional services, hosting fees, and support fees. The Utilicast consulting costs, hardware/server costs and software license costs are known at this time and included in each vendor contract. The vendor professional services, hosting fees, and support fees are also known as per terms of the contracts, but the actual payments are tied to passing different testing milestones and will be paid accordingly through the EIM go-live date. Finally, all budgeted new positions to support on-going market operations will be hired by September 2021, to support market testing as

[130] Exh. BGM-1T, p. 29, ln. 20.

indicated in the EIM Resource Plan, so the associated costs of incremental labor to support testing are known.

Finally, by including the estimated EIM benefits, reducing overall power supply net expenses, consistent with the pro forma inclusion of capital and expenses, which are known at this time, the "matching principle" set forth by previous Commission orders, and as discussed by Mr. Mullins[131], is being adhered to.

As shown in Table No. 17, above, the amount of capital and expenses included in the Company's rebuttal case reflect $12.6 million of net rate base and $3.4 million of operating and depreciation expense, result in a requested revenue requirement amount of $4.7 million associated with EIM expenditures during the rate effective period. The $3.4 million (system) benefit represents a reduction of $2.2 million to the Washington Power Supply expense and baseline[132] associated with the seven months of EIM operation during the rate period, or reduction in revenue requirement of $2.323 million.

o) <u>Pro Forma Colstrip Capital and Amortization 3.18 (Electric) / SmartBurn Removal PC1 (Electric)</u>

Q. Before discussing the Party positions, please summarize the updates the Company made to Adjustment 3.19 – Pro Forma Colstrip Capital and Amortization.

A. In its original filed case, the Company pro formed the rate base and deferral accounting that had been approved in the Company's last general rate case, Docket No. UE-190334, for its Colstrip investment. In addition, the Company pro formed Colstrip capital

[131] Mullins Exh. BGM-1T, p. 30, ll. 17-23.

[132] As discussed by Mr. Kalich at Exh. CGK-9T, to delineate the EIM benefits in the ERM baseline, the Company will include a separate line for EIM revenues. However, actual EIM benefits will flow through the Company's ERM as revenue to account for benefits received similar to how other resource optimization revenue is accounted for.

additions between January 1, 2020 and September 30, 2022. For those additions, the Company accelerated the depreciation expense over the level approved in the last general rate case, to ensure the capital was fully depreciated by 2025.

As discussed above (see Section IV. item m.), and as provided in response to Data Request Staff 107 Supplemental 3, the Company updated its Pro Forma Colstrip Capital and Amortization Adjustment 3.19 to reflect actual transfers-to-plant through December 31, 2020, and updated planned 2021 and 2022 additions. In addition, the Company updated deferred federal income tax expense associated with Colstrip, since the Company identified it had been double counted in its originally filed case.

In summary, the Company pro formed $6.464 million in capital for the period January 1, 2020 through September 30, 2022. This is a reduction of $5.897 million from the originally filed case. Depreciation expense was reduced $1.127 million and deferred federal income taxes were increased $0.596 million to remove the error in the originally-filed case. A summary of these changes are provided in Table No. 27 below.

Table 27: Colstrip Pro Forma Adjustment Updates

Colstrip Adjustment ($000s)			
	Filed	Revised	Revision to Adjustment 3.19
Colstrip Plant in Service	$ 12,361	$ 6,464	$ (5,897)
Colstrip A/D	(25,563)	(24,654)	909
Colstrip ADFIT	1,863	1,965	103
Colstrip Regulatory Asset	(4,266)	(4,266)	-
Rate Base	$ (15,606)	$ (20,491)	$ (4,885)
Depreciation Expense	$ 3,053	$ 1,926	$ (1,127)
Regulatory Amortization	(2,534)	(2,534)	-
Expense	$ 519	$ (608)	$ (1,127)
Current Tax Expense	$ (109)	$ 128	237
Federal Tax - Debt Interest	81	107	25
Deferred Federal Income Tax Expense	(596)	-	596
Net income	$ 105	$ 374	$ 269

As can be seen in Table No. 27 above, the overall impact of the change in this adjustment, reduces the Colstrip Adjustment 3.19 electric rate base from that filed, by $4.9 million, and increases net income by $269,000. The overall impact of this update reduces the Company's proposed revenue requirement by $837,000.

The resulting balances that remain in the Company's case on rebuttal, reflects an overall decrease in net rate base of $20.5 million, a net reduction to expenses of $608,000, resulting in an overall reduction in the revenue requirement of $2.5 million, compared to 2019 test period results.

Q. Please summarize the capital additions pro formed in the Company's rebuttal case by year of being in service, including the SmartBurn investment at issue in this case.

A. Please see Table No. 28 below for the capital that has been pro formed in the case and the impact to rate base, expense and revenue requirement.

<u>Table No. 28 Pro Forma Colstrip Capital Additions / SmartBurn Detail Included in Test Period</u>

Colstrip Capital ($000s)					
	Pro Formed Capital				Test Period
	2020	2021	2022	Total PF	Smartburn 2016-2017
Gross Plant Additions	$ 3,398	$ 2,498	$ 3,338	$ 9,234	
Colstrip Plant in Service (AMA)	$ 3,398	$ 2,371	$ 695	$ 6,464	$ 2,736
Colstrip A/D (AMA)	(673)	(344)	(346)	(1,363)	(359)
Colstrip ADFIT (AMA)	(280)	(150)	(50)	(480)	-
Rate Base	$ 2,445	$ 1,877	$ 299	$ 4,621	$ 2,377
Depreciation Expense	727	566	633	1,926	122
Expense	$ 727	$ 566	$ 633	$ 1,926	$ 122
Net Income	$ (727)	$ (566)	$ (633)	$ (1,926)	$ (122)
Current Tax Exp	(153)	(119)	(133)	(404)	(26)
Debt Interest	(13)	(10)	(2)	(24)	(12)
Net income	$ (562)	$ (437)	$ (499)	$ (1,497)	$ (84)
Revenue Requirement	**$ 984**	**$ 764**	**$ 689**	**2,437**	**$ 345**

Q. Why is it important for these projects to be included in this case?

A. First, as described by Mr. Thackston at Exh. JRT-12T, Avista is required to perform these capital upgrades to maintain the plant and are therefore prudent investments. Second, the deferral accounting being used to account for Colstrip costs and future decommissioning costs, required Avista to pro form accumulated depreciation and all deferrals out to the rate year, which was a significant reduction to rate base. If the additions during this same time period were excluded, there would be a <u>mismatch</u> between costs and accumulated depreciation that misstates the Company's investment in Colstrip. And lastly, the Company was required to accelerate depreciation expense on Colstrip investment to 2025 in the last general rate case. Because there are less than four years left in which to recover these costs, delaying the recovery of these investments will add significant depreciation expense to the following general rate case, in addition to any new capital added after September 30, 2022.

Q. What have the Parties proposed related to Colstrip in their response testimony?

A. For Colstrip capital additions in 2018 and 2019, no party questioned the prudence of the investment, except a very small portion that was the carryover balance due for SmartBurn for the project completed in 2016 and 2017. A summary of the Parties' positions related to Colstrip capital additions <u>after 2019</u> follows:

1) <u>Ms. Crane</u> recommends including the Company's revised capital additions for 2020 and 2021. The pro formed capital for 2022 would be excluded from this case and the SmartBurn investment would be disallowed.[133] Ms. Crane includes a separate adjustment to reflect the reduction for the SmartBurn removal[134] (which I have labeled PC3 in Exh. EMA-7, p. 3).

2) <u>Mr. Mullins</u> removes most of Avista's adjustment for Colstrip including the deferred accounting components, because he has proposed using AMA 2020 actual rates base in is proposal.[135]

3) <u>Mr. Gomez</u> (Exh. DCG-1T) accepts the Company's updates to its pro forma capital. In addition, Staff removes the pro forma investments for the Dry Ash Disposal System and the 2021 Unit 3 Overhaul. He also recommends disallowance of the SmartBurn investment included in the Company's test period.[136]

[133] Crane Exh. ACC-1T, p. 40, ll. 10-14, and p. 44, ll. 3-6.
[134] Crane Exh. ACC-5, p. 1.
[135] Mullins Exh. BGM-1T, p. 33, ll. 12-16.
[136] As proposed by Mr. Gomez at Exh. DCG-1CT, p. 10, ll. 15 – p. 11, ll. 1, the impact on <u>net plant</u> and revenue requirement of removing Dry Ash and Unit 3 Outage (overhaul) from the Company's pro forma, and SmartBurn from test period adjusted balance, as included in the Company's direct case is as follows: Dry Ash net plant removal of $896,000, revenue requirement of $940,000; Unit 3 Overhaul net plant removal of $1,433,000, revenue requirement of $614,000; and SmartBurn net plant removal of $2,377,000, revenue requirement of $345,000 based on the Company's proposed cost of capital. In addition, as the SmartBurn projects are included in the Company's 2019 test period results, if recovery is denied by this Commission, this would <u>require a write-off</u> of the two projects totaling $2,377,000.

4) Sierra Club witness Mr. Burgess[137] recommends the disallowance of recovery of the SmartBurn investment, accepts Avista's revised 2020 pro formed capital additions, recommends reclassifying the Unit 3 overhaul costs to O&M expense, excludes the 2022 pro formed capital additions, and recommends making the 2021 investment for the Dry Ash Disposal System refundable, if costs are later determined to be imprudent.

Q. What concerns does the Company have related to the proposals from the Parties?

A. First, the Parties do not address the issues of the accelerated depreciation of capital additions after 2020 and the impact of delaying the recovery of those costs on customers. Mr. Mullins' proposal to eliminate the deferred accounting that Avista built into the case for the decommissioning costs and the accounting that was approved in the last general rate case, would introduce a mismatch between the approved accounting and recovery of those costs. Mr. Burgess' proposal to reclassify capital costs to O&M would not follow Generally Accepted Accounting Principles (GAAP) and the Company's capitalization policy.

