Exh. KJS-3T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-200900

DOCKET NO. UG-200901

DOCKET NO. UE-200894

(CONSOLIDATED)

REBUTTAL TESTIMONY OF

KAYLENE J. SCHULTZ

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

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

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

A. Yes. I filed direct testimony and exhibits[1] in this proceeding describing the Company's restated twelve-months ended December 31, 2019 net plant from average-of-monthly-averages (AMA) to end-of-period (EOP) adjustment, as well as explaining how specific grouped 2020 pro forma capital additions through December 31, 2020, are incorporated into the proposed electric and natural gas revenue requirements sponsored by Company witness Ms. Andrews. The transfers-to-plant occurring through twelve-months ended December 31, 2020 will be referred to as "2020".

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

A. My rebuttal testimony and exhibit are provided to support updating the Company's five 2020 pro forma capital additions adjustments, PF Adjustment (3.11) – Customer at the Center, PF Adjustment (3.12) – Large Distinct Projects, PF Adjustment (3.13) – Programs, PF Adjustment (3.14) – Mandatory and Compliance, and PF Adjustment (3.15) – Short Lived Assets, with actual transfers to plant, which became available during the process of this case and were provided through discovery.[2] These five 2020 pro forma capital additions adjustments are incorporated into the proposed electric and natural gas revenue

[1] See Schultz, Exhs. KJS-1T through KJS-2.
[2] The Company provided updates to Pro Forma Adjustments 3.11 – 3.15 to reflect actual 2020 transfers to plant, including retirements, in Staff_PR_107 Supplemental 1, which has been included in Company witness Ms. Andrews' rebuttal testimony as Exh. EMA-10, pages 39-43.

requirements sponsored by Ms. Andrews. I will also summarize the Parties' positions on 2020 capital additions as included in the five pro forma adjustments referenced above.[3]

In response to the adjustments as proposed by Staff witness Ms. Higby and AWEC witness Mr. Mullins, I will explain 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. I will focus on addressing Ms. Higby's discussion on project definitions, offsetting factors, and "programmatic" investments, as well as address Mr. Mullin's proposed methodology of removing Avista's Pro Forma Adjustments 3.11 – 3.15 entirely and instead include an adjustment resulting in what he believes is total plant on an AMA basis for the 2020 calendar period.

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

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

A. Yes. I am sponsoring Exh. KJS-4, which provides a summary of the actual 2020 capital additions by "business case" and expenditure request (ER), comparing what

[3] I will refer to each of the non-Company parties (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).

Avista included in this case on rebuttal, as updated in Staff Data Request No. 107, to Staff's proposal.

II. UPDATED 2020 PRO FORMA CAPITAL ADJUSTMENTS

Q. Has the Company updated 2020 Pro Forma Capital Additions Adjustments 3.11 – 3.15 for actual transfers to plant through December 31, 2020?

A. Yes. The Company updated 2020 Pro Forma (PF) Capital Additions Adjustments 3.11 – 3.15 with actual transfers to plant for the period of January 1, 2020 through December 31, 2020 in Staff Data Request No. 107, Supplemental 1, which was provided to the Parties on February 22, 2021.[4] These pro formed capital additions reflect plant completed and in service, used and useful, by December 31, 2020, which is nine (9) months prior to the October 1, 2021 rate effective date.[5]

Q. Have you prepared a summary table including net rate base, net operating income (NOI) and revenue requirement impacts of the 2020 Pro Forma Capital Additions Adjustments 3.11 – 3.15 proposed in rebuttal, compared to the Company's direct case?

A. Yes. Table No. 1 (electric) and Table No. 2 (natural gas) below summarize the change in net rate base, net operating income (NOI) and revenue requirement impacts associated with the updated 2020 PF Adjustments 3.11 – 3.15 per Staff Data Request No. 107, Supplemental 1, compared to the Company's direct case (As-Filed). The overall effect of updating PF Adjustments 3.11 – 3.15 with actual transfers to plant is reflected in the

[4] The final Staff Data Request No. 107, Supplemental 3, including updates to additional pro forma capital projects sponsored by Ms. Andrews is provided with Exh. EMA-10, pages 39-46.
[5] "Rate Year" is defined as October 1, 2021 through September 30, 2022.

Company's Electric and Natural Gas Pro Forma Studies rebuttal position as sponsored by Ms. Andrews[6]. Detailed calculations for each updated adjustment that I sponsor, as provided in Staff Data Request No. 107, Supplemental 1, have been provided in Ms. Andrews' Exh. EMA-11, which provide the electronic native files for these adjustments.

Table No. 1: Washington Electric Net Change in Rate Base and Revenue Requirement

Washington Electric (000s)	As Filed			Updated - Staff DR 107			Net Change in Rate Base	Net Change in Revenue Requirement
Pro Forma Adjustment Summary	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue 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)**

Table No. 2: Washington Natural Gas Net Change in Rate Base and Revenue Requirement

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 depicted in the tables above, the overall impact on revenue requirement on rebuttal versus the Company's original filing for PF Adjustments 3.11 – 3.15, is a total reduction of $1,280,000 Washington electric and a total reduction of $640,000 Washington natural gas. The overall impact to rate base on rebuttal, from that as originally filed, is a total reduction of

[6] Ms. Andrews sponsors the pro forma capital adjustments including the capital additions related to Colstrip Units 3 and 4, Western Energy Imbalance Market (EIM), Advanced Metering Infrastructure (AMI) and Wildfire Resiliency Plan (Wildfire). These capital additions are also included in the Company's Electric and Natural Gas Pro Forma Studies rebuttal position.

approximately $7,863,000 Washington electric and a total reduction of approximately $3,529,000 Washington natural gas.

Q. What is the change in electric and natural gas net plant and depreciation expense for 2020 Pro Forma Capital Additions Adjustments 3.11 – 3.15 contained in this rebuttal testimony?

A. The Company's Pro Forma Capital Additions Adjustments 3.11 – 3.15 have been updated to reflect actual 2020 capital additions, together with associated accumulated depreciation (A/D) and accumulated deferred federal income tax (ADFIT), and depreciation expense, as per Staff Data Request No. 107, Supplemental 1. Also reflected in these pro forma adjustments are actual 2019 retirements of similar assets as an offset to expense, reducing the overall impact of these adjustments.

As shown in Table No. 3 below, the impact of updating the 2020 capital additions in PF Adjustment 3.11 – Customer at the Center, as compared to the Company's direct case, increases requested electric net plant by $963,000 and increases expense by $204,000. For natural gas, this adjustment increases net plant by $71,000 and increases expense by $11,000.

Table No. 3: PF Adjustment 3.11 – Customer at the Center

Adjustment 3.11 - Customer at the Center						
	WA - Electric			WA - Natural Gas		
In 000's	Filed	Revised	Revision to PF Adj. 3.11	Filed	Revised	Revision to PF Adj. 3.11
Plant in Service	$ 3,726	$ 8,495	$ 4,769	$ 1,393	$ 2,368	$ 976
A/D	6,154	2,016	(4,138)	1,708	692	(1,016)
ADFIT	(564)	(232)	332	(177)	(66)	111
Net Plant	$ 9,316	$ 10,279	$ 963	$ 2,923	$ 2,994	$ 71
Depreciation Expense	$ 1,838	$ 2,042	$ 204	$ 577	$ 588	$ 11
Expense	$ 1,838	$ 2,042	$ 204	$ 577	$ 588	$ 11

As shown in Table No. 4 below, the impact of updating the 2020 capital additions in PF Adjustment 3.12 – Large Distinct Projects, as compared to the Company's direct case, reduces requested electric net plant by $5,302,000 and reduces expense by $216,000. For natural gas, this adjustment increases net plant by $61,000 and reduces expense by $69,000.

