Exh. MTT-6T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-200894

DOCKET NO. UE-200900

DOCKET NO. UG-200901

Consolidated

REBUTTAL TESTIMONY OF

MARK T. THIES

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Mark T. Thies. My business address is 1411 East Mission Avenue, Spokane, Washington. I am employed by Avista Corporation as Executive Vice President, Chief Financial Officer and Treasurer.

Q. Are you the same Mark T. Thies who filed pre-filed direct testimony, on behalf of Avista Corporation ("Avista" or "Company")?

A. Yes, I am. I filed direct testimony, Exh. MTT-1T, and Exh. MTT-2 through Exh. MTT-5.

Q. Please summarize the purpose of your rebuttal testimony.

A. My Rebuttal Testimony, coupled with the Rebuttal Testimony of Company witness Mr. McKenzie, demonstrates that the Commission should accept the Company's filed capital structure and rate of return, and reject the capital structure and rate of return proposed by witnesses for Staff, AWEC, and Public Counsel. In brief, I will provide information that shows:

- The Company has followed its capital budgeting processes to establish an appropriate capital spending level that balances both the risks and consequences of not investing into the system.
- A 50% common equity ratio is appropriate, consistent with the Commission's ability to set a capital structure that can be hypothetical and provides a reasonable balance between safety and economy.
- The cost of debt as filed at 4.97% is the most appropriate cost of debt that should be used for the rate effective period beginning October 1, 2021.
- The Company has a prudent interest rate hedging program.
- That foregoing a full rate of return on AMI, as proposed by Public Counsel and AWEC, is not appropriate, especially in light of Commission Staff support for the project, and the fact that Avista has already foregone $17.6 million in returns while waiting for the project to complete.

- Finally, I will continue to support the Company's original proposal related to the Tax Customer Credit.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. Yes. I am sponsoring Exh. MTT-7 which is the Interest Rate Hedging Plan Evaluation conducted by Concentric Energy Advisors in 2020. A table of contents for my testimony is as follows:

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II. CAPITAL EXPENDITURES

Q. Public Counsel witness Ms. Crane at pp. 31-34 of her testimony Exh. ACC-1T makes general assertions related to the Company's motives behind capital investment. Do you have some general reactions?

A. Yes, I do. Ms. Crane in particular asserts that "utility companies, Avista included, are increasingly focused on increased capital investment as a means to increase shareholder earnings".[1] Ms. Crane is correct in that increased rate base does ultimately increase shareholder earnings, all else being equal. But is that the driver behind how we operate our business? No, it is not. As I explained in my Direct Testimony, Exh. MTT-1T at pp. 12-13, Avista has a substantial

[1] Exh. ACC-1T, p. 31, ll. 3-5.

queue or backlog of projects that we believe need to be completed in order to serve our customers. Table No. 1 from my Direct Testimony, duplicated below, provides the dollar amount of capital projects requested by departments with the amounts approved by the Company. The dollar amounts for projects that were delayed (not approved) are also shown:

Table No. 1: Capital Project Requests/Approvals ($ in millions)

Year	Requested	Approved	Delayed	% Capital Delayed
2017	$461	$405	$56	**12%**
2018	$455	$405	$50	**11%**
2019	$528	$405	$123	**23%**
2020	$505	$405	$100	**20%**
2021	$477	$405	$72	**15%**
2022	$524	$405	$119	**23%**
2023	$463	$405	$58	**13%**
2024	$471	$405	$66	**14%**

As demonstrated in Table No. 1 above, the Company has a significant capital investment need, as determined by Company subject matter experts. If Avista were simply just trying to grow rate base for purposes of increasing earnings, we would not constrain ourselves to the $405 million capital budget level. Put another way, Avista could fully justify increasing its capital budget to $500 million over the next several years and reduce the obvious backlog of requested projects, but it is choosing not to in order to balance investment need with customer rate impact.