Mr. Thackston's testimony at Exh. JRT-12T, provides the Company's rebuttal comments concerning the issues raised by the Parties, specifically concerning the capital investments for Colstrip Units 3 and 4, the SmartBurn investment, the Colstrip capital budget and data submitted in this proceeding about the capital budget, as well as other topics including the 2022 Dry Ash System and 2021 Unit 3 overhaul projects. With regards to investments, he discusses that these pro formed capital costs in 2021 and 2022 are projects that are required to be completed to maintain the plant and therefore, should be pro formed in the case. With regards to SmartBurn, Mr. Thackston explains that the Company does not believe it is appropriate to disallow recovery of the

[137] Burgess Exh. EB.-1CT, p. 2, ll. 2-5.

SmartBurn investment which would result in the write-off of this investment of $2,377,000 as of September 30, 2021, and a reduction in revenue requirement of $345,000 based on the Company's proposed cost of capital. Furthermore, the Commission should also bear in mind that the Company has already absorbed approximately $1.4 million of SmartBurn costs associated with the return on investment and associated depreciation relating to this project that went into service in 2016/2017 – but is not yet in rates. It would be especially unfair to add yet another $2.4 million write-off on top of that for a project that was prudent when the decision was made.

p) <u>Substation Rebuild PC2 (Electric) / Grid Modernization PC3 (Electric)[138]</u>

Q. Ms. Crane reflects two adjustments, sponsored by Public Counsel witness Mr. Alvarez, to remove certain capital investments related to Substation Rebuilds and Grid Modernization[139]. Does the Company agree that these adjustments are reasonable?

A. No, it does not. Mr. DiLuciano and Mr. La Bolle address the criticisms raised by Public Counsel witnesses Mr. Alvarez and Mr. Stephens regarding capital investments made in our electric transmission and distribution system, particularly in the areas of Grid Modernization and Substation Rebuilds (see JD/LL-1T). Their testimony demonstrates that Avista's investments in Grid Modernization and Substation Rebuilds have been comprehensively evaluated and prudently incurred, which combined investment for both programs totals $23.1 million[140] and should be properly included in our customers' rates. Table No. 29 below provides the breakdown of net rate base included in the Company's case.

---

[138] The Company labeled these two adjustments as Substation Rebuild PC2 and Grid Modernization PC3 in Andrews Exh. EMA-7, p. 3.
[139] Crane Exh. ACC-1T, p. 38, ll.
[140] Including $11.48 million for Substation Rebuilds (Exh. PADS-1T; page 53; lines 11-14) and $11.27 million for distribution Grid Modernization (Exh. PADS-1T; page 65; lines 4-6), both of which amounts Public Counsel erroneously recommends be rejected by the Commission for any recovery.

Table No. 29 – Substation and Grid Modernization Projects

	Substation Projects				Grid Modernization Project				Total
	2019	2020	Total		2019	2020	Total		Total
Deprec Exp	$ 178	$ 65	$ 243	Deprec Exp	$ 204	$ 61	$ 265		**$ 508**
Plant Cost	$ 7,832	$ 4,831	$ 12,663	Plant Cost	$ 8,354	$ 3,907	$ 12,261		$ 24,924
A/D	$ (231)	$ (64)	$ (295)	A/D	$ (311)	$ (61)	$ (372)		$ (667)
ADFIT	$ (356)	$ (172)	$ (528)	ADFIT	$ (439)	$ (176)	$ (615)		$ (1,143)
Rate Base	$ 7,245	$ 4,595	$ 11,840	Rate Base	$ 7,604	$ 3,670	$ 11,274		**$ 23,114**

As can be seen from the table above, the investment excluded by Public Counsel relates to investment currently in service and benefiting customers in 2019 and 2020. If this Commission were to disallow recovery of these balances, it would require a write-off of this investment on Avista's books and records of approximately $23.1 million. Mr. DiLuciano and Mr. La Bolle discuss why these proposed adjustments are not reasonable and should be rejected by the Commission (see JD/LL-1T).

q) Pro Forma LEAP Deferral Amortization 3.17 (Natural Gas)

Q. Mr. Mullins recommends reducing the Company's proposed amortization expense associated with the LEAP deferral and extending the remaining amortization over a five-year period.[141] Please explain the LEAP Deferral and the Company's position as filed in its direct case.

A. As discussed in my direct case, Exh. EMA-1T, and summarized by Mr. Mullins[142], the LEAP program was originally approved in Docket No. UG-152394, allowing Avista to pay a rebate to natural gas customers for the installation of high efficiency natural gas space and/or hot water heating equipment. The program allowed Avista to defer the rebate amounts for later

[141] Mullins Exh. BGM-1T, p. 48, ll. 16-20.
[142] Mullins Exh, BGM-1T, p. 47, ll. 14 – p. 48, ll. 6.

inclusion in rates. The program was originally approved for a three-year period beginning March 1, 2016 and expired February 28, 2019.

The amortization amount was approved in two tranches corresponding to Avista's 2017 and 2019 general rate cases. First, in Docket No. UG-170486, amortization for the first tranche was approved for amounts deferred over the period April 2016 through March 2017. This amount began amortization in May 2019, over a five-year period, and has amortized approximately two years of this initial balance as of May 2021.[143] Second, in Docket No. UG-190335, amortization was approved for the second tranche of amounts deferred over the period April 2017 through February 2019. This amount began amortization in April 2020, and Avista has amortized approximately one year of this initial balance as of May 2021.[144]

Q. What is Mr. Mullins concern with Avista's approach with regards to the amortization of the two LEAP amortization balances?

A. Mr. Mullins objects to Avista amortizing the deferral balances as two separate tranches, is concerned with the overlap currently of these two amortization periods, and the reduction that will occur once the first tranche expires. He recommends, that given the rate pressure facing natural gas customers, that the Commission order these balances be consolidated in a single amortization string and amortized over a new five-year period October 2021 through September 2026.[145]

Q. Do you agree with this recommendation?

---

[143] Docket No. UE-170485, Order 07 ¶ 253-286 (Apr. 26, 2018), the Commission approved the amortization of the then-deferred balance of $2.9 million as of March 31, 2017 over five years.
[144] Docket No. UE-190335, Final Order 09 ¶ 60 (Mar. 25, 2020), this Commission approved the updated deferred balance of approximately $10.7 million (an incremental amount of $7.8 million), and an additional amortization of the incremental $7.8 million over five-years beginning April 1, 2020 through March 31, 2025..
[145] Mullins Exh. BGM-1T, p. 48, ll. 16-20.

A. No, I do not. The Company has followed the original order by the Commission to recover these balances over the five-year period as ordered by the Commission in Dockets UG-152394 and UG-190335. The fact that the deferral balances resulted in two separate balances that began amortizing at different times, causing there to be two sperate amortization periods, were known by the Commission when it ordered Avista to do so. Furthermore, by the time new rates are in effect October 1, 2021, the Company will have amortized half of tranche one, and over almost one-third of the second tranche. To order the Company to now delay recovery of these balances for an additional five-year period is unreasonable.

r) O&M Expense AWEC 7.02 (Electric and Natural Gas)

Q. Mr. Mullins incorporates a reduction to O&M expense of $10.4 million for electric service and $3.3 million for natural gas service in what he labels as Adjustment AWEC 7.02, as a result of an analysis he prepared comparing 2019 and 2020 O&M expenses. Do you agree with his analysis, and resulting adjustment?

A. No, I do not. In his testimony, starting at Exh. BGM-1T, p. 24, ll. 14, Mr. Mullins discusses his comparison of O&M amounts for the period 2019 and 2020 and shows the result of his analysis in Table 6 of his testimony, which results in a decrease in expenses. As briefly discussed above, Mr. Mullins' analysis was incomplete and poorly prepared, and does not show the actual change in operating costs between 2019 and 2020 for Avista's electric and natural gas operations.

First, his analysis only included a portion of Avista's costs between 2019 and 2020, which did show a large decrease of costs in O&M expenses, as he described. However, in Mr. Mullins analysis he excluded all A&G costs that showed a similarly large increase in costs between 2019 and 2020. The large decrease in costs in O&M that AWEC identified are due to the reclassification of costs between O&M and A&G in 2020. Prior to January 1, 2020, and in the Company's 2019 test period results, when Avista recorded its labor costs, all labor loadings, including pension and payroll taxes, followed the labor and were expensed in the same account. This means those costs followed the functional group of the labor costs and therefore, would be included in O&M. Beginning on January 1, 2020, due to FERC requirements, the Company recorded all pension costs in FERC Account No. 926 – Employee Pension and Benefits and recorded all payroll taxes in FERC Account No. 408115 – Taxes Other than FIT-A&G. Both of these accounts are shown as A&G in the Company's Results of Operations Reports in 2020.

Second, for electric, one account was not included in AWEC's analysis: FERC Account No. 549-Miscellaneous Other Power Generation Operating Expenses. There is no reason to exclude these costs from the analysis. Third, the analysis includes the reduction to meter reading costs. This reduction is due to AMI being implemented and the Company has pro formed this reduction into the case. By AWEC including this reduction in its proposed O&M adjustment, it double counts the reduction of these costs. Fourth, the analysis includes the increase in uncollectible accounts expense that the Company incurred in 2020 due to the COVID-19 health emergency. The Company deferred these costs, therefore, these costs should not be included in this analysis. And finally, the analysis includes the reduction in Customer Assistance Expense. These costs are the DSM and LIRAP amounts collected from customers through a separate tariff. The Company removes these costs from its general rate case balances, therefore, they should be excluded from this analysis. Table No. 30 below, reflects Mr. Mullins's Table 6 balances, corrected for each item discussed above.