Table No. 4: PF Adjustment 3.12 – Large Distinct Projects

Adjustment 3.12 - Large Distinct Projects						
	WA - Electric			WA - Natural Gas		
In 000's	**Filed**	**Revised**	**Revision to PF Adj. 3.12**	**Filed**	**Revised**	**Revision to PF Adj. 3.12**
Plant in Service	$ 15,633	$ 12,307	$ (3,326)	$ 6,317	$ 5,695	$ (622)
A/D	8,385	6,218	(2,166)	1,047	1,720	672
ADFIT	(710)	(520)	190	(174)	(164)	10
Net Plant	$ 23,308	$ 18,005	$ (5,302)	$ 7,191	$ 7,251	$ 61
Depreciation Expense	$ 455	$ 238	$ (216)	$ 186	$ 118	$ (69)
Expense	$ 455	$ 238	$ (216)	$ 186	$ 118	$ (69)

As shown in Table No. 5 below, the impact of updating the 2020 capital additions in PF Adjustment 3.13 – Programs, as compared to the Company's direct case, reduces requested electric net plant by $4,059,000 and reduces expense by $440,000. For natural gas, this adjustment reduces net plant by $565,000 and reduces expense by $84,000.

Table No. 5: PF Adjustment 3.13 – Programs

Adjustment 3.13 - Programs						
	WA - Electric			WA - Natural Gas		
In 000's	**Filed**	**Revised**	**Revision to PF Adj. 3.13**	**Filed**	**Revised**	**Revision to PF Adj. 3.13**
Plant in Service	$ 43,319	$ 32,036	$ (11,283)	$ 5,955	$ 4,695	$ (1,260)
A/D	10,338	17,392	7,055	1,457	2,127	670
ADFIT	(2,119)	(1,949)	170	(217)	(192)	25
Net Plant	$ 51,538	$ 47,479	$ (4,059)	$ 7,194	$ 6,629	$ (565)
Depreciation Expense	$ 1,288	$ 848	$ (440)	$ 229	$ 144	$ (84)
Expense	$ 1,288	$ 848	$ (440)	$ 229	$ 144	$ (84)

As shown in Table No. 6 below, the impact of updating the 2020 capital additions in PF Adjustment 3.14 – Mandatory and Compliance, as compared to the Company's direct case, increases requested electric net plant by $1,242,000 and reduces expense by $41,000. For natural gas, this adjustment reduces net plant by $2,654,000 and reduces expense by $76,000.

Table No. 6: PF Adjustment 3.14 – Mandatory & Compliance

Adjustment 3.14 - Mandatory and Compliance						
	WA - Electric			WA - Natural Gas		
In 000's	**Filed**	**Revised**	**Revision to PF Adj. 3.14**	**Filed**	**Revised**	**Revision to PF Adj. 3.14**
Plant in Service	$ 33,737	$ 31,433	$ (2,303)	$ 11,735	$ 8,369	$ (3,366)
A/D	2,905	6,580	3,675	1,743	2,384	641
ADFIT	(1,058)	(1,187)	(129)	(355)	(284)	71
Net Plant	$ 35,584	$ 36,826	$ 1,242	$ 13,123	$ 10,469	$ (2,654)
Depreciation Expense	$ 710	$ 669	$ (41)	$ 276	$ 200	$ (76)
Expense	$ 710	$ 669	$ (41)	$ 276	$ 200	$ (76)

As shown in Table No. 7 below, the impact of updating the 2020 capital additions in PF Adj. 3.15 Short-Lived Assets, as compared to the Company's direct case, reduces requested electric net plant by $706,000 and reduces expense by $44,000. For natural gas, this adjustment reduces net plant by $440,000 and reduces expense by $85,000.

Table No. 7: PF Adjustment 3.15 – Short-Lived Assets

Adjustment 3.15 - Short-Lived Assets						
	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	$ 3,707	$ 6,305	$ 2,598	$ 1,852	$ 1,872	$ 20
A/D	7,710	4,083	(3,627)	1,721	1,155	(566)
ADFIT	(531)	(208)	323	(166)	(60)	106
Net Plant	$ 10,886	$ 10,180	$ (706)	$ 3,408	$ 2,967	$ (440)
Depreciation Expense	$ 1,966	$ 1,922	$ (44)	$ 642	$ 557	$ (85)
Expense	$ 1,966	$ 1,922	$ (44)	$ 642	$ 557	$ (85)

Q. Does the Company have any more updates to the adjustments you sponsor in direct testimony?

A. Yes. Ms. Andrews discusses in her rebuttal a correction the Company has to Adjustment 2.19 – Restate 2019 AMA Rate Base to EOP. The Company is not proposing on rebuttal any updates to Adjustment 1.01 – Deferred FIT Rate Base or Adjustment 1.04 – Remove Advanced Metering Infrastructure (AMI) Rate Base, as sponsored in my direct testimony. Ms. Andrews sponsors the remaining capital adjustments, including pro forma capital additions related to Colstrip Units 3 and 4, Western Energy Imbalance Market (EIM), AMI and the Wildfire Resiliency Plan.

III. OTHER PARTIES' POSITIONS ON 2020 CAPITAL ADDITIONS

Q. What did Public Counsel recommend regarding the inclusion of 2020 pro forma capital additions in their proposed revenue requirement?

A. Public Counsel witness Ms. Crane "recommends that the Commission include Avista's actual 2020 plant additions" for the five Pro Forma Capital Additions Adjustments 3.11 – 3.15, as updated in Staff Data Request No. 107, Third Supplemental.[7/8]

Q. What did Staff recommend regarding the inclusion of 2020 pro forma capital additions in their proposed revenue requirement?

A. Ms. Higby proposes a substantial reduction to the Company's five 2020 Pro Forma Capital Additions Adjustments – projects that were complete and in-service by December 31, 2020. Specifically, Ms. Higby recommends the Commission include in rates

[7] Crane, Exh. ACC-1T, p. 34, ll. 5-8.
[8] The Company updated PF Adjustments 3.11 – 3.15 in Staff Data Request No. 107, Supplemental 1. Additional updates to PF Adjustments 3.16 and 3.19 were provided in Staff Data Request No. 107, Supplementals 2 and 3.

only projects and programs within the 2020 PF adjustments 3.11 – 3.15 that "(1) meet a reasonable definition of "major," (2) are based off the actual transfer to plant numbers, (3) account for offsetting factors, and (4) for Adjustment 3.13 meet the Commissions definition of programmatic investments."[9] In addition, although the Company's intent was to provide all retirements in 2020 as offsets to the Company's proposed level of capital additions, Ms. Higby makes no recognition to adjust the level of retirement offsets to match the minimal capital additions Staff has proposed to include, creating a "mismatch" between the relationship of expenses, and rate base. A comparison of Avista's actual 2020 gross plant additions on a business case and ER basis to what Staff has proposed to be included in this case can be seen in my exhibit, Exh. KJS-4.