Q. What is the basis for the Company's planned level of capital expenditures?

A. As discussed in my direct testimony, the level of capital investment in recent years has been driven primarily by the business need to fund a greater portion of the departmental requests for new capital investments that, in the past, were unfunded or underfunded. The Company's practice has been to constrain the level of capital investment each year, such that not all of the prioritized projects and programs[2] will be funded in a given year at the level requested. Avista believes that holding capital spending below the level requested accomplishes several important objectives, including:

- ***Promotes Innovation*** - Encourages ways to satisfy the identified investment needs in a manner that may identify potential cost savings, defer implementation, or other creative options or solutions.

- ***Balances Cost and Risk*** – Captures the customer benefits of deferring needed investments by prudently managing the cost consequences and risks associated with such deferrals.

- ***Efficiently Allocates Capital*** – Ensures that the highest-priority needs are adequately funded in the most efficient and effective way.

- ***Reduces Variability*** - Moderates the magnitude of year-to-year variability to avoid excessive rate impacts, and more efficiently optimizes the number and cost of personnel necessary to carry out the capital projects.

Avista's capital investments originate from the following six major "investment drivers":

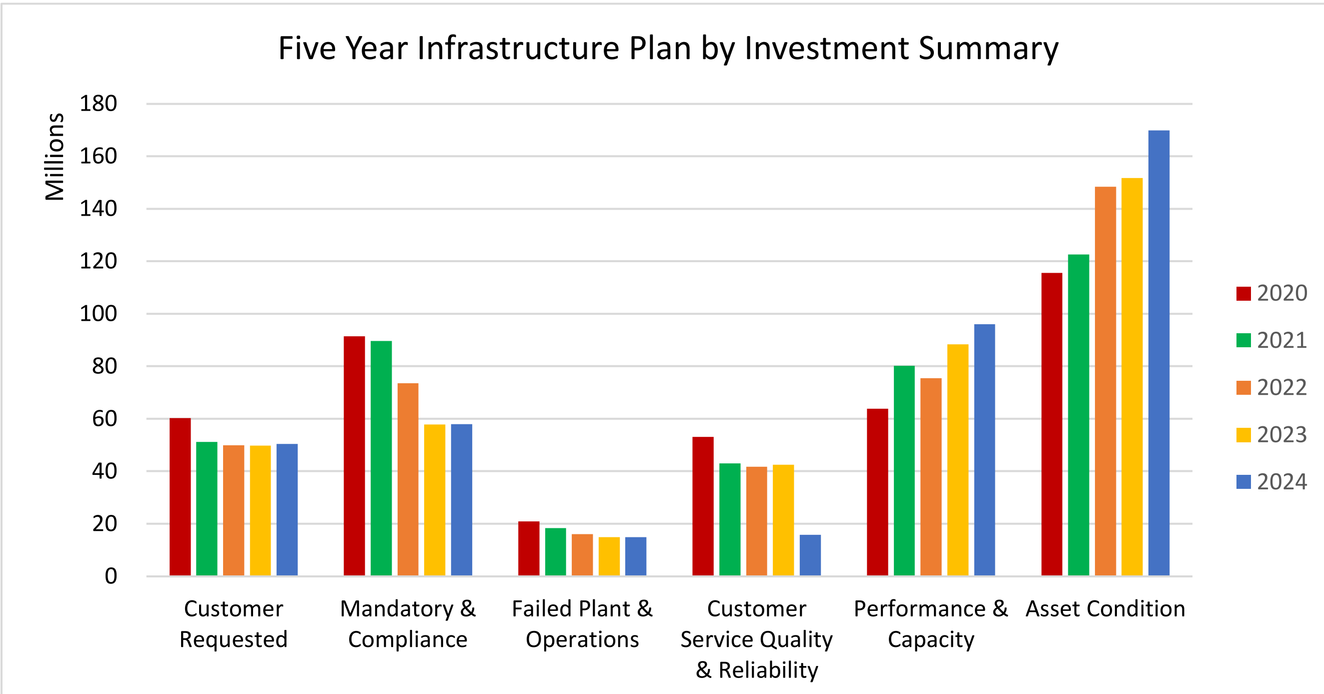
1. Respond to customer requests for new service or service enhancements;
2. Meet our customers' expectations for quality and reliability of service;
3. Meet regulatory and other mandatory obligations;
4. Address system performance and capacity issues;
5. Replace infrastructure at the end of its useful life based on asset condition; and
6. Replace equipment that is damaged or fails, and support field operations.