<u>Table No. 30 – 2019 versus 2020 Expenses</u>

Avista O&M and A&G Expenses - 2019 verus 2020 (System)			
	2019	2020	Change
Electric			
Production O&M	43,985,652	41,708,139	(2,277,513)
Transmission O&M	9,230,070	7,443,282	(1,786,788)
Distribution O&M	26,746,543	22,661,083	(4,085,460)
Customer Accounts O&M	9,912,519	11,908,557	1,996,038
Customer Service O&M	28,423,928	24,225,240	(4,198,688)
Total O&M Per Mullins (Table 6)	118,298,712	107,946,301	(10,352,411)
<u>Corrections to Mullins Analysis:</u>			
Remove AMI Meter Reading	(2,557,530)	(981,093)	1,576,437
Remove Uncolletible Accounts	(136,763)	(5,838,706)	(5,701,943)
Remove Customer Assistance Expense	(27,397,886)	(23,271,958)	4,125,928
Include Misc. Other Power Gen. Op Expesne	1,555,904	267,145	(1,288,759)
Include A& G Expenses	55,880,188	77,326,342	21,446,154
Correct Comparison of O&M / A&G		Total	**$ 9,805,406**
Natural Gas			
Storage O&M	1,883,262	1,864,977	(18,285)
Distribution O&M	13,669,309	11,795,735	(1,873,574)
Customer Accounts O&M	6,398,047	5,575,280	(822,767)
Customer Service O&M	9,663,655	9,084,811	(578,844)
Total O&M Per Mullins (Table 6)	31,614,273	28,320,803	(3,293,470)
<u>Corrections to Mullins Analysis:</u>			
Remove AMI Meter Reading	(1,669,162)	(648,393)	1,020,769
Remove Uncolletible Accounts	(89,876)	(1,574,271)	(1,484,395)
Remove Customer Assistance Expense	(8,901,554)	(8,438,068)	463,486
Include A& G Expenses	15,696,100	22,378,461	6,682,361
Correct Comparison of O&M / A&G		Total	**$ 3,388,751**

As can be seen in Table No. 30 above, after making the revisions identified above, Avista's O&M/A&G electric costs actually increased $9.8 million and natural gas costs increased $3.4 million in 2020 over the 2019 test period. The increase in costs supports the Company's pro forma increases to various costs in the filed case. AWEC's adjustment to decrease costs are not supported and should be rejected by the Commission.

s) Inter-Corporate Cost Allocations AWEC 7.03 (Electric and Natural Gas)

Q. Mr. Mullins reduces Washington electric expenses approximately $54,000 and Washington natural gas expenses approximately $16,000 related to the allocation of costs to affiliates. In addition, he recommends the Commission order Avista to develop a cost allocation manual.[146] Do you agree with his adjustments and recommendation?

A. No, I do not. Avista makes every effort to properly record all transactions to the appropriate entity/jurisdiction during the year. Due to the size of Avista's operations, with hundreds of employees recording transactions and hundreds of thousands of transactions being recorded, there are instances where expenses may have been recorded improperly – that is inevitable. None of the transaction identified by AWEC, however, should be removed from this case. As will be described below, Avista's process for recording transactions is sufficient and a formal cost allocation manual would be an additional administrative burden that is not necessary.

Q. Before describing Mr. Mullin's specific issues identified in his testimony, would you describe the effort Avista makes to properly record transactions?

A. Yes. The Company has provided Company-wide employee training on the Company's Regulatory Accounting Guidelines and Policies for affected employees, educating employees on the appropriate use of FERC accounts, proper use of expense descriptions, certain accounting policies, and recording of utility versus non-utility expenditures. The Company recently updated its training to an interactive format so the required annual training is monitored.

[146] See Mullins, Exh. BGM-1T, starting at p.51, ll. 17 – p. 55. Ll. 9.

In addition, the Company sends to all employees written reminders to properly label and record transactions (including appropriate utility/non-utility, affiliate transaction, and service and jurisdictional allocations).

All transactions, including both labor and vendor invoices, are reviewed by each employee's supervisor for proper accounting. In addition, Corporate Accounting personnel review transactions on a periodic basis, notifying individual employees or departments of any questionable transactions, requesting they be reviewed and corrected if found inappropriately charged. This same review, for transactions recorded in the base year, was subsequently performed by Regulatory Affairs personnel during the process of preparing the Company's calculation of its revenue requirement in this case, resulting in the Miscellaneous Restating adjustment.[147]

Because there are hundreds of employees recording hundreds of thousands of transactions, some level of errors will inevitably occur. Accounting controls and audits are in place and designed to keep the dollar impact of these errors to a de minimis level. The Company believes it has, and continues to, take steps to minimize the accounting errors found in its test period results.

Q. Please summarize Mr. Mullins concerns related to Avista's affiliated costs assignments.

A. First. Mr. Mullins states that Avista has little or no controls, policies or procedures in place to allocate corporate costs from Avista Corp. to subsidiary entities because Avista does not have a formal cost allocation manual. Avista does not agree. That is "form over substance." While a formal manual has not been maintained, Avista's has a well-documented process for

[147] See Exh. EMA-1T, p. 50, Miscellaneous Adjustment (2.12).

assigning costs to affiliates. Instead of being allocated, relevant costs are directly assigned to non-utility operations or subsidiaries.

Certain officers and general office employees of Avista spend time on corporate service support, such as accounting, federal income tax filing, planning, or incur costs for supplies, postage, legal, graphic services, etc. for subsidiaries. Their time and costs are directly charged to either suspense accounts or directly to the affiliated company and then billed to the subsidiary or directly charged to non-utility FERC accounts. Therefore, there is no need to allocate costs to subsidiaries or non-utility accounts as part of the allocation procedures the Company uses for common costs, because they are all directly assigned.[148]

Avista is required to report annually the transactions with affiliates in Washington. Avista provided the 2019 Washington Affiliated Interest and Subsidiary Transaction Report filed with the WUTC to AWEC in response to AWEC's Data Request 062. That report describes the process for assigning costs to affiliates.

Second, AWEC agrees that Avista has a process to directly assign labor costs to affiliates for executives, but then states that process is not used for non-executives. To make the point, AWEC reviewed a very small sample of employees and stated all of their costs had been assigned to Washington rate payers in error. Avista does not agree. For all of the employees identified by AWEC, all of the employees had costs assigned to an affiliate, based on the actual time spent working at the affiliate. For example:

- Bruce Howard – For Avista Utilities, Mr. Howard is the Senior Director of Environmental Affairs. He is also the President of AJT Mining Properties, Inc., which

[148] One allocation that Avista makes in a general rate case is the allocation of the value of office space and computer equipment to support non-utility or subsidiaries operations. See Andrews' Adjustment 2.07, described in Exh. EMA-1T at p. 48 which describes the calculation based on the hours employees spend on non-utility / subsidiary operations. For this case, the Company removed costs of $75,000 for electric service and $22,000 for natural gas service.

is a subsidiary of Alaska Energy and Resources Company. This entity is an inactive mining company that holds certain properties. During 2019, Mr. Howard had assigned 50 hours of time to this affiliate for the actual worked performed during the year – it was not included in this case.

- Mark Gustafson – Mr. Gustafson is the Director of Innovation and Strategy in the Business Development Department at Avista. He recently became the President of Avista Edge, a wholly-owned subsidiary of Avista Capital that was formed in late 2020 to explore internet solutions in rural communities through partnerships with public electric utilities, like municipalities and cooperatives. In 2019 and the early part of 2020, Mr. Gustafson's labor had been recorded to non-utility. When the new subsidiary was formed in 2020, his labor costs were then recorded as an Avista Edge cost. Therefore, there are no labor costs included in the case for this employee for time he spent working on subsidiary operations.

- The costs included in AWEC's adjustment were proposed to be removed for two employees that report to Mr. Gustafson in the Business Development Department. However, those employees were not working full-time for Mr. Gustafson in 2019. Those employees held jobs in other departments and properly charged that time to Avista Utilities projects and therefore, properly included in this case. For the time those employees spent assisting Mr. Gustafson in 2019 on projects, the labor costs were recorded as non-utility. They also began recording those costs as Avista Edge costs when the new subsidiary was formed.

For the four employees highlighted by AWEC and described above, this analysis supports that Avista accounting system works as intended - it is designed to record costs properly, and systems and training are in place to ensure proper accounting, and Washington customers <u>are not being charged</u> for costs to operate its subsidiaries.

Q. Please continue to summarize Mr. Mullins concerns related to Avista's affiliated costs assignments.

A. The third area AWEC identified to support its theory that subsidiary costs are being paid for by Washington rate-payers relates to costs for operating the Steam Plant subsidiary. A $14 cab ride to the Steam Plant and an $8 parking expense while at the Steam Plant were identified as two examples of Avista using its IT Staff to manage the requirements of the affiliated brew pub and then charging rate-payers. In addition, $5,200 of costs for janitorial services were also highlighted to support this same conclusion. All of these costs were properly recorded, as none of these costs were for the operation of the Steam Plant brew pub.

As described in the Affiliated Interest and Subsidiary Transaction Report Avista files annually and that was provided to AWEC, Avista Development owns the Steam Plant Square. The Steam Plant Square is real estate that includes office space and a restaurant. That restaurant is also operated by a subsidiary of the Steam Plant Square. Avista Utilities has leased office space from Steam Plant Square for years for various utility operating purposes. For example, Avista's Generation Control Center is located at Steam Plant. Each lease has been filed with the Commission and also described in the annual Affiliated Interest Report. The costs identified by AWEC, described above, were for the operations of those leased office spaces, by the Utility, and not the restaurant. Therefore, all of these costs are properly included in this case.

Q. Please summarize Avista's position with regards to AWEC's adjustment.

A. The adjustments proposed by AWEC to reduce Washington electric expenses approximately $54,000 and Washington natural gas expenses approximately $16,000 related to the allocation of costs to affiliates are not appropriate. These costs were proper utility operations costs. Avista agrees that with the sheer number of transactions that are recorded annually, there is a small chance that some costs could be recorded improperly, but Avista has numerous processes in place to limit the number and the dollar impact of these potential errors and picks them up in its "miscellaneous" adjustments. Avista's process for recording transactions is sufficient and a formal cost allocation manual would be a needless administrative burden.

t) <u>AFUDC Deferral AWEC 7.04 (Electric and Natural Gas)</u>

Q. Mr. Mullins recommends a one-year amortization of the electric and natural gas AFUDC deferral balances owed customers[149] through AWEC adjustment 7.04.[150] Do you agree with the amount he recommends is to be returned to customers, or his method of amortizing these balances?