Q. Did Staff include an adjustment using a "threshold" to limit the number of "major" pro forma projects included in this case?

A. Yes. Staff applied a "major project threshold of 0.25 percent of net plant in service" to PF Adjustments 3.12 – 3.14.[10] Accordingly, Staff's proposed threshold level of capital covers only electric plant additions over <u>$4.1 million</u> and natural gas plant additions over <u>$0.9 million</u>.[11] Staff applied this "threshold" to the Company's Expenditure Requests (ERs) included in the case. The Company does not believe this is an appropriate approach, especially given the capital additions that are known and measurable.

Q. Besides proposing a "threshold", how else does Staff propose to further

[9] Higby, Exh. ANH-1T, p. 3-4, ll. 24-3

[10] Staff decided to not apply a major project threshold to PF Adjustments 3.11 and 3.15, as these adjustments are largely composed of short-lived assets. "Staff believes short-lived plant deserves special consideration given its relatively rapid depreciation and acute vulnerably to regulatory lag. Projects with short depreciable lives can have a financial impact to a company through incremental depreciation, which is directly related to the book life of an asset." Higby, Exh. ANH-1T, p. 17, ll. 11-16 & 19-22.

[11] Higby, Exh. ANH-1T, p. 1, ll. 6-9.

limit the number of pro forma projects included in the case?

A. Although Staff decided to not apply a "major project threshold" to PF Adjustments 3.11 and 3.15, as these adjustments are largely composed of short-lived assets and deserve special treatment given the financial impact due to incremental depreciation[12], Ms. Higby proposes to further limit pro forma projects from her selected "major" subset within all five 2020 PF adjustments by removing ERs Staff believes do not account for offsetting factors.[13] Finally, Ms. Higby further limits her selected "major" subset, including those she believes do not have offsetting factors, by removing ERs within PF Adjustment 3.13 – Programs that Staff believes are not in alignment with the Commission's recent guidance of programmatic investments.[14] I will discuss these concepts later in my testimony under Section IV.

Q. Briefly, how did AWEC treat 2020 pro forma capital additions?

A. Mr. Mullins 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.[15] Please see Section V. for more discussion on this concept.

Q. How do the Parties' adjustments compare with plant-in-service during the Rate Year?

A. Table Nos. 8 and 9 below provide a comparison of the Company's Washington electric and natural gas net plant additions (gross plant additions after A/D and ADFIT)

[12] Higby, Exh. ANH-1T, p. 17, ll. 11-16 & 19-22.
[13] Higby, Exh. ANH-1T, p. 31, ll. 6-7.
[14] Higby, Exh. ANH-1T, p. 37, ll. 15-16.
[15] Mullins, Exh. BGM-1T, p. 12, ll. 19-23.

rebuttal positions from the as-filed[16] and including proposed adjustments by each Party. The detail regarding the "Adjusted" amounts in the tables and illustrations below can be found in Exh. EMA7, page 3 and 5.

Table No. 8: Electric - 2020 Net Plant Additions (after Retirements, A/D & ADFIT)[17]

Electric - 2020 Net Plant Additions (after Retirements, A/D & ADFIT)				
	Avista	Staff	PC	AWEC
As Filed	130,632	130,632	130,632	130,632
Adjusted	(7,862)	(68,171)	(16,128)	(117,900)
Net Impact	**122,770**	**62,461**	**114,504**	**12,732**

Table No. 9: Natural Gas - 2020 Net Plant Additions (after Retirements, A/D & ADFIT)

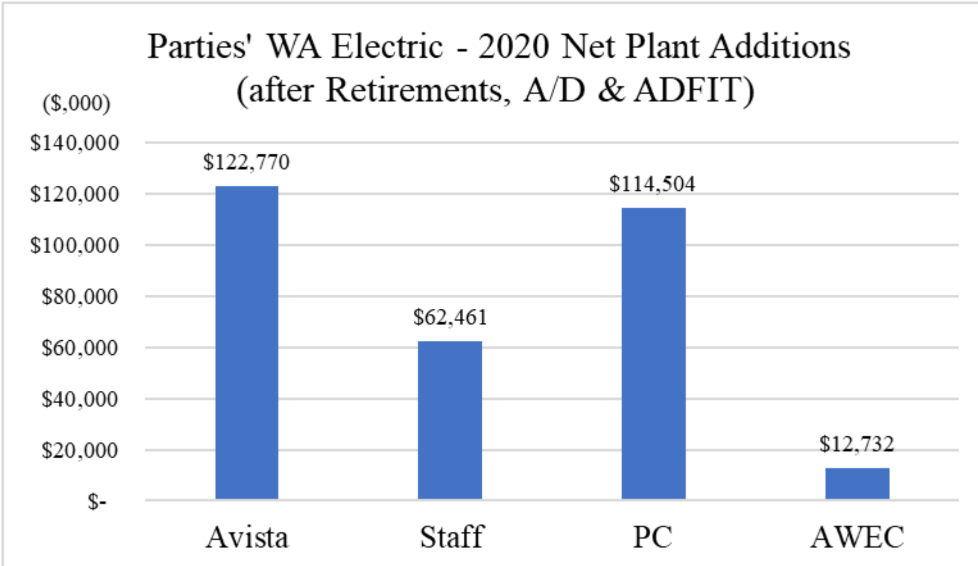
Natural Gas - 2020 Net Plant Additions (after Retirements, A/D & ADFIT)				
	Avista	Staff	PC	AWEC
As Filed	33,839	33,839	33,839	33,839
Adjusted	(3,529)	(12,988)	(3,529)	(28,126)
Net Impact	**30,310**	**20,851**	**30,310**	**5,713**

Illustration No. 1 (electric) and Illustration No. 2 (natural gas) below show the comparison from Table Nos. 8 and 9 above:

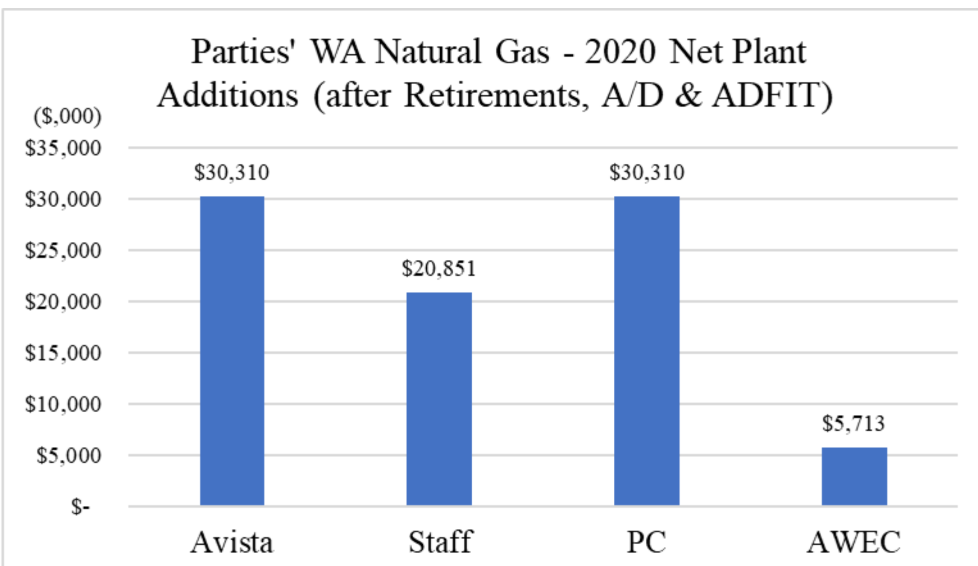
[16] The "As-Filed" amounts contained in Table Nos. 8 and 9 can be found in my direct testimony, Exh. KJS-1T, by adding the net plant column for the five 2020 Pro Forma Adjustments in Table No. 1 (electric) on pg. 5 and Table No. 2 (natural gas) on pg. 6.