An explanation of each of these drivers, as well as examples of specific capital projects under these drivers, is provided in the Infrastructure Investment Plan (Exh. MTT-4). In addition, Company witnesses Mr. Thackston, Ms. Rosentrater, and Mr. Kensok provide details on the specific capital projects planned and in progress, why the projects need to be done in the time frame they will be

[2] "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 program. For ease of reference, the term "capital project" will be used to represent both capital projects and capital programs.

completed, as well as what the risks and consequences are of not completing the projects.[3] A breakdown of planned investments for each driver for 2020-2024 is shown in Illustration No. 1 below.

<u>Illustration No. 1 – Planned Investments by Capital Investment Driver (2020-2024)</u>



Q. Is it fair to say that Avista's earnings have not been growing because "annual energy sales are not increasing as quickly as they did in the past"?[4]

A. In fact, <u>that is not the case</u>, in a decoupled world. Avista's energy sales are decoupled from revenues and earnings; our revenues and earnings, for the most part, are tied to the number of customers we serve. That said, the primary reason why Avista has not been able to earn its allowed return, as discussed by Company witness Mr. Christie, is due to the need to continue to invest in our

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[3] Mr. Kinney, Mr. Howell, and Mr. Magalsky discussed the Company's investments in EIM, Wildfire, and Customer Facing Technology, respectively.

[4] Exh. ACC-1T, p. 32, ll. 3-4.

electric and natural gas systems while also facing increasing operating expense increases.

Q. Please elaborate on all of the "speculative post-test period adjustments in rate base" the Company has included in this case?[5]

A. There are none. The vast majority of the post test period capital is comprised of plant additions that transferred to service and were used and useful as of December 31, 2020, almost five full months prior to the writing of this testimony, and nine full months before rates go into effect on October 1, 2021. The next largest tranche of capital investment, that is not speculative in nature, is related to the deployment of AMI, which but for final punch list items, is complete (as noted by Commission Staff). We have not included "speculative investments" in our rate case.

Q. Does "every dollar of investment made by Avista" result in "greater potential earnings for shareholders"?[6]

A. Absolutely not. What Ms. Crane fails to mention is the simple fact that we also have our regulatory Commissions who ultimately determine what plant additions are ultimately recoverable from customers. Avista would be imprudent (and unethical) to simply invest in "stuff" in order to increase our earnings ultimately for shareholders. We invest in those projects that we believe, as utility managers, are necessary and required – and at a constrained level. The money we need to make those investments comes from retained earnings, debt, and equity. Debt and equity providers deserve a fair return on their investment in the infrastructure customers benefit from.

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[5] Ibid.
[6] Exh. ACC-1T, p. 34, ll. 2-3.

III. COST OF CAPITAL AND CAPITAL STRUCTURE

Q. Do you agree with the witnesses' positions regarding cost of capital and capital structure?

A. No, the Company does not agree with the other witnesses' positions, and the discussion that follows will explain why the Commission should reject their positions and accept the Company's proposed cost of capital and capital structure. The witnesses' positions, and Avista's are summarized in Table No. 2 below:[7]

Table No. 2: Parties Proposed Cost of Capital

AVISTA CORPORATION
Proposed Cost of Capital

	Proposed Structure	Cost	Component Cost
Long Term Debt	50.0%	4.97%	2.49%
Common Equity	50.0%	9.90%	4.95%
Total	100.0%		**7.44%**

Staff-David Parcell (DCP-1T)
Proposed Cost of Capital

	Proposed Structure	Cost	Component Cost
Short Term Debt	2.48%	3.26%	0.08%
Long Term Debt	49.0%	5.05%	2.48%
Common Equity	48.5%	9.30%	4.51%
Total	100.0%		**7.07%**