A. No. I do not. First, the balances provided by the Company for the AFUDC deferred tax flow-through balances of $1,760,296 electric and $519,844 natural gas are the revenue amounts to be returned to customers. By proposing these amounts be returned to customers through base rates as an amortization credit, Mr. Mullins is overstating the actual amount to be returned, because the amount is calculated net of tax and grossed up by the conversion factor in his proposed revenue requirement, and he would be crediting customers $1,841,000 electric and $544,000 natural gas.

Second, these balances represents a return of tax flow-through deferral balances owed customers, similar to the tax flow-through deferral balances related to meters and IDD #5, that the Company believes should be returned to customers through a separate tariff, to provide customers the full return of these benefits. To include these balances in an amortization runs the risk of over- or under-returning these balances to customers. A separate tariff would ensure the total amount is retuned to customers, no more, no less. Furthermore, the electric and natural gas AFUDC flow-through deferral balance could be combined with the return of the tax flow-through deferral balances related to meters and IDD #5, and returned through the "Tax Customer Credit" Tariff

[149] As described below in Section VI., per Docket Nos. UE-190074 and UG-190075, the AFUDC deferral tax flow-through deferral balances are a result of changing how taxes associated with AFUDC Equity are recognized for rate making purposes, i.e. changing from the normalization method to the flow-through method. The deferral balances reflect amounts collected between January 1, 2018 and March 31, 2020, until such time as the flow through method was imbedded in base rates.
[150] Mullins Exh. BGM-1T, p. 68, ll. 10 – p. 69, ll. 7.

Schedules 76 (electric) and 176 (natural gas), returning these balances as proposed by the Company for those balances. However, if the Commission wishes these balances to be returned over a one-year period, the Company is not opposed to a separate tariff specific to these balances. Additional discussion regarding these balances are discussed in Section V. "Tax Flow-Through Deferred Accounting Balances" below.

u) Tax Accounting Change (Avista Informational) 4.00T (Electric and Natural Gas)

Q. Mr. Mullins recommends a five-year amortization of the electric and natural gas "Tax Accounting Change" tax benefits owed customers as a separate amortization adjustment, originally labeled by Avista as Informational Adjustment 4.00T.[151] Do you agree with the amount he recommends is to be returned to customers, or his method of amortizing these balances?

A. No. I do not. First, similarly to the AFUDC deferral balances amortization proposed by Mr. Mullins, the balances provided by the Company of $58,136,820 electric and $28,200361 natural gas are the revenue amounts to be returned to customers. By proposing these amounts be returned to customers through base rates as an amortization credit, Mr. Mullins is, once again, overstating the actual amount to be returned to customers, because the amount is calculated net of tax and grossed up by the conversion factor in his proposed revenue requirement. Mr. Mullins would actually be crediting customers over the five-year period $60,810,000 electric and $29,490,000 natural gas.

Second, similar to the AFUDC deferral balances, these balance represents a return of tax flow-through of deferral balances owed customers related to meters and Industry Director

[151] Mullins Exh. BGM-1T, p. 70, ll. 1 – p. 71, ll. 4.

Directive #5 (IDD #5), that the Company believes should be returned to customers through a separate tariff, to provide customers the full return of these benefits. To include these balances in an amortization runs the risk of over-or under-returning these balances to customers. A separate tariff would ensure the total amount is retuned to customers, no more, no less. As discussed immediately below in Section V., the Company proposes to return the tax flow-through deferral balances related to meters and IDD #5 through the "Tax Customer Credit" Tariff Schedules 76 (electric) and 176 (natural gas), returning these balances as proposed by the Company for those balances. In addition, since the meters and IDD #5 tax credit will continue to defer balances annually on an on-going basis, Tariff Schedules 76 (electric) and 176 (natural gas) would also be used on an on-going basis, updated to reflect the amortization of balances as approved by the Commission in this case or future cases.[152]

VI. TAX FLOW-THROUGH DEFERRED ACCOUNTING BALANCES

Q. What is the purpose of this section of your rebuttal testimony?

A. This portion of my testimony is to respond to the testimonies of Staff witness Ms. Erdahl (Exh. BAE-1T), Mr. Mullins (Exh. BGM-1T) and Ms. Crane (Exh. ACC-1T), with regard to the return to customers of electric and natural gas tax flow through deferral balances: 1) deferred tax benefits associated with certain tax basis adjustments (meters and IDD#5) and 2) deferred AFUDC equity tax flow-through benefits.

Q. Has the Commission approved the Company's deferred tax benefits associated with the meters and IDD#5 tax basis adjustments.

[152] As noted above, on direct (Exh. EMA-1T), the Company proposed to amortize the annual on-going deferral balances beyond 2020 over a ten-year period through Tariff Schedules 76 (electric) and 176 (natural gas), or as decided by the Commission in future GRCs.

A. Yes. This Commission approved the Company's Tax Accounting Petition (Dockets UE-200895 and UG-200896, Order 01) on March 11, 2011, authorizing the Company to change its accounting for federal income tax expense from a normalization method to a flow-through method for the specified plant basis adjustments. Both the IPUC and OPUC also approved similar accounting applications,[153 / 154] providing the authority required from <u>each</u> of Avista's jurisdictions to consistently change its accounting for federal income tax expense from a normalization method to a flow-through method.[155] This final authorization allowed for the immediate benefits to customers to be deferred for later return to customers.[156]

<u>A. Return of Meters and IDD #5 Tax Flow-Through Deferral Balance</u>

Q. As you noted above, the Commission approved the Company's proposal to change its accounting for federal income taxes for certain plant basis adjustments in Dockets UE-200895 and UG-200896. What is the impact of this change?

A. The final authorization received by Oregon on May 4, 2021 allowed for the immediate benefits to customers to be deferred for later return to customers. Effective with the close of Avista's books of record for April 2021, the Company has transferred approximately $150.5 million on a system basis, or <u>$58.1 million for Washington electric service and approximately $28.2 million for Washington natural gas service</u> from its Accumulated Deferred Tax Federal Income Tax Liability (ADFIT) to a regulatory liability. These balances represent the

---

[153] The Idaho Public Utilities Commission (IPUC) approved a similar application on February 1, 2021, IPUC Order 34906 in Case Nos. AVU-E-20-12 / AVU-G-20-07.

[154] The Public Utility Commission of Oregon (OPUC) recently approved a similar application on May 4, 2021 Order No. 21-131, OPUC Case UM 2124

[155] As described in my direct testimony, approval in all three of Avista's jurisdictions (Washington, Idaho and Oregon) to make the requested change was required, and any changes need to be adjusted concurrently with a GRC, as it has significant impact on both tax credits and rate base.

[156] A deferral to record the tax benefit by service and jurisdiction to a regulatory liability was recorded in May 2021, effective with the Company's April 2021 closing process.

estimated amounts that will be available at December 31, 2020 and will be finalized in late 2021 when the 2020 federal income tax return is prepared.[157] By doing so, the Company has no restrictions on how to return those funds to customers. In addition, there will be an additional deferral amount added each year.

Q. Can you provide a summary of the Company's proposals for returning the tax deferral to customers?

A. The Company proposed to use the available funds to offset the rate increases approved in the GRC. Any remaining amounts plus future deferrals would be amortized over 10 years. Specifically, the Company proposes to begin amortization of the Washington portion of those benefits through separate tariff, concurrent with the effective date of this GRC. The proposed amortization by the Company of these benefits, beginning October 1, 2021 through separate "Tax Customer Credit" Tariff Schedules 76 (electric) and 176 (natural gas), is intended to offset the Company's base electric and natural gas rate relief requested in its entirety in this proceeding so that the result is <u>no billed impact to customers</u>. As proposed by the Company, the final tariff schedule amortizations would be dependent upon (and agree with) the final electric and natural gas revenue requirements approved by this Commission.

The amortization amount, as proposed by Avista on rebuttal, including accumulated tax credits beginning October 1, 2021 through separate Tax Customer Credit Tariff Schedules 76 (electric) /176 (natural gas) of $40.155 million for electric and $10.714 million for natural gas, results in an overall <u>$0 bill impact</u> to Avista's electric and natural gas customers. The amortization period of Tariff 76 (electric) would be approximately October 1, 2021 through the beginning of

[157] The Company does not expect a material difference from what was as recorded, but it may change some depending on any tax audit findings.

2023. The amortization period of Tariff 176 (natural gas) would be approximately October 1, 2021 through September 30, 2023.

Q. Can you provide a summary of the other Parties' proposals for returning the tax deferral to customers?

A. Yes. The Parties propose to return the tax deferral to customers as follows:

1. Ms. Erdahl splits the estimated balance associated with IDD#5 and meters available at December 31, 2020 into two buckets – the amount of the deferral related to EDIT and the remaining amount that was ADFIT. Staff proposes to return the EDIT portion, which is approximately $10.3 million electric and $4.8 million natural gas, over one year. The remaining ADFIT balance and future deferrals would be returned over 15 years for meters and 34 years for IDD #5.[158]

2. Mr. Mullins proposes the estimated balances at December 31, 2020 and future deferrals associated with IDD#5 and meters be returned over a five-year period[159].

3. Ms. Crane proposes the estimated balances at December 31, 2020 associated with IDD#5 and meters be returned over seven to eight years, based on an initial annual amount to eliminate any electric or natural gas rate increases. Ms. Crane also proposes that future deferral balances associated with IDD#5 and meters be reviewed in the next general rate case to determine an appropriate amortization period[160].