[17] Ms. Crane recommended the Commission approve Avista's electric and natural gas actual 2020 plant additions within PF Adjustments 3.11 – 3.15. Table No. 8 includes Public Counsel's proposed removal of the Company's Distribution Grid Modernization and Substation Rebuild plant additions in separate adjustments.

<u>Illustration No. 1: Parties' WA Electric - 2020 Net Plant Additions ($,000)</u>



<u>Illustration No. 2: Parties' WA Natural Gas - 2020 Net Plant Additions ($,000)</u>



<u>With exception of Public Counsel</u>, who recommended the Commission <u>approve</u> Avista's electric and natural gas <u>actual 2020 plant additions</u> within PF Adjustments 3.11 – 3.15,[18] these illustrations show that both Staff's and AWEC's proposed rate base adjustments

[18] *Ibid.*

fall well below the level of plant-in-service that is currently in place and serving customers – and will have been for at least nine months or more prior to the start of the Rate Year. They also illustrate why the Company does not agree with the use of an arbitrary "threshold" to limit the number of pro forma projects included in the revenue requirement, as well as further limitations of ERs based on those believed to not have offsetting factors or believed to not meet a prescribed definition of "programmatic investments", as proposed by Staff. Limiting the 2020 capital adjustments in this way, only exacerbates the significant regulatory lag experienced by the Company, as discussed further by Ms. Andrews.

IV. AVISTA'S RESPONSE TO STAFF'S TESTIMONY REGARDING 2020 CAPITAL ADDITIONS

Q. Ms. Higby draws several conclusions regarding "business case", "expenditure request", "budgeted items" and "projects".[19] Would you please briefly discuss at a high level the Company's budgeting process and how these terms are used?

A. Yes. Company witness Mr. Thies discusses the budgeting process in his direct testimony and provides the Company's 2020 Infrastructure Investment Plan as Exh. MTT-4. As the Company's 2020 Infrastructure Investment Plan describes, "each business unit proposing a capital expenditure is required to fill out a form explaining the situation, the primary business driver, alternatives considered, and the justification for the approach recommended."[20] This form is defined as the "business case". The resulting business case is sent to the Capital Planning Group (CPG) for final review and funding approval. Business

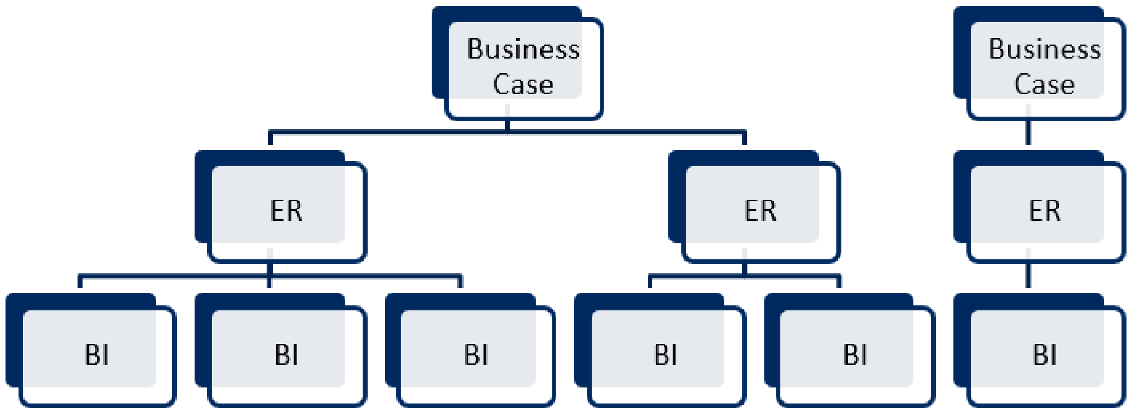
[19] Higby, Exh. ANH-1T, p. 7, ll. 10 through p. 8, ll. 2.
[20] Thies, Exh. MMT-4, p. 6.

cases are updated from time to time throughout the life of the project or program; this process can vary by each project or program, as those with little-to-no changes in scope, work, value, timing, etc. will have fewer submissions and those that experience more changes will submit updates on a more frequent basis. Because the CPG evaluates all the capital proposed funding at the business case level and from a Company-wide perspective, business cases are used to describe and support capital investments in the Company's direct testimony.

As part of the budgeting process, business cases are further broken out by expenditure requests (ERs), which are further broken out by budgeted items (BIs). ERs and BIs allow the Company to fine tune the budget and forecasting process. For example, a business case may have two ERs under it – one related to transmission work and another related to electric distribution work. Each of those ERs may have numerous BIs under them, as each BI could correlate to a specific piece of the project or service and jurisdiction. Another example, a business case may have one ER under it related to a distinct capital project.[21] That ER has one BI under it because the distinct capital project relates to a specific service and jurisdiction. Thus, ERs and BIs are established to help with the tracking of costs, but the business case level is what the CPG uses to make budgeting decisions on and are also what the Company uses as support for capital projects in this case. The following illustration describes this conceptually:

[21] As defined in Company witness Mr. Thies' direct testimony on page 6, "project" refers to an individual investment for a specific period of time. "Programs" represent investments that address systemic needs that are ongoing with no recognized endpoint, such as the Wood Pole Management or Aldyl-A Pipe Replacement programs. For ease of reference, the term "capital project" will be used to represent both capital projects and capital programs.

<u>Illustration No. 3: Sample Business Case, ER and BI Relationships</u>



Q. Ms. Higby also states that "it is not clear to Staff whether "expenditure request" and "business case" are in fact referring to the same things."[22] Are "business case" and "expenditure request" referring to the same thing?

A. No. Technically, business case and expenditure request are two separate terms. There are many instances, however, where there is a one-for-one relationship between business case and ER. Within updated PF Adjustments 3.11 – 3.15, the Company included a total of <u>59 business cases</u>, of which <u>56, or approximately 95%,</u> of those business cases had a single ER relationship.[23] The remaining three business cases, or 5%, ranged from either two to three ERs per business case.[24] Additionally, of those 59 business cases, 26 (over 40%) had common transfers to plant in 2020 between both the Company's electric and natural gas

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[22] Higby, Exh. ANH-1T, p.7 ll. 18-19.

[23] Even though the Electric Storm business case was broken out into PF Adjustment 3.12 and PF Adjustment 3.13, it is only counted once in the total business case number. PF Adjustment 3.12 was to capture the transfer to plant related to the Labor Day Storm and Chelan-Stratford transmission line rebuild. These Labor Day/September Windstorm costs were recorded to existing blanket BIs under the Electric Storm business case, which is where they would normally be recorded.