Public Counsel-J. Randall Woodridge
Proposed Cost of Capital

	Proposed Structure	Cost	Component Cost
Debt	51.5%	4.97%	2.56%
Common Equity	48.5%	9.00%	4.37%
Total	100.0%		**6.92%**

AWEC-Bradley Mullins
Proposed Cost of Capital

	Proposed Structure	Cost	Component Cost
Long Term Debt	51.5%	4.75%	2.45%
Common Equity	48.5%	9.40%	4.56%
Total	100.0%		**7.01%**

Q. What is the reason for the difference between the Company's requested capital structure and the capital structures proposed by Mr. Parcell, Mr. Mullins, and Mr. Woolridge?

[7] The calculations of the Company's proposed capital structure, cost of debt and overall cost of capital are provided with Exh. MTT-2. It should be noted that the long-term debt offering shown on p. 3, line 18 of Exh. MTT-2, noted as "Forecasted Issuances" have been issued, at the 3.07% rate shown. As such there is no change to the cost of debt, after reflecting that issuance.

A. The primary difference is related to Avista's exclusion of short-term debt from the capital structure, which results in a 50% debt, 50% equity capital structure.

Q. Why did Avista propose to exclude short-term debt from the capital structure calculation in this case?

A. As I stated in my direct testimony, the results from the electric and natural gas Pro Forma Studies will not yield the rate relief necessary to provide the Company the opportunity to earn the proposed ROR requested in this case. One of the rate making "tools" identified by this Commission that can be used to arrive at an end result that provides sufficient revenues is the use of an adjusted capital structure.[8] Both Idaho and Oregon currently use this ratemaking tool of adjusting the capital structure by excluding short-term debt from the calculation. Please see my Direct Testimony for the other very valid reasons why the Company has filed for, and the Commission should approve, a 50% equity layer.

Q. Mr. Parcell presents a table purporting to illustrate the common equity ratios allowed by state regulatory commissions.[9] Does this offer a meaningful comparison?

A. No. As Mr. McKenzie testifies to on rebuttal, Mr. Parcell appears to have considered cases in which cost-free items or tax credit balances were included in the reported capital structure, which biases the common equity ratio downwards. Mr. McKenzie's Table R-5, copied below, presents the range and average common equity ratios approved for electric utilities over the most recent nine quarters of published data, after removing those observations:

[8] The WUTC acknowledged at page 181 of its Order 08 in Docket No. UE-111048 and UG-111049 of Puget Sound Energy's rate proceeding, the consideration of adjustments to rate base beyond the historical test period by stating they were open to considering "Use of plant accounts (rate base) measured at the end, or subsequent to the end of the test-year rather than the test-year average," and their openness to consider <u>an "upward adjustment to the equity share in the capital structure</u>." (emphasis added)

[9] Exh. DCP-1T at 15.

McKenzie - Table R-5 – Electric Utility Allowed Common Equity Ratios

	Low		High	Average
Q1-19	48.00%	--	52.82%	50.86%
Q2-19	51.37%	--	57.02%	53.11%
Q3-19	49.46%	--	53.49%	51.41%
Q4-19	47.97%	--	56.00%	51.37%
Q1-20	42.50%	--	55.61%	50.07%
Q2-20	48.23%	--	54.77%	51.63%
Q3-20	46.00%	--	56.83%	51.33%
Q4-20	48.00%	--	56.83%	51.50%
Q1-21	43.25%	--	52.07%	51.18%
Average	**47.20%**	**--**	**55.05%**	**51.38%**

Source: S&P Global Market Intelligence, *Major Rate Case Decisions*, RRA Regulatory Forcus (Apr, 28, 2021; Feb. 2, 2021; Jan. 31, 2020). Excludes capital structures that include cost-free items or tax credit balances.

As demonstrated in table above, the 50.0 percent common equity ratio requested by Avista falls below the average approved for other electric utilities.