Q. What is the Company's response to the various proposals?

A. As discussed by Mr. Thies in his direct filed testimony, because the return of the Tax Customer Credit benefits will have an impact on the Company's cash flow, weakening credit metrics tracked by the rating agencies, the Company requested that, regardless of the electric and natural gas base revenue increases approved in this case, that the electric and natural gas tax benefit amortization does not go beyond base rate increase levels approved on an annual basis, and do not go beyond a two year amortization period. Currently the Company's credit rating is at BBB, two

[158] Exh. BAE-1T, p. 12, ll. 7-12
[159] Exh. BGM-1T, p. 70, ll. 19-21
[160] Exh. ACC-1T, p. 46-47

notches above "non-investment grade" rating levels. A <u>downgrade</u> to our ratings to one-notch above or to non-investment grade, could be possible if the Commission were to include a higher amortization balance than designed to simply offset the approved rate increases. That is true as well if the Commission went beyond the two-year amortization period proposed in this filing. In addition, the Company proposed that any remaining balance, plus the on-going, incremental, annual deferred tax benefit recorded starting in January 2021, would be included in future rate proceedings, and amortized over a <u>10-year period</u> going forward. We believe this proposal properly balances the rate impact to customers and the Company's financial health. Based on our review of the other Parties' proposals, if the Commission were to adopt any one of their proposals to return the tax customer credits, Avista's credit rating would not be negatively impacted, as long as the balance returned was lower than the base rate increase approved by this Commission, or if equivalent to the Commission approved base rate increase, the amortization was for no more than two years, and then any remaining balance was amortized over a longer period, such as 10-years, as proposed by Avista. If the Commission were to approve the revenue requirement as proposed by Staff, Public Counsel or AWEC, then an amortization period as recommended by any of the Parties would have a negative impact on the Company's cash flow.

Q. Ms. Erdahl states in her testimony that the Commission can choose to continue to normalize the IDD #5 and meters tax ADFIT balances[161]. Do you agree?

A. No, the Company cannot continue to normalize IDD #5 and meters ADFIT balances in the traditional sense of the word. Now that the flow through of IDD #5 and meters has been approved in all three jurisdictions, the Company's tax fixed asset software will be modified to

[161] Exh. BAE-1T, p. 9, ll. 12-14

show the IDD #5 and meters balances under the flow through method. The balances available to refund to customers will be removed from the tax fixed asset system and a separate manual schedule will be created to track the amortization of the balances in each service and jurisdiction. With this manual process, historical tax class and vintage detail will no longer be available. As a result, the Company would be unable to calculate the timing difference reversal under the normalization method.

Q. Does the Company agree with Ms. Erdahl's estimated lives of the underlying assets of 15 years for meters and 34 years for IDD #5[162]?

A. Ms. Ehrdal had requested the Company provide the average life of meters and of IDD#5 costs during the case. The Company provided 15 years for meters and 34 years for IDD#5 costs, as estimates of original life for those assets. It appears Ms. Ehrdal uses these average life estimates as the amortization period of the tax deferral balance to return the benefit to customers, as if the Company had continued to use the normalization method.

It should be noted that the flow through deferral balance available to return to customers is a cumulative balance made up of many vintages and asset classes. For example, the meters accumulated balance represents vintages beginning in 2012. Book depreciation on this vintage has already been recognized for 9 years as of December 31, 2020. Therefore, the ADFIT balance would reverse over 6 years. However, a vintage 2019 meter has a remaining book life of 13 years as of December 31, 2020. Therefore, using a 15-year amortization period does not represent the average remaining book life of the cumulative balance as of December 31, 2020.

[162] Exh. BAE-1T, p. 12, ll. 11-12

In addition, IDD #5 does not represent a specific asset but relates to overhead costs arising from many different asset types, such as distribution and transmission assets, and many different vintages. Therefore, using a 34-year amortization period does not represent the average remaining book life of the cumulative balance as of December 31, 2020.

The Commission may still approve Staff's proposal to return the tax flow through deferral balance over this 15-year period for meters and 34-year period for IDD#5 costs. However, Avista wanted to clarify that the calculated amortization cannot be the same as if the Company continued to use the normalization method.

<u>B. Return of AFUDC Equity Tax Flow-Through Deferral Balances</u>

Q. Does the Company agree with Ms. Erdahl's explanation of why AFUDC equity tax deferral funds are owed to customers?

A. No. Ms. Erdahl states that "[f]or tax purposes, Avista was required to recalculate capitalized AFUDC using the Federal Energy Regulatory Commission (FERC) rate instead of the commission-authorized rate of return (ROR)." [163] This is incorrect, as the Company did not change how it calculates AFUDC for tax purposes. As described in Docket Nos. UE-190074 and UG-190075, the deferral is a result of changing how taxes associated with AFUDC Equity are recognized for rate making purposes, changing from the normalization method to the flow through method. In addition, Ms. Erdahl states that "[t]he deferral balance owed to customers reflects amounts over-collected between January 1, 2010, and March 31, 2020."[164] This is incorrect as well, as the Company changed from a normalization to a flow through method prospectively starting in 2018. Therefore, the deferral balance reflects amounts collected between January 1,

[163] Exh. BAE-1T, p. 17, ll. 11-21
[164] *Id*. p. 17, ll. 20-21.

2018 and March 31, 2020, until such time as the flow through method was imbedded in base rates.

Q. Does the Company agree with Ms. Erdahl's proposal to return the AFUDC Equity deferral balances to ratepayers over 12 months?[165]

A. Since Ms. Erdahl proposes to include this tax credit in the Tariff Schedule 76 Electric and Schedule 176 Natural Gas, Avista does not oppose returning the credits over a one-year period, as long as the same requirements apply, i.e. the overall amortization is not greater than base rates approved by the Commission, and an equivalent amortization to approved base rates is no longer than two years, before a longer amortization is applied to any remaining balance.

Q. Does the Company agree with Ms. Erdahl's stated balances to be returned to customers?

A. No. Ms. Erdahl states that "[t]he grossed-up amounts to be returned to customers are approximately $2.3 million for electric operations and $0.7 million for natural gas operations."[166] The balances the Company provided of $1,760,296 for electric operations and $519,844 for natural gas operations as shown in Exh. BAE-6 have already been grossed up for income taxes. Therefore, it is not appropriate to gross them up again. <u>The credits to return are $1.8 million electric and $0.5 million natural gas.</u>

Q. What are the Company's proposed rates for electric Schedule 76 and natural gas Schedule 176?

A. Company witness Mr. Miller provides the information related to these tariff schedules.

---

[165] Exh. BAE-1T, p. 19, ll. 10-12
[166] Exh. BAE-1T, p. 19, ll. 13-14

VII. WILDFIRE PLAN EXPENDITURES, O&M BALANCING ACCOUNT, 2021 DEFERRAL AND OTHER WILDFIRE MECHANISMS

Q. Before discussing the party positions, has the Company proposed a change in its Pro Forma Wildfire Plan Expenditures Adjustment 3.17 from that in its direct case?

A. Yes. As discussed above (see Section IV. item k.), and as provided in response to Data Request Staff 107 Supplemental 3 (provided as Exh. EMA-10, pages 39-46), the Company updated its Pro Forma Wildfire Capital and Expense Adjustment 3.17 to reflect actual transfers to plant through December 31, 2020 and updated planned 2021 additions. Mr. Howell supports the Company's Wildfire Plan capital and expenses in his direct and rebuttal testimonies (Exh. DRH-1T and DRH-8T). The result of this update is a reduction to Avista's proposed electric revenue requirement of $174,000 electric, and reduction to net rate base of $1,941,000, from that filed by the Company on direct. Staff[167] has accepted the updated adjustments related to the actual 2020 capital additions; AWEC and Public Counsel did not address. Using Avista's updated costs, as shown in Table No. 16 above, results in pro formed net plant of $11,185,000, and net expenses of $4.3 million, including $4.025 million of wildfire expenses and $316,000 of depreciation expense.

In this section of my testimony I will mainly respond to the positions of Ms. White and Mr. Mullins on their respective Wildfire-related issues in this case, i.e., pro formed Wildfire capital and expenses, Avista's proposed Wildfire O&M Balancing Account and Avista's Wildfire Mitigation Deferral, as well as discussions regarding other wildfire mechanisms discussed by the both Parties. Mr. Howell's testimony responded more generally to the technical testimony provided, in particular, by Public Counsel witnesses Messrs. Alvarez and Stephens.

[167] White Exh. AIM-1T, p. 25, l. 7-14. Staff supports the 2020 updated amounts but opposes any capital and expenses beyond 2020.

Q. Would you briefly describe the position of the Parties with respect to testimony on Wildfire Plan cost recovery?

A. Yes. Although Staff does not take issue with the Wildfire Plan itself, Staff does take issue with costs included in this case with respect to capital and expenses beyond that incurred in 2020. Ms. White also takes issue with Avista's Wildfire O&M Balancing Account, proposed to track O&M expenses over the life of the 10-year plan, and also does not support Avista's deferred accounting request to defer, for later recovery, costs incurred from January 1, 2021 to September 30, 2021. Staff would remove $11.6 million of capital and $2.8 million of expenses, thereby reducing Avista's revenue requirement by $4.0 million.[168]

Public Counsel would also reject portions of Avista's Wildfire Plan cost recovery in this case, for reasons discussed in detail by Mr. Howell, removing an $11.5 million amount of capital. However, since they are supportive of Avista's pro formed wildfire expenses, they only remove $234,000 of expense associated with depreciation expense on removed capital. Public Counsel's proposed treatment reduces Avista's revenue requirement by $1.3 million.[169] Public Counsel also supports Avista's Wildfire O&M Balancing Account and its deferred accounting request to defer expenses incurred from January 1, 2021 to September 30, 2021.[170]

Finally, for its part, AWEC entirely removes Avista's Wildfire capital additions of $13.1 million, instead using the overall 2020 additions incorporated elsewhere by Mr. Mullins[171]. Mr. Mullins removes all pro forma wildfire expenses, beyond actual 2020 expenses incurred, in the

[168] White Exh. AIW-1T, pg 24, ll. 10 – pg. 25, ll. 14.
[169] Crane Exh. Acc-1T, p. 37, ll. 10-16.
[170] Alvarez, Exh. PADS-1T, p. 22, ll. 9-13.
[171] Ms. Schultz discusses Mr. Mullins' inclusion of all 2020 capital additions on an average-monthly-average basis at Exh. KJS-3T.

amount of $2.5 million, and does not support Avista's Wildfire O&M Balancing Account, or its request for deferred accounting of the 2021 wildfire expenses incurred before new rates are in effect. AWEC thereby reduces Avista's revenue requirement by $3.8 million.[172]

A. Wildfire Pro Forma Capital and Expenses

Q. Please discuss further Ms. White's concerns with Avista' pro formed Wildfire capital and expenses.

A. Ms. White explains that she believes costs as proposed by Avista are not yet known and measurable, capital additions are not in service by the rate effective date and thus not used and useful, have no offsetting expense adjustments, and that the Company has not identified the Wildfire Plan spending as a "provisional" pro forma adjustment as required by the applicable Commission policy statement.[173 / 174] Ms. White supports only the inclusion of amounts spent in calendar year 2020 for both capital and O&M in rates, including approximately $1.6 million in plant transferred to service by December 31, 2020, and O&M costs of approximately $1.5 million.[175]

Q. Even though Ms. White is not supportive of Avista recovering any of its increased costs beyond 2020, does she otherwise believe Avista's Wildfire Plan is a priority and is necessary?