[24] The Company included a total of 59 business cases for the 2020 projects, which contain a total of 63 ERs in this case. Additionally, the Company included four (4) large and distinct business cases associated with AMI, EIM, Wildfire and Colstrip.

services. Ms. Higby's analysis of the number of ERs or BIs does not consider those with common plant, meaning capital additions allocated between both services and possibly multiple jurisdictions, nor does her testimony speak at the "business case" level, as that is what the Company has included in direct testimony and the level at which the Company supports capital investments in this case. Avista, however, has responded in discovery to areas of interest by the Parties that extend down to the "ER" and "BI" level. Simply put, we have been transparent and accommodating with respect to discovery requests.

Q. Does the Company believe it's appropriate to consider BIs as a "project" as Ms. Higby is insinuating?[25] Please explain.

A. No. The Company does not believe it's appropriate to use BIs to define a "project". As mentioned above, BIs are established under ERs to allow the Company to budget, forecast, track work, etc. at a more granular level including service and jurisdiction. BIs are used differently across the Company. Some areas within the Company use BIs to track service and jurisdictions, while others use it to break out different capital investments by, or a combination of, function, system, service area, etc. Regardless, any of these methods for using BIs, allow the Company to "fine tune" the overall budgeting process. Thus, while some "quite small"[26] BIs as Ms. Higby infers may have been included in the case, as described above, the Company uses business cases to support the capital investments included in this case.

Q. Did the Company establish a "major" project threshold as Ms. Higby is indicating?[27]

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[25] Higby, Exh. ANH-1T, p. 15, ll. 14.
[26] Higby, Exh. ANH-1T, p. 15, ll. 11-13.
[27] Higby, Exh. ANH-1T, p. 13, ll. 9-10.

A. No. The Company did not establish a "major" project threshold. Rather, the Company eliminated smaller projects that were generally less than $500,000 electric and $200,000 natural gas, to reduce the number of projects selected for recovery in this case and to ease the auditing burden on Staff and the Parties.[28]

Q. Please summarize Avista's approach for pro forming 2020 capital additions in its direct case.

A. As discussed in both my and Ms. Andrews' direct testimonies, in order to select the projects requested in this case for calendar year 2020, the Company used the Commission's recent Used and Useful Policy Statement ("Policy Statement"), as well as the recent PSE Order 08 in Dockets UE-190529 and UG-190530 ("PSE Order"), for guidance in establishing the projects it selected for inclusion in this proceeding:"[29]

- First, the Company looked for a sensible "balance" between the burden on parties to review and the Company's need to recover 2020 capital additions that were already largely in-service serving customers at the time of filing the Company's case (or would, within two months of filing, be in-service through December 31, 2020), ensuring these projects meet the Commission's requirement that each project is "used and useful," and "known and measurable."

- Second, the Company "grouped" its projects to fit into the Commission defined categories: 1) specific, identifiable and distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets. The Company created a 4th category – reflecting projects that are mainly "programmatic," and required to meet regulatory and other mandatory obligations, titled: 4) "Mandatory and Compliance". The Company excluded all non-material projects generally less than $500,000 electric and $200,000 natural gas.

In the "categorized" PF Adjustments 3.11 – 3.15, the Company has proposed certain 2020 capital additions, updated with actual in-service balances as of December 31, 2020. All

[28] Schultz, Exh. KJS-1T, p. 11, ll. 16-17.
[29] WUTC "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), provided January 31, 2020, per Docket No. U-190531.

2020 projects included are currently serving customers and "used and useful" at least nine months prior to rates going into effect October 1, 2021, and for some projects, up to 21 months in advance.

Q. Ms. Higby states that "Avista does not account for offsetting benefits associated with some of the projects it proposes to include in revenue requirement".[30] Consequently, Staff removed the capital associated with ER 7060 – Customer Experience Platform, ER 5026 – ET Modernization & Op Efficiency, and ER 5038 – Enterprise Data Science. Do you agree with this assessment and adjustments?

A. No. As discussed in my direct testimony, the Company has included a reduction in depreciation expense related to 2020 retirements on plant-in-service at December 31, 2019.[31] The overall effect of reflecting the 2020 retirements on plant-in-service at December 31, 2019, in each 2020 capital adjustment, reduces the incremental depreciation expense pro formed in these adjustments.[32]

This offset adjustment by the Company considers the full level of retirements for plant in service at December 31, 2019, but the Company has not included the full level of 2020 capital additions associated with replacing those assets. In fact, Ms. Higby allows that "Avista should be lauded for its efforts in this regard".[33] Avista recognized it had not included retirements in the past, nor have other utilities included retirements in the past. This imbalance

[30] Higby, Exh. ANH-1T, p. 25, ll. 21-22 through p. 26, ll. 1-7.
[31] Schultz, Exh. KJS-1T, p. 21, ll. 2-5.
[32] For Washington electric and natural gas combined, the revenue requirement impact of the reduction to depreciation expense related to 2020 retirements totals $2.0 million. Prior to the inclusion of this reduction, the revenue requirement associated with the 2020 PF Capital Additions Adjustments (3.11 – 3.15) would have been $23.7 million. However, by including the retirements as offsets, the revenue requirement associated with the 2020 PF Capital Additions Adjustments results in a net revenue requirement of $21.7 million, or a 9% reduction to the revenue requirement on these projects.
[33] Higby, Exh. ANH-1T, p.25, ll. 2.

of plant-to-retirements, as well as including known reductions for Wood Pole Management, Distribution Grid Modernization, and Downtown Network – Performance and Capacity, was a conscious effort by the Company to be more responsive to the Commission's request for <u>offsets</u> when pro forming capital additions. Avista included <u>all known offsets</u> - i.e., those which <u>actually reduce O&M</u> from that reflected in the 2019 test period. Therefore, removing the capital from the three ERs[34] as Ms. Higby is suggesting, is a gross understatement of the actual level of capital additions the Company has realized as of December 31, 2020. Removing this plant further compounds the regulatory lag the Company will experience on plant that was used and useful at December 31, 2020.

Q. Further, Ms. Higby discusses that she believes the Company has offsetting benefits it did not account for – either the Company did not attempt to quantify, or did quantify, but chose to omit from its revenue requirement calculation.[35] In your view, do you agree with Ms. Higby's conclusions?

A. No, I do not. The Company has included in the case what it can quantify; quantifiable values that are known and measurable at the time of filing or during the process of the case. Value for many capital investments, however, cannot be quantified at the time of the investment and a real value is not recognized until later in time. Often those benefits are around re-deploying labor. Many projects can be justified regardless of efficiencies or not, indeed, efficiencies may not be the purpose or driver of the project to begin with. See, for example, those that are mandatory and compliance-related. Consistent with the Company not including all operating expenses (most capital additions beyond 2020) in this case, it did not

[34] ER 7060 – Strategic Initiatives (Customer Experience Platform), ER 5026 - ET Modernization & Operational Efficiency- Technology and ER 5038 Enterprise Data Science.
[35] Higby, Exh. ANH-1T, p. 26, ll. 9-26 and p. 27, ll. 1-14.

attempt to quantify benefits that are unknown and measurable at the time of filing or during the process of the case. Since the Company is unable to quantify all offsetting values at the time of doing the capital investment, it chose to otherwise provide and include all 2020 retirements to reflect an offset for its 2020 pro forma capital additions, as a good faith effort to provide some level of “offsets”.

Q. Will the Company’s overall level of expense be lowered as a result of these projects (ER_7060 – Customer Experience Platform, ER_5026 – ET Modernization & Op Efficiency and ER_5038 – Enterprise Data Science)?