Further, as shown in Mr. Parcell's testimony at Exh. DCP-7, the average equity ratio for Mr. Parcell's proxy group is actually higher than that proposed by Avista (excluding short-term debt).

Table No. 3: Mr. Parcell's Common Equity Ratio Proxy Group

PROXY COMPANIES
COMMON EQUITY RATIOS (EXCLUDING SHORT-TERM DEBT)

COMPANY	2016	2017	2018	2019	2020	Average	2024-2026
Parcell Proxy Group							
ALLETE	58.0%	59.0%	60.1%	61.4%	59.0%	59.5%	57.0%
Avista Corp.	48.8%	52.8%	49.5%	50.6%	49.5%	50.2%	49.5%
Black Hills Corp	33.5%	35.5%	42.5%	42.9%	45.0%	39.9%	48.5%
Hawaiian Electric Industries	57.5%	55.7%	51.7%	54.6%	52.0%	54.3%	52.5%
IDACORP	55.2%	56.3%	56.4%	58.7%	55.5%	56.4%	55.5%
NorthWestern Corp	48.0%	49.8%	47.8%	47.5%	51.0%	48.8%	52.0%
OGE Energy	58.9%	58.3%	58.0%	56.4%	51.0%	56.5%	51.0%
Otter Tail Corp	57.0%	58.7%	55.3%	53.1%	58.2%	56.5%	59.5%
Pinnacle West Capital	54.4%	51.1%	53.0%	52.9%	47.0%	51.7%	43.0%
Average						**52.6%**	**52.1%**
Median						**54.3%**	**52.0%**

Based on both Mr. Parcell's proxy group and Company witness Mr. McKenzie's Electric Group, the common equity ratios (excluding short-term debt) for other Northwest utilities are, for the most part, higher than Avista's proposed equity ratio, which further supports Avista's request of a 50 percent equity ratio. Additionally, as stated in Mr. McKenzie's direct testimony, Avista's capital structure is consistent with the range of equity ratios maintained by the parent firms in the Utility Group and their operating subsidiaries, and reflects the challenges posed by its resource mix, the burden of significant capital spending requirements, the implications of the Tax Cuts and Jobs Act, and the Company's ongoing efforts to strengthen its credit standing and support access to capital on reasonable terms. The reasonableness of a 50 percent common equity / 50 percent long-term debt capital structure for Avista is reinforced by the importance of supporting continued investment in system improvements and the Company's debt repayment obligations, even during times of adverse capital market conditions.

Q. Is capital structure already considered by the credit rating agencies in their evaluation?

A. Yes, as discussed by Mr. McKenzie. He states that the ratings assigned to a utility by the rating agencies encompass a comprehensive evaluation of the utility's overall business and financial risks. The evaluation of financial risk involves an examination of financial data concerning earnings protection, capital structure, cash flow adequacy, and financial flexibility. The degree of debt leverage implicit in a utility's capital structure is one aspect of credit analysis that ultimately determines assigned ratings; a utility's relative reliance on debt leverage is factored into the analysis of overall risks that results in an assigned rating. Credit ratings consider business risk and financial risk, and similar credit ratings provide a strong indicator of comparability of risk.

Mr. McKenzie goes on to state that, based on a comparison of credit ratings between Avista and the proxy groups, Dr. Woolridge concluded that Avista's overall investment risks fall at the upper end of the range for his proxy groups. The Company's proposed capital structure is consistent with the need to accommodate these risks and bolster Avista's credit standing.

Q. Is Avista continuing to support a proposed ROE of 9.9%?

A. Yes. As Mr. McKenzie reiterates in his Rebuttal Testimony (Exh. AMM-15T), the proposed 9.9% ROE, together with the proposed equity layer of 50%, would properly balance safety and economy for customers, provide Avista with an opportunity to earn a fair and reasonable return, and provide access to capital markets under reasonable terms and on a sustainable basis.

IV. COST OF DEBT & INTEREST RATE HEDGING

Q. What is the reason for the differences between the Company's requested cost of debt of 4.97% and Mr. Mullins's proposed 4.75% cost of debt?