A. Yes. Ms. White, at Exh. AIW-1T, pages 21 – 22, states she is supportive of Avista's

[172] Mullins Exh. BGM-1T, p. 38 ll. 17-20, p. 39, ll. 3-5, and p. 42, ll. 6-9.
[173] White Exh. AIW-1T, p. 24, ll. 15 – 21. Ms. White suggests that the wildfire program costs would qualify as "a programmatic series of investments stretching over at least ten years."
[174] See Avista's discussion above regarding the three months of "provisional" Wildfire capital additions from October 1, 2021 through December 31, 2021 at Section III. Avista noted in its direct case starting at page 29 of Exh. EMA-1T, since provisional capital adjustments going into service during the rate year are limited, an actual prudency determination on such plant, can either occur immediately after the projects are complete, or can wait until the next general rate case.
[175] White Exh. AIW-1T, p. 25, ll. 7-10.

Wildfire Plan and explains her views regarding the Wildfire Plan itself:

> **Q. Returning now to Avista's filings, what information leads Staff to consider wildfire mitigation as a priority?**
> Staff's research shows that there is certainly a basis for action to mitigate wildfires. North America has been enduring a 20-year megadrought. Huge fire losses have occurred in all three west coast states, often utility-caused. The small eastern Washington town of Malden was burned off the map during last year's wildfires. The Legislature is deliberating SSB-1168, a wildfire task force bill. <u>All these items point to the need for action to mitigate wildfires sooner rather than later.</u>
>
> **Q. Does Staff feel wildfire mitigation is necessary?**
> A. Yes. Staff in no way wishes to diminish either the urgency of the situation regarding wildfire mitigation for our state nor denigrate the effort on Avista's part. Part of the complexity of this filing is the fact that <u>Avista is the first investor-owned utility in Washington to file such a Plan. As such, Avista deserves commendation for taking such a proactive step</u>. … Staff believes that action on this issue should be more than merely hoping for good results from the Company's transmission and distribution system as it is currently configured.[176] (emphasis added)

Q. What concerns do you have with Staff's recommendation for cost recovery?

A. While Avista appreciates the sentiment noted above that the Company should be commended for its proactive steps, and the recognition that a Wildfire Plan should be a priority, Ms. White still suggests this Commission provide minimal recovery of costs, she recognizes has a "basis for action" that should be done "sooner rather than later." In particular, she discusses her proposal for Avista's recovery of Wildfire expenses to include in this GRC, together with her discussion of Avista's request for deferred accounting of expenses prior to new rates going into effect, as well as Avista's request for an O&M balancing account, as follows:

> The Commission can deal with Avista's request without resorting to extraordinary ratemaking devices. Staff's proposal, which the Commission should adopt, includes the actual 2020 O&M expense amount in rates as a pro forma adjustment, which took place immediately after the test year, compensating the Company for

[176] *Id.*, p. 20, ll. 11 – p. 21, ll. 21.

> ongoing work as it continues its Wildfire Plan. With O&M costs embedded in rates, deferring O&M costs becomes unnecessary and the request for the Petition becomes moot. (emphasis added)[177]

To support this position, Ms. White also states:

> "Avista attributes the urgency of the situation requiring additional hardening of its grid for wildfire resiliency to climate change and worsening wildfire conditions in the West, which is clearly beyond the Company's control. …A ten-year grid hardening project, while urgent, does not fit the pattern of occurrences that the Commission has considered extraordinary, even though the Wildfire Plan generates costs that have a material impact on the utility's financial results. These are long-lived assets that will be upgraded over a reasonably long timeframe, not all at once over a very short time under exigent circumstances."[178]

I find several of these statements troubling. First, while she recognizes that the need for wildfire planning should be a "priority" and "necessary" because of "worsening wildfire conditions in the West" and Staff does not wish to "diminish either the urgency of the situation regarding wildfire mitigation," which clearly does signal a level "extraordinary circumstances," she in the next breath argues that levels spent in 2020 are sufficient. Never mind the fact that 2020 levels reflected a mere six months of activity and the very beginning or ramp-up of the Company's Plan. She even notes, the cost levels do not meet "extraordinary," even though she also notes "the Wildfire Plan generates costs that have a material impact on the utility's financial results."[179]

Second, the level of cost recovery the Commission "embeds" in rates, even if one were to assume Ms. White's proposal was sufficient, would provide recovery of Avista's Plan expenses during the actual rate effective period (October 1, 2021 – September 30, 2022) only, it does nothing for the "interim" expenses incurred from January 1, 2021 through September 30, 2021 – the subject

[177] *Id.*, p. 17, ll. 4 – 11.
[178] *Id.*, p. 16, ll. 15 – 21.
[179] *Ibid.*

of the Company's Deferred Accounting Petition.[180] Clearly, just because O&M costs would be embedded in new rates beginning October 1, 2021, the deferral of O&M costs for the 2021 period prior to the rate effective date, is necessary, and our Petition is far from "moot." Without the Commission's approval of the Deferred Accounting Petition, the Company has no means to recover these incremental 2021 expenses – they would be absorbed by the Company, and a part of the overall cause of Avista's current under-earnings it is experiencing in 2021. Whereas, if this Commission allows the company to defer these costs, this would at least allow Avista the opportunity to recover these costs in a future proceeding.

Finally, Ms. White argues that special treatment is unnecessary because a "ten-year grid hardening project" is a "long-lived asset that will be upgraded over a reasonably long timeframe."[181] Again, while it is true that the capital investments that Avista will incur over the ten-year Plan will, for the most part, be long-lived assets, these capital investments have nothing to do with Avista's level of expenses planned over the ten-year plan, the deferral petition of expenses, or Avista's proposed O&M balancing account. It only speaks to Avista's planned capital expenditures, for which Avista is asking for no more special treatment than to include additions that have already occurred, and in-service prior to new rates in effect, and a minimum level of "provisional" plant for the period October 1, 2021 through December 31, 2021. Avista does not otherwise ask for the additional plant it will spend of over $16.7 million during 2022, also a part of the rate period in this case.

Q. Ms. White also argues the "wildfire mitigation cost forecasts are still highly

---

[180] It also does nothing for the expenses Avista has already incurred in 2020, as these costs were already absorbed by the Company.
[181] White. Exh. AIW-1T. p. 16, ll. 19 – p. 17, ll. 2.

nebulous and thus it is impossible to embed a correct amount in rates," do you agree with this statement?[182]

A. No, I do not. While Ms. White is correct that the Company had reduced its planned Wildfire Plan capital expenditures from $5.265 million in 2020 to $3.2 million, it was not as a result of COVIID-19 as she suggests[183]. The Company did so, to spend its resources towards reconstructing the "Chelan-Stratford transmission line" lost during the 2020 Labor Day Storm[184]. This was a section of Avista's transmission grid hardening infrastructure that it had planned to replace, replacing wood poles with steel poles, as a part of Avista's ten-year Wildfire Plan.

Ms. White also states the following as part of her argument that Avista's capital costs are projected and would guarantee incorrect costs in rates:

> … the use of estimates in rate base is especially problematic. In its response to Public Counsel Data Request No. 256¶a, which Staff has attached as Exh. AIW-13, the Company acknowledges that its current cost estimates are essentially premature since "Avista plans to use data from the 2021 construction season to help refine the grid hardening cost estimates for both distribution and transmission." Use of estimated capital costs here would effectively guarantee the embedding of incorrect costs in rates.[185]

What Ms. White fails to explain, however, is that Avista plans to <u>use data from the 2021 construction season</u> to help refine the grid hardening cost estimates (capital investment) it has planned in its ten-year plan – meaning beyond 2021, or 2022 through 2029. Avista has not pro formed capital additions beyond 2021, so any refinement made as suggested by the Company in

---

[182] White Exh. AIW-1T, p. 22, ll. 3-4.
[183] Ms. White states "Staff concedes that 2020 actuals likely have been affected by the Coronavirus Disease 2019 (COVID) pandemic. But, given the ongoing uncertainty related to the pandemic, Staff also finds it unlikely that 2021 spending will rebound to the levels predicted in the Company's Plan." Exh. AIW-1T, p. 22, ll. 7-10.
[184] As discussed by Ms. Schultz at Exh. KJS-3T, footnote 23, these dollars were instead included with the Labor Day/September Windstorm costs recorded under the Electric Storm business case.
[185] White Exh. AIW-1T, p. 33, ll. 10 - 16.

response to Public Counsel Data Request No. 256 would impact future GRCs, not this current case.

Furthermore, any impact on planned versus actual level of expenses during the rate period, would be moot, if this Commission were to approve the Company's O&M Balancing Account. With the O&M Balancing Account, any differences would be deferred, up or down, protecting customers from any differences as suggested by Ms. White – i.e., customers would pay no more, or nor less of actual wildfire expenses, and Avista would timely recover its costs.