A. No. The efficiencies and benefits realized in the Customer Experience Platform, ET Modernization & Operational Efficiency, and Enterprise Data Science business cases are not overall cost reductions to the Company. Rather, they are realized by automating inefficient business processes. For example, a project included in the ET Modernization and Operational Efficiency business case is for a product called App Dynamics. This is an application performance monitoring tool that is used to monitor our critical business applications at a transactional level. Similar to a light in your car warning you that your tire pressure is low, this system will warn you about the source and location of troubled applications – thus providing increased employee efficiency through the reduction of steps required to trouble shoot the issue and correct the problem. With this technology, these resources can reduce downtime of our technical systems and of our Company resources that are impacted by the outage. In this instance, the Company would not reduce the number of employees, but would make it more efficient in determining root causes issues and determining processes to prevent them in the future. While there would be efficiencies through time saved, the Company would not realize overall reduced O&M expenses as we will redeploy that labor to address other utility needs. As such, there should not be an offset for this business case. We are otherwise avoiding increased expenses.

Another example, as discussed in Company witness Mr. Magalsky's direct testimony, is the Customer Experience Platform (CXP) in ER_7060 – Strategic Initiatives. The Company did not include "hard" savings related to CXP, as he explains:

> For example, when we state reductions in calls into the Contact Center, one must remember that the Company is also growing, adding more customers every day. Further, the calls that do tend to escalate from self-service channels to live Customer Service Representative (CSR) help can be more complicated. In the end, this investment will not reduce the number of CSRs the Company employs, however it will reduce the number of new CSRs we would have to employ, absent CXP.[36]

While there would be efficiencies through redeployed resources, the Company would not reduce overall O&M expenses and therefore, should not include an offset for this business case. This is another example of where we avoid increased expenses.

Q. What is the Washington Electric and Washington Natural Gas rate base impact of removing ER_7060 - Customer Experience Platform, ER_5026 – ET Modernization & Op Efficiency and ER_5038 – Enterprise Data Science capital additions?

A. The removal of these three short-lived capital additions results in a total decrease of approximately $3,836,000 Washington electric and $1,204,000 Washington natural gas net plant. The revenue requirement associated with the removal of these three capital additions, total approximately $1,185,000 Washington electric and $378,000 Washington natural gas.[37]

Q. Finally, Ms. Higby also discusses an additional ER, she labels as a "non-

[36] Magalsky, Exh. KEM-1T, p. 27, ll. 7-12.
[37] The calculated revenue requirement figures do not consider any impacts of retirements.

major" ER, which had offsetting factors she and Staff witness Mr. Gomez believes should have been included in the Company's revenue requirement.[38] Please explain the issue raised by Staff and the Company's position on this matter.

A. The "non-major" ER that Staff witnesses' Ms. Higby and Mr. Gomez believe has offsetting factors that were not included in the revenue requirement calculation is ER_4206 – CS2 Single Phase Transformer. As stated by Ms. Higby, Mr. Gomez argues "the Company failed to account for a $5.2 million insurance claim and $2.9 million write off net book value of two failed transformers."[39] As indicated in the Company's response to Staff Data Request No. 158, in the Company's 2019 GRC (Docket UE-190334), the Company informed the parties that while an insurance claim had been submitted, the cause for the failure was yet to be determined, and therefore no proceeds had been received. The Company further clarified that the unit had been shipped to a facility in Canada ("Canadian Company") for disassembly to determine if a component failure occurred, which would trigger insurance recovery, and that it was possible that, if no such failure was found, Avista would not receive insurance proceeds related to this incident. The Company's understanding is that there have been delays due to COVID precautions, reducing the amount of work the Canadian Company could complete during 2020.

As stated in Staff Data Request No. 158, the Company recorded a $3.9 million (system) retirement, not a write-off, in September of 2020 for CS2 T#3. As stated previously in Section II of my rebuttal testimony, the Company included all actual retirements in the 2020 Pro Forma Capital Additions Adjustments, including those for the CS2 transformers. As

[38] Higby, Exh. ANH-1T, p. 30, ll. 14 – p. 31, ll. 2. Also, Gomez, Exh. DCG-1CT, p. 52, ll. 10 – p. 54, ll. 10.
[39] Higby, Exh. ANH-1T, p. 30, ll. 21 – p. 31, ll. 2.

started in the native excel files within Staff Data Request No. 107 related to PF Capital Adjustments 3.11 – 3.15, in order to make sure all retirements were captured in this case, the Company allocated actual retirements to each of these five pro forma adjustments based on pro rata share of transfers-to-plant included in this case.

At this time, the Company has no further knowledge as far as any proceeds from the Company's insurance claim. As of now, there are still discussions between Avista and its insurance expert, and the insurers' adjuster and their expert. If, however, the coverage is denied, Avista will then evaluate if the Company has further recourse. Outside of including retirements as an offset, Avista did not build any additional form of an offset for the insurance claim, as this still very unknown at this time, if (a) it will come to fruition at all, and (b) if it does, how much. The $5.2 million referenced above was simply an early potential insurance recovery. If an amount is paid, it will be a system amount received after application of the Company's $1.0 million deductible.

Q. Please provide the Commission's Policy Statement that describes programmatic investments that the Company based its Pro Forma Adjustment 3.13 on.

A. In its most recent Policy Statement, the Commission defines "programmatic" as:

> …investments are, by their very nature, investments made according to a schedule, plan or method such as the replacement of power poles or other small distribution system investments necessary to provide safe and reliable service to Washington ratepayers.[40][emphasis added]

Q. Does Avista deem all business cases included in Pro Forma Adjustment 3.13 as programmatic in nature? Please explain.

[40] Policy Statement, p.5, n.19.

A. Yes. Avista believes the business cases included in Pro Forma Adjustment 3.13 are truly "programmatic" in nature. The Company used the Commission's Policy Statement as guidance to determine that these capital investments are on-going, recurring annual projects that are made according to a schedule, plan, or method. Replacing and upgrading equipment as it approaches end-of-life or becomes obsolete is "programmatic" and necessary to maintain safe and reliable service to Avista's Washington customers. Many of these business cases use historical data to trend forecasted capital investment.

Q. Staff claims that some of the Company's blanket projects are "antithetical" to the very definition that the Commission gave for programmatic projects.[41] In your view, can blanket projects be considered programmatic investments?

A. Yes. For several of our blanket programs, there is a schedule, plan or method and they are necessary to provide safe and reliable service to Washington rate payers. For example, the electric distribution minor blanket program is necessary to provide safe and reliable service to Washington customers; while it may be unplanned work and does not have a specific schedule, there is definitely a method and a detailed prescribed work process that occurs in this "blanket", year-over-year. These are "routine" in nature, and often are the "bread and butter" of ongoing construction practices, about which there should be little dispute.

Q. Did the Company demonstrate prudency for these investments, and does it continue to do so for these cyclical investments?

A. Yes. Staff states "business case information, such as the need for the investment, alternatives considered, and benefits and offsets of the investment should not

[41] Higby, Exh. ANH-1T, p. 35, ll. 10-14.

occur only once."[42] Thus, suggests that the Company sets it and forgets it after a program has been developed. This is not the case. The Company reviews the business case narratives at various times since the origination of a program. When the scope and drivers of the work change, business case narratives are updated at that time. For example, we have a program to add/replace cathodic protection on steel natural gas pipes. This business case may not be updated for the life of the program, as the scope and drivers of the work have not changed. However, forecasted transfers to plant are reviewed on an annual basis as part of the five-year budget and forecasting process for each of the programs included in this filing. In addition, the Company will review the progress and update budget information throughout the current year.