A. Mr. Mullins proposes a cost of debt of 4.75% which he calculates by adding the cost of short-term debt as well as the inclusion of a forecasted debt issuance that may occur in late August 2021.[10]

Q. Are Mr. Mullins's adjustments to cost of debt appropriate?

A. No, they are not. Mr. Mullins used the Company's response to AWEC DR 013 as the basis of his calculation. The Company inadvertently included the COVID related $100M term loan in short term debt. Simply fixing for that error moves the cost of debt from 4.75% up to 4.81%. Next, Avista does not believe that it is proper to include a forecasted long-term debt issuance, that may or may not occur in August 2021, into the cost of debt calculation. Removing that line from Mr. Mullins

[10] Exh. BGM-1T, p. 8, ll. 5-10, and Exh. BGM-6.

Exh. BGM-6, p. 1 (in between lines 18 and 19) moves the cost of debt back to 4.97%.

Q. Is the Company able to determine with reasonable certainty the cost of the 2021 debt issuance, as stated by Mr. Mullins?[11]

A. No. We can only determine the cost of the hedged portion of the 2021 debt issuance, which is approximately 40%. The remaining 60% that is unhedged is still subject to market volatility and the cost won't be determined until the time of issuance. In addition, the entire debt issuance is still subject to fluctuating credit spreads.

Q. Did Staff or Public Counsel take issue with the Company's filed Cost of Debt?

A. No, they did not. While Mr. Parcell for Staff broke out his debt components in the capital structure (shown in Table No. 2 above), combining those back together still results in a 4.97% cost of debt.

Q. Were the hedges that are included in the Company's cost of debt in this filing consistent with the same hedging plan that the Company operated under in its last several general rate cases?

A. Yes. The hedges included in this filing were entered into a manner that is consistent with the Company's Interest Rate Risk Management Plan in effect in Dockets UE-170485 and UG-170486 and that were approved by the Commission. The Company has executed interest rate swaps, for purposes of reducing interest rate risk for our customers as early as 2004 and has been fully transparent in communicating its interest rate hedging activities. The settlement values, either losses or gains, of the interest rate swaps have been clearly included as a component of cost of debt in previous filings and this filing.

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[11] Exh. BGM-1T, p. 8, ll. 11-15.

Q. Has the Commission reviewed the Company's interest rate hedging plans?

A. Yes. In Docket UE-170485, et. al., the Commission approved the Company's interest rate hedges, noting that the Company had followed its Interest Rate Hedging Plan.[12] Further, the Commission stated at ¶ of Order 07 in that Docket:

> Notwithstanding our decision here, we agree with Mr. McGuire that, on a going forward basis, the Company is expected to apply to its interest rate hedges the risk mitigation approach as provided in the March 2016 policy statement.

Q. Did the Company modify its Interest Rate Hedging practices to reflect the approach noted in the Commission's 2016 Natural Gas Hedging policy statement?

A. Yes. The Company modified its Interest Rate Hedging plans, bringing into the plan in particular Risk Responsive Hedging to manage Value at Risk (VAR). This information is detailed in Exh. MTT-3C.

Q. Has the Company's Interest Rate Hedging Plan been independently reviewed?

A. Yes. As part of a settlement stipulation in Avista's 2019 Oregon General Rate Case (Docket UG-366), the Company, Public Utility Commission of Oregon Staff, AWEC, and Oregon Citizens' Utility Board engaged an external consulting firm, Concentric Energy Advisors, to review the Company's interest rate hedging plan and issue a report on their findings.

Q. What were the specific findings of the hedging review by Concentric Energy Advisors?

A. Concentric Energy Advisors (Concentric) issued a final report, "Interest Rate Hedging Plan Evaluation" (provided as Exh. MTT-7). Concentric summarized its findings by stating that the

[12] Docket UE-170485 et. al., Order 07, ¶91.