Q. Staff further argues it is concerned over the Company's current inability to predict costs that may decrease as a result of the Wildfire Plan spending, such as decreased line patrols, less tree trimming as problem trees are removed during the program, and fewer fire responses.[186] Do you believe this is warranted?

A. No, I do not. Although there may be some efficiencies gained over time that the Company is unable to quantify at this time, existing levels of tree trimming, line patrols, and fire responses, for example, will continue to occur as they have. The Wildfire Plan includes incremental expenditures above normal operations, necessary to mitigate the increased threat of wildfires in our service territories, reducing the overall risks, as discussed by Mr. Howell. Lack of de minimis savings now, that may or may not exist, should not preclude Avista from recovering "necessary" and high "priority" costs it has included now in this case – which would otherwise cause a further delay and regulatory lag of its capital and expenses until inclusion of a future GRC, after September 2022.

Q. Finally, Ms. White expresses difficulty in separating Avista's O&M costs, as proposed by the Company, into "normal operating" and "wildfire mitigation" expense

[186] *Id.*, p. 24, ll. 1-4.

categories,[187] and suggests vegetation management or tree trimming "has long been a subject rather fraught with controversy".[188] Can you please provide some clarity around Avista's on-going vegetation management spending, both historically and going-forward?

A. Yes. First, Ms. White reaches clear back to 2001-2002, during the Energy Crisis, almost twenty years ago, and dredges up history during a particularly difficult time for Avista, in which it had reduced vegetation management (VM) expense levels in those years. Jumping ahead to 2005, in response to Avista pro forming higher levels of VM expenses in its 2005 GRC (above its test period), the Commission ordered Avista to maintain a one-way balancing account, to track any expenses below the $2.8 million minimum per-year for Washington.[189] Now jumping to 2010, again in response to Avista pro forming higher levels of VM expenses in its 2010 GRC (above its test period), the Commission increased Avista's VM expense level (and minimum per-year amount one-way balancing account) to $4.025 million.[190] As ordered, the Company has reported on its VM levels (distribution and transmission) within its Commission Basis Reports (CBRs) filed annually. As noted in the table provided by Ms. White at Exh. AIW-1T, pg 28, and updated with 2020 actuals by Avista, Table No. 31 below clearly shows Avista has gone beyond its minimum required spending each year since, and plans to continue at similar higher levels:

[187] Mr. Mullins' also at Exh. BGM-1T, p. 40, ll. 1-4, also argues there is no clear line to differentiate between what constitutes a wildfire expenditure and what is a normal maintenance activity.
[188] *Id.*, p. 27, ll. 7-17.
[189] Docket UE-050482, Order 05, 7-8, ¶ 15 (Dec. 21, 2005).
[190] Docket UE-100467, Order 07, 5, ¶ 12 (Nov. 19, 2010).

Table No. 31 – Washington Annual Vegetation Management Spend (Minimum Annual Spend is $4.025 million)

Washington Vegetation Management (VM) Spend as Reported in Annual CBR		
Calendar Year	**Report Docket UE-**	**Spending ($Millions)**
2011	120447	$5.05
2012	130645	$4.89
2013	140529	$4.85
2014	150698	$4.85
2015	160454	$4.5
2016	170325	$5.0
2017	180354	$5.0
2018	190309	$6.6
2019	200387	$6.4
2020[1]	210266	$6.1
2021	NA	$6.1
On-going[2]	NA	$6.1

[1]System VM actual spend in 2020 was $9.1 million.
[2]System spend was revised to $8.9 million annually going forward in 2021.

Further, as explained in workpapers provided in my direct testimony, and informal discussions with Ms. White, I explained that the 2019 test year VM expense levels were $9.165 million, with Washington share at $6.353 million. Whereas, starting in 2020, the on-going VM expense levels was reduced slightly to $8.9 million annually going-forward, with Washington expected at $6.1 million going forward. With this slight reduction from $9.2 (test period VM level) to $8.9 million of "normal operating" VM levels going forward, there is a slightly higher level of "normal operating" VM expense in the test period (2019), than that occurred in 2020 and planned going forward by $265,000, or Washington's share of $184,000.

Q. Why does this matter and how does this impact the Wildfire expenses at issue

in this case?

A. This matters, because as noted in my workpapers, in order to reflect incremental "Wildfire mitigation" expenses, which is mainly associated with enhanced risk tree expenses, i.e., VM, above the "normal operating" VM expenses, I reflected (reduced) my incremental pro forma Wildfire expense adjustment by subtracting this difference from the pro forma "Wildfire mitigation" expense. Specifically, for the rate period October 1, 2021 through September 30, 2022, the Company pro formed "wildfire mitigation" expenses of $6.531 million on a system basis (pro rata of $5.4 million planned in 2021 and $6.9 million planned in 2022). Washington's share of this rate period expense is $4.21 million. Adjusting for the difference, reflecting only incremental "wildfire mitigation" expenses above the on-going "normal operating" VM annual maintenance, reduced the pro forma wildfire mitigation expense to $4.025 million.

Comparing 2019 test period levels to the expected rate period level for both "normal operating" VM and "wildfire mitigation" expense would be as follows:

Table No. 32 – Wildfire Mitigation Expenses versus Normal Operating VM Expense

Wildfire Mitigation Expenses versus Normal Operating VM Expense							
Vegatation Management	**TP 2019**	**Actual 2020**	**Planned 2021**	**Planned 2022**	**Rate Period**	**Incremental Adjustment**	**Revised Rate Period**
Normal Operating VM	$ 6,353	$ 6,131	$ 6,100	$ 6,100	$ 6,100	NA	**$ 6,100**
Wildfire Risk Tree/VM	$ -	$ 1,500	$ 3,460	$ 4,459	$ 4,210	$ (184)	**$ 4,025**

As can be seen in Table No. 32, annual Washington on-going "normal operating" VM is $6.1 million annually, although the required "minimum" spend is ordered at $4.025 million. This $4.025 million increase is a 66% increase in O&M expense above test period VM O&M levels. It is purely coincidental that the incremental proposed pro forma "Wildfire mitigation" (Risk Tree/VM) amount is $4.025 million annually. These two balances (minimum spend and proposed wildfire base) do not represent or correlate in any way to one another.[191]

Q. Turning now to capital additions, what is the Washington and system Wildfire capital for the same period 2020 through 2022 that are relevant to this case.

A. Table No. 33 provides the Washington and system Wildfire capital for the period 2020 (actual) through 2022.

<u>**Table No. 33 Wildfire Plan Capital Investment – Washington-Share & System**</u>

Total Wildfire Plan - Washington and System (Capital) ($000s)						
	Washington			System		
	Distribution	Transmission[1]	Total	Distribution	Transmission	Total
2020	$ 1,525	$ 49	$ 1,574	$ 3,132	$ 75	$ 3,207
2021[2]	$ 7,927	$ 2,595	$ 10,522	$ 13,025	$ 3,960	$ 16,985
2022[3]	$ 12,918	$ 3,857	$ 16,775	$ 21,170	$ 5,885	$ 27,055

[1]As noted above, transmission wildfire capital in 2020 was reduced to spend resources towards the reconstruction of the "Chelan-Stratford transmission line" lost during the Labor Day Storm (wind/fire storm). These dollars were instead recorded under the Electric Storm Business case.

[2]Capital additions in 2021 were included in the Company's pro forma adjustment on an AMA basis for the rate period of approximately $10.0 million. 2020 and 2021 pro forma additions totaled $11.57 million as shown in Table No. 16 above.

[3]Capital additions in 2022 are shown for informational purposes only, thay have not been pro formed in the Company's case.

As can be seen in the table, 2020 Washington capital addtions were $1.6 million, Washington 2021 capital additions were $10.5 million, and 2022 capital additions, provided for informational purposes only as they are excluded from the Company's filing, are expected at $16.8 million. The Company included the 2021 capital additions on an AMA basis for the rate effective period, resulting in a total of $11.57 million pro formed capital additons as shown in Table No. 16 above and <u>provided below for convenience</u>:

[191] Ms. White, at Exh. AIW-1T, p. 28, ll. 6-21, notes that both Ms. Andrews and Mr. Howell presented a confusing footnote with regards to the calculation of the $4.025 million of "adjusted trimming expenses" in this case. The Company in its direct filing did not speak to the $4.025 million required for its minimum "normal operating" VM. Nor had it meant to infer these two balances had any relation to each other, nor do they, relate in any way.

Table No. 16 – Wildfire Adjustment 3.17 – As Filed versus Updated

Adjustment 3.17 - Wildfire			
	WA - Electric		
In 000's	**Filed**	**Revised**	**Revision to PF Adj. 3.17**
Plant in Service	$ 13,536	$ 11,570	$ (1,966)
A/D	(244)	(268)	(24)
ADFIT	(166)	(117)	48
Rate Base	$ 13,126	$ 11,185	**$ (1,941)**
Operating Expense	$ 4,025	$ 4,025	$ -
Depreciation Expense	313	316	3
Expense	$ 4,338	$ 4,341	$ 3
		Revenue Requirement Impact	**$ (174)**

The Company has provided sufficient supporting evidence in its testimonies, exhibits and workpapers provided by myself and Mr. Howell, to support the wildfire expenses and capital additions included in this case.

B. Wildfire O&M Balancing Account / Deferral of Wildfire Expenses Prior to Effective Date

Q. Both Ms. White, as discussed above, and Mr. Mullins argue that Avista's wildfire expenses do not warrant "extraordinary ratemaking treatment", and therefore do not support either the O&M Balancing Account, or similarly the Deferred Accounting Petition[192]. Do you agree?