Q. Can you give one example of a programmatic investment that Staff removed?

A. Yes. The Fleet Services program (ER_7000 – Transportation Equipment) is one ER that Staff chose to remove, albeit due to Staff's proposed "threshold". This program happens to have an Infrastructure Plan[43], along with a specific asset maintenance plan from a modeling system called Utilimarc[44]. Under the Commission's definition of programmatic from the Policy Statement, this is just one example that surely qualifies as a "program" as it has specified plan(s) and a methodical schedule for replacement, it should be included as part

[42] Hibgy, Exh. ANH-1T p.37, ll. 2-4.
[43] Rosentrater, Exh. HLR-8.
[44] Rosentrater, Exh. HLR-8 pg. 11: Fleet uses a modeling system offered by Utilimarc, an industry recognized software and analytics company, to help develop the most practical and cost-efficient decisions related to managing Avista's assets. The Utilimarc tools broad base of this dataset includes utility industry benchmarks, purchase and auction data, and nationwide vehicle information, providing visibility into how Avista manages its fleet compared to industry peers. It also contains a robust dataset based on Avista's own fleet data, and uses this information to recommend vehicle replacement dates, develop actual and projected costs, and even suggest staffing and expertise needed to manage the Company's fleet most effectively. It also considers annual expected ownership and maintenance costs for each vehicle and equipment class.

of Pro Forma Adjustment 3.13.

V. AVISTA'S RESPONSE TO AWEC's TESTIMONY REGARDING 2020 CAPITAL ADDITIONS

Q. Mr. Mullins analyzed annual gross plant activity for several years in Table 5, Exh. BGM-1T, page 15, drawing several conclusions about the Company's pro formed capital in the case. Please summarize those conclusions.

A. Mr. Mullins concludes the following:

1) 2020 capital spending slowed materially and Avista even experienced a material decline in capital spending over previous years.[45]

2) Avista's proposal ignored sales growth.[46]

3) Avista's pro formed capital has the effect of incorporating the majority, if not the entirety, of Avista's 2020 capital budget.[47]

4) For electric service, Avista's pro formed capital exceeded the 2020 total capital expenditures.[48]

Q. Do you agree with Mr. Mullins conclusions related to the Company's pro formed capital?

A. No, I do not. The data in Mr. Mullins' Table 5[49] that was used to draw the conclusions summarized above is not representative of Avista's 2020 <u>actual</u> capital experience. I will explain below.

Q. Please summarize Table 5 in Exh. BGM-1T.

A. Mr. Mullins prepared Table 5 for both Washington electric and natural gas service by using the Company's annual Results of Operations Reports for 2012 through 2020

[45] Mullins, Exh. BGM-1T, p. 12, ll. 16 and p. 15, ll. 3-4.
[46] Mullins, Exh. BGM-1T, p. 18, ll. 5-6.
[47] Mullins, Exh. BGM-1T, p. 14, ll. 9-10.
[48] Mullins, Exh. BGM-1T, p. 16, ll. 1-2.
[49] Mullins, Exh. BGM-1T, p. 15.

on an AMA gross plant basis. For the presented periods, 2012 – 2020, Mr. Mullins removed AMI from the AMA gross plant balances and presented the net change year-over-year as the approximate level of capital spending. A summary of AWEC's Table 5 follows for the 3-year period of 2018 through 2020 in Table No. 10 prepared for Washington electric and Table No. 11 for Washington natural gas, each of which simply capture Mr. Mullins analysis for this 3-year period.

Table No. 10 – Washington Electric - Summary of AWEC's Table 5

	AWEC Table 5	
	Washington Electric AMA Gross Plant - Less AMI	
	($000's)	
Line #		**Per Exh. BGM-1T Table 5**
		Change
1	2018	$ 126,054
2	2019	171,292
3	2020	$ 96,019
4	3-Year Total	$ 393,365
5	2020 Capital Pro Formed	$ 136,794

From AWEC Table 5, recreated above in Table No. 10, Mr. Mullins concludes Avista pro formed $136.8 million (line 5) in 2020 for Washington electric service, when it only capitalized $96.0 million (line 3). He also concludes the 2020 amount capitalized of $96.0 million was significantly less than the amount capitalized for 2018 (line 1) and 2019 (line 2).

Table No. 11 – Washington Natural Gas – Summary of AWEC's Table 5

	AWEC Table 5	
	Washington Natural Gas AMA Gross Plant - Less AMI	
	($000's)	
Line #		**Per Exh. BGM-1T Table 5**
		Change
1	2018	$ 47,646
2	2019	64,883
3	2020	$ 39,998
4	3-Year Total	$ 152,527
5	2020 Capital Pro Formed	$ 27,251

From AWEC Table 5, recreated above in Table No. 11, Mr. Mullins concludes Avista pro formed $27.3 million (line 5) in 2020 for Washington natural gas service, when it capitalized $40.0 million (line 3). He also concludes the 2020 amount capitalized of $40.0 million was significantly less than the amount capitalized for 2018 (line 1) and 2019 (line 2).

Q. Do these tables show the actual amount the Company capitalized in those years?

A. No, they do not. There are several issues in how the data was prepared and presented by Mr. Mullins, including the following:

1) Mr. Mullins used the AMA Results of Operations Reports to prepare the table. By doing so, the annual activity shown in his analysis in his Table 5 is not truly the activity for the year.

2) Mr. Mullins compared the pro formed plant balances, including retirements, from the Company's direct case to the AMA balances. The pro formed balances Mr. Mullins used are not representative of actual 2020 pro formed capital, as the balances do not include actual 2020 transfers to plant reflected in Staff Data Request No. 107. Additionally, the balances Mr. Mullins used include capital additions pro formed by the Company in 2021 and 2022. By not removing those from the analysis, Mr. Mullins is not comparing apples-to-apples.

Q. To make an accurate comparison between actual capital spending compared to Avista's pro formed capital, please provide updated tables.

A. To provide an accurate comparison between actual capital transfers to plant compared to Avista's pro formed capital, as shown below, the Company has prepared Table No. 12 for Washington electric and Table No. 13 for Washington natural gas.

Table No. 12 – Washington Electric – Avista's Comparison of Actual Annual Capital Additions versus Pro Formed Capital for 2020

Washington Electric - Comparison of Annual Plant Activity by Year ($000's)							
		A	B	C	D	E	F
Line #		Per Exh. BGM-1T Table 5 (AMA)	Actual Activity - Annual Amount (Gross Plant)				
		Change	Capital Additions	Less: AMI	Capital Additions Excluding AMI	Retirements	Net Change
1	2018	$ 126,054	$204,867	$(21,625)	$ 183,242	$ (33,904)	$ 149,339
2	2019	171,292	212,287	(37,080)	175,207	(61,006)	114,201
3	2020	96,019	203,589	(22,517)	181,072	(38,820)	142,253
4	3-Year Total	$ 393,365	$620,743	$(81,222)	$ 539,521	$ (133,729)	$ 405,792
5	2020 Capital Additions Excluding AMI						$ 142,253
6	Less: 2020 New Customer/Revenue Capital						(14,743)
7	**Actual 2020 Capital Additions Excluding AMI & New Revenue**						**$127,510**
8	**2020 Capital Pro Formed In Case**	$ 136,794					**$ 97,302**
9	**2020 Capital Excluding AMI & New Revenue NOT Pro Formed**						**$ 30,208**

Table No. 13 – Washington Natural Gas – Avista's Comparison of Actual Annual Capital Additions versus Pro Formed Capital for 2020

Washington Natural Gas - Comparison of Annual Plant Activity by Year ($000's)							
		A	B	C	D	E	F
Line #		Per Exh. BGM-1T Table 5 (AMA)	Actual Activity - Annual Amount (Gross Plant)				
		Change	Capital Additions	Less: AMI	Capital Additions Excluding AMI	Retirements	Net Change
1	2018	$ 47,646	$ 80,648	$ (8,531)	$ 72,117	$ (8,532)	$ 63,585
2	2019	64,883	76,140	(15,166)	60,974	(15,653)	45,321
3	2020	39,998	53,448	(6,537)	46,912	(8,914)	37,998
4	3-Year Total	$ 152,527	$210,237	$(30,234)	$ 180,003	$ (33,099)	$ 146,904
5	2020 Capital Additions Excluding AMI						$ 37,998
6	Less: 2020 New Customer/Revenue Capital						(11,977)
7	**Actual 2020 Capital Additions Excluding AMI & New Revenue**						**$ 26,021**
8	**2020 Capital Pro Formed In Case**	$ 27,251					**$ 22,998**
9	**2020 Capital Excluding AMI & New Revenue NOT Pro Formed**						**$ 3,023**

Q. Please summarize the tables.

A. The first column of numbers (column A) contains the numbers Mr. Mullins used in his testimony and should be compared to Avista's actual activity (column F), which is the net of the four columns shown on the right-hand side of the table (columns B – E). The actual activity first shows total transfers-to-plant by year (B). AMI investment is removed to be consistent with Mr. Mullins analysis (C), which then provides a subtotal of actual additions excluding AMI investment (D). Next, retirements (E) are shown, to provide actual change to gross plant for 2018 through 2020 (F) by year and in total over the three-year period. The Company included retirements in this analysis to remain consistent with the data Mr. Mullins presented.

For Washington electric, the net change over the three-year period 2018-2020 of $405.8 million (column F, line 4) is consistent with the net change of $393.4 million over this same three-year period in Mr. Mullins table (column A, line 4). For Washington natural gas, the net change of $146.9 million (column F, line 4) is consistent with the net change of $152.5 million in Mr. Mullins table for the same three-year period (column A, line 4). The similarity between these balances are shown to prove these amounts are similar when examining the overall transfers to plant over the three-year period in total. However, the differences between the net changes by year is due to Mr. Mullins using AMA data and Avista using the actual annual data. More importantly, it can be seen that when preparing the annual change accurately, actual 2020 additions are far more consistent with the amounts added in 2018 and 2019, and do not show the significant decline that Mr. Mullins suggests for both electric and natural gas activity in his analysis.

Lines 5 through 9 (column F) compare the total actual capital additions, including the offsets of retirements, recorded in 2020 to the amount pro formed in the Company's rebuttal case. A comparison of the actual results to the data presented by Mr. Mullins follows:

1) Line 5 shows the additions, net of retirements, excluding AMI, which was obtained from line 3.

2) Line 6 removes the capital transferred to plant to hook up new customers. Contrary to Mr. Mullins statement that Avista creates a mismatch because it does not pro form new revenue in the pro forma period, Avista consistently excludes the new revenue capital from rates to avoid the mismatch.

3) Line 7 shows the actual capital additions in 2020, net of retirements, excluding AMI investment and new revenue capital.

4) Line 8 shows the 2020 capital pro formed in the Company's rebuttal filing. It differs from Mr. Mullins in two ways. First, Mr. Mullins used the filed pro forma capital and not the capital updated in Staff Data Request No. 107, which updated the Company's pro formed capital projects to actual 2020 transfers to plant.[50] In Avista's rebuttal case, the Company removed $14 million electric capital and $4 million natural gas capital. Second, Mr. Mullins includes the capital that Avista pro formed for 2021 and 2022, which was $25 million for electric service. By not removing those from the analysis, Mr. Mullins is not comparing apples-to-apples.

Q. Comparing the analysis prepared by the Company to the analysis prepared by Mr. Mullins, what conclusions can be drawn?

A. For Washington electric, Mr. Mullins shows the Company pro formed $136.8 million in 2020 (column A, line 8) and he shows the Company only added $96.0 million (column A, line 3), in error. He concludes then the Company's pro forma capital adjustments cannot be used, since the Company materially overstated its pro formed capital. Avista's data shows, however, that the Company is actually including only $97.3 million of pro formed

[50] Line 8 in Table No. 12 (electric) includes 2020 capital additions associated with Colstrip, Wildfire, and EIM as sponsored by Ms. Andrews.

capital (column F, line 8) in comparison to actual total capital net added (net of retirements), excluding AMI and new revenue capital, of $127.5 million (column F, line 7).

For Washington natural gas, Mr. Mullins shows the Company pro formed $27.3 million in 2020 (column A, line 8) when he shows the Company only added $40.0 million (column A, line 3), in error. Again, he concludes the Company's pro forma capital adjustments cannot be used, since the Company materially overstated its pro formed capital. Avista's data, however, shows that the Company is actually including $23.0 million of pro formed capital (column F, line 8) in comparison to actual capital added (net of retirements), excluding AMI and new revenue capital, of $26.0 million (column D, line 7).

Q. Please summarize the Company's concern with Mr. Mullins proposal related to pro formed capital.

A. Mr. Mullins uses incorrect data to draw incorrect conclusions about Avista's level of pro formed capital in this case. He proposes a totally new method to restate the level of capital investment in the Rate Year. This method, using 2020 AMA plant in service, would significantly understate the level of capital Avista will have during the rate effective period. Using the AMA level of 2020 capital approximates the plant in service at June 30, 2020, which is a full 15 months short of the beginning of the rate effective date. Using his method understates actual 2020 capital additions from that included by the Company on rebuttal by $110.0 million for Washington electric and $24.6 million for Washington natural gas alone.[51] In addition, the method proposed by Mr. Mullins has not previously been approved by the Commission. With the proper data, Avista has shown that the capital pro formed in this case

[51] Balances excluded are the net result of Mr. Mullins' removal of Avista's 2020 capital additions (Pro Forma Adjustments 3.11 – 3.15) as-filed, net of AWEC 2020 AMA Capital adjustment AWEC 7.01, offset by Avista's 2020 update to Pro Forma Adjustments 3.11 – 3.15 on rebuttal (as described in response to Staff Data Request No. 107) as shown in Exh. EMA-7 pages 3 and 5.

is reasonable, consistent with past Commission practice and meets the Policy Statement requirements approved by the Commission. If anything, Avista's portrayal is conservative. Finally, as noted above, contrary to Mr. Mullins statement that Avista creates a mismatch because it does not pro form new revenue in the pro forma period, Avista consistently excludes the new revenue capital from rates to avoid the mismatch. Mr. Mullins' proposal, therefore, related to the 2020 pro formed capital additions should be rejected.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.