A. No, I do not. As discussed above, the need for Avista's Wildfire Plan should be a "priority" and "necessary" because of "worsening wildfire conditions in the West," which clearly signals a level "extraordinary circumstances."[193] In addition, as even Ms. White admits "the Wildfire Plan generates costs that have a material impact on the utility's financial results."[194] Just

[192] Mullin's Exh. BGM-1T, p. 39, ll. 3 -11.
[193] White Exh. p. 17, 11.4-11.
[194] *Id.*, p. 16, ll. 15-21.

considering the increased expenses in the rate year, clearly an increase of 66% in O&M expense for wildfire mitigation VM expenses, compared to test period levels of "normal operating" VM expenses, proves to have an impact on Avista's financial results.

For Mr. Mullins' part, with regards to the deferred expenses prior to new rates going into effect (or any increase above 2020 levels), Mr. Mullins argues this is unnecessary since 2020 distribution and transmission O&M and capital expenditures have declined materially after 2019, and therefore, "it cannot be said that the wildfire plan activities represent an incremental cost to Avista, when its overall costs are declining."[195] I have already discussed Mr. Mullins' misguided analysis of O&M expenses[196] at Section IV. item "r.) O&M Expense AWEC 7.02", which shows when his analysis is corrected for missing accounts and data, that Avista's electric expenses clearly increased approximately $10 million on a system basis.

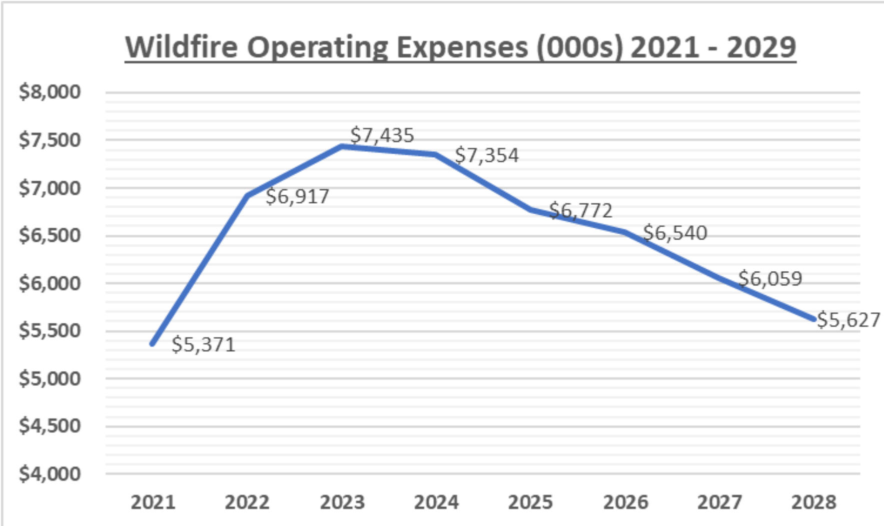
Q. Please explain why it is important for the Commisson to approve the O&M balancing account.

A. Yes. As discribed in my direct testimony the Company is proposing to create a Wildfire Balancing Account to track the variability in wildfire expenses over the 10-year life of the Wildfire Plan. As shown in Illustration No. 2 below, the O&M expenses on a system annual basis over the 10-year life of the Wildfire Plan increases from $5.4 million in 2021 to a maximum increase of $7.4 million in 2024, before declining over the remaining years to $5.1 million in 2029, producing more of a "bell-shaped" curve.

[195] Id., p. 42, ll. 6-17.

[196] Ms. Schultz, at Exh. KJS-3T, also discusses similarly faulty results with his 2020 capital additions analysis, which also show that capital additions did not decline in 2020.

<u>Illustration No. 2 – Wildfire System Annual Operating Expenses</u>



Given this expected "bell-shaped" curve of expenses beginning after the first partial year (2020), and that expenses are expected to begin to decline after year 4 (2024) of the Wildfire Plan, in order to protect customers by ensuring customers <u>pay no-more/no-less</u> of the O&M expenses of this Wildfire Plan, the Company believes it prudent for the Commission to establish a two-way balancing account for these costs. By establishing a base level of expense in this case of $4.025 million, as discussed above, and in each subsequent general rate case, allowing the Company to track actual expenses against the base, and defer the difference up or down over time for later recovery or return to customers, will ensure customers pay no more than the actual wildfire expenditures over the ten-year plan. Quite simply, the O&M Balancing account is just meant to recover these costs – not "over-recover" them.

Q. Please briefly discuss the Wildfire Deferral Petition filed by the Company.

A. Concurrent with the filing of this general rate case, the Company filed its "Petition for an Order Authorizing Deferral of Expenses Associated with the Company's Wildfire

Resiliency Plan" (Wildfire Deferral Petition) in Docket UE-200894. In the Company's Wildfire Deferral Petition, the Company specifically requested approval to defer, for later rate-making treatment, the incremental expenses incurred in 2021 (prior to new rates going into effect – that is January 1, 2021 through September 30, 2021) of Avista's actual Wildfire Plan efforts. The expected amount to be deferred during the nine-month period January 1, 2021 through September 30, 2021 is estimated at <u>$2.6 million</u>. The Commission consolidated the Company's Deferred Petition with this general rate case ("GRC") on December 23, 2020 in Order 04 / 01.

Approval by this Commission to defer the incremental expenses associated with the Company's Wildfire Plan prior to new rates going into effect, as well as track the on-going expenses versus an approved base over the life of the 10-year plan, would allow the Company to set these extraordinary costs aside for an opportunity to recover these costs in future rate proceedings and ensure customers pay no more/no less than actual wildfire expenses incurred. Any costs deferred and set aside for a future period will still provide this Commission and other parties the opportunity to review the costs after-the-fact and make a prudence determination prior to the Company receiving recovery of the prudently incurred costs through retail rates.

Q. How does Avista propose to account for the deferral of both the expenses of those prior to new rates going into effect (2021 <u>prior</u> to October 1, 2021) and the deferral of the O&M Balancing Account expenses (<u>beginning</u> October 1, 2021)?

A. For the deferral of expenses prior to new rates going into effect (2021 <u>prior</u> to October 1, 2021), Avista proposes to record the monthly deferral as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). The costs as incurred will be debited to various expense accounts. The Company proposes that interest will not accrue on the unamortized balance. In a future general rate case proceeding, Avista would address the prudence of the costs incurred and request recovery of the deferred costs, including a carrying charge on the deferral at the authorized rate of return. At that time, the Company would also propose an amortization period to recover the costs from Washington customers over a future period.

For the O&M Balancing Account expenses (<u>beginning</u> October 1, 2021), Avista proposes to record the deferral balances (expense levels higher or lower than the GRC established base as discussed above) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). The costs as incurred will be debited to various expense accounts. In each subsequent general rate case proceeding, Avista would propose a new base, made up of the expected rate effective period expenses. The level of expense included in that GRC however, will be offset by or added to the deferred amount in the wildfire balancing account. The Company would address in each GRC the prudence of any deferred balances. The intent of the balancing account is to track actual costs and match dollar-for-dollar what is collected from customers during the period October 1, 2021 through December 31, 2029. The Company proposes that interest will not accrue on the unamortized balance.

<u>C. Other Wildfire Mechanisms as Discussed by the Parties</u>

Q. Both Ms. White[197] and Mr. Mullins[198] speak of the OPUC's recent decision to approve a Wildfire Mechanism for PacifiCorp, although they do not recommend adoption of a separate Wildfire Mechanism. Would you please briefly discuss this mechanism.

[197] White Exh. AIW-1T, p. 19, ll. 6 – p. 20, ll. 9.
[198] Mullins Exh. BGM-1T, p. 40, ll. 18 – p. 42. ll. 2.

A. My understanding is in Docket UE-374, Order 20-473, December 2020, the OPUC approved a wildfire mechanism for PacifiCorp, effective for three years, with annual reporting, a balancing account based on a retroactive review of wildfire costs, and an update to plant balances for all investments through the mechanism in order to account for accumulated depreciation as new capital investments are added. The mechanism was also subject to an earnings test and performance requirements.[199] There simply is not enough information about PacifiCorp's mechanism in this filing for Avista to say whether that mechanism is or is not appropriate for our service territory in Washington. We continue to support our balancing account mechanism.

Q. Ms. White also discusses that the Commission could consider a Cost Recovery Mechanism (CRM) similar to that approved for Cascade Natural Gas under the terms of the Commission Policy Statement regarding accelerated replacement of pipelines.[200] Per the Policy Statement, the pipeline "CRM . . . exclude[s]…any incremental changes in operating and maintenance (O&M) expenses…" and plant would move into base rates via a general rate case at the end of the CRM life. Is Avista opposed to the Commission approving some form of CRM for Avista's Wildfire Plan?

A. No, it is not. Although the mechanics of such a CRM are important and should be properly addressed. For example, where the CRM for accelerated replacement of pipelines did not include O&M expenses, it is very important a CRM for Wildfire expenditures <u>would include O&M expenses</u>. While there was no need for recovery of expenses in the Pipeline CRM, as only capital expenditures were accelerated, that simply is not the case for the Company's Wildfire

[199] Performance requirements were linked to improved levels of violations as scored by the OPUC's safety inspectors, and reimbursements over a base level in rates at risk. The OPUC found that approximately 10 percent of PacifiCorp's proposed level of spending should be at risk, assessed against PacifiCorp's violations history.
[200] White. Exh. AIW-1T, p. 30, ll. 14-20. Docket UG-120715, Policy Statement, 15-16, ¶ 59-62 (Dec. 31, 2012).

Program. Said differently, the Pipeline CRM was a "capital additions" issue; Wildfire costs impact both expenses and capital.

In fact, Wildfire, on the other hand, is more of an "expense" issue. Clearly an increase in "Wildfire mitigation" VM O&M expense of 66% in the rate period, is, on its face, an acceleration above "normal" O&M VM levels, as discussed above. Furthermore, additional accelerations occur the next three years of the Wildfire Plan, before declining the next five years as shown above. The CRM would also, therefore, need to take into consideration the decline in O&M expected over time. The Company is also not opposed to annual reporting requirements, nor an earnings test, as the Company is already subject to an earnings test through its annual Decoupling Mechanism.

Q. Does this conclude your testimony?

A. Yes, it does.