"results of the Evaluation show that the Plan is well structured, executed and has the appropriate internal control structure to monitor its performance and its continuation is therefore endorsed."[13]

Q. Did Concentric find areas for improvement?

A. Yes. Concentric stated that "(w)hile we have found opportunities for improvement, we did not find areas with meaningful deficiencies."[14] Detailed below from pp. 6-7 of Exh. MTT-7 are Concentric's summary findings:

- <u>Opinion 1:</u> The interest rate risk is significant and merits having Plan to contain the risk.

- <u>Opinion 2:</u> The Plan as it currently stands is well structured, executed and has the appropriate internal control structure to monitor its performance.

- <u>Opinion 3:</u> The objective of the Plan to reduce volatility of interest rates is appropriate.

- <u>Opinion 4:</u> The Plan provides reasonable protection for rate payers by controlling for potential price increase at a reasonable cost.

- <u>Opinion 5:</u> Recommend enabling the model used to implement the Plan so that it runs an outlier test to avoid obvious errors in the price feed and inconsistencies in price movement.

- <u>Opinion 6:</u> Recommend changing the method used to calculate volatility to a method that yields volatility estimates that are more reasonable for long-dated volatility estimation.

- <u>Opinion 7:</u> Once the new method to estimate volatility is implemented, ensure that it is used throughout the model used to implement the Plan.

- <u>Opinion 8:</u> The performance of the Plan should not be exclusively measured as a comparison between the scenario of hedging or not hedging. It should be based on the reasonableness of the interest rate to support the investment and a comparison to the cost of debt of peer companies.

- <u>Opinion 9:</u> The Plan is structured as a prudent effort to control the cost of debt

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[13] Exh. MTT-7, p. 1.
[14] Ibid.

on behalf of customers.

- Opinion 10: The Plan provides a reasonable, prudent strategy benefiting the customers and should be continued.

Q. Is the Company instituting the changes recommended in Opinion 5, 6 and 7?

A. Yes. In an update to the parties in the Oregon proceeding, Avista informed them that Avista is enabling the Interest Rate Hedging model to run an outlier test (Opinion #5), and that we are making a change in methodology to calculate volatility using Generalized Autoregressive Conditional Heteroscedastic ("GARCH") model (Opinions 6 & 7). Avista implemented these changes on April 30, 2021.

V. RETURN ON AMI INVESTMENT

Q. As described by Company witness Mr. DiLuciano (Exh. JDD-1T) in his direct testimony and Company Joint witnesses Ms. Rosentrater/Mr. La Bolle in their 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, PC 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. Staff witness Ms. White supports the Company earning its full rate of return on its investment.[15]

2. Mr. Mullins 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

[15] 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.

can be demonstrated.[16]

3. Public Counsel witness Ms. Bauman recommends the Commission approve no return on 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.[17]

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

A. As noted by Ms. Andrews in her Rebuttal Testimony, 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 benefits had not been demonstrated, Avista should be ordered a similar result.

Q. Is it reasonable for Avista to <u>not</u> earn a return on this investment?

A. No, it is not reasonable. 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. Third, as discussed by Ms. Rosentrater/Mr.

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[16] Exh. BGM-1T, p. 66, ll. 17-19.

[17] 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.

La Bolle, the Company has provided detailed testimony on how Avista is maximizing the six use cases that were not addressed by PSE, as noted in the Commission's order:[18]

> At hearing, the Commission referred PSE to a Utility Dive article entitled "Most utilities aren't getting full value from smart meters, report warns," as well as the report the article referenced, which concluded that "[m]any utilities are underexploiting AMI capabilities and attendant benefits, thus missing a key tool to deliver value to their customers and systems." We expect PSE to take great strides to ensure that both the Company and its customers receive maximum value from its AMI system, and we expect PSE will be able to demonstrate that value to the Commission in the near future. We encourage the Company to carefully review the report referenced in the Utility Dive article, which examined whether utilities are leveraging AMI by capturing data on six use cases: time of use rates, real-time energy use feedback for customers, behavior-based programs, data disaggregation, grid-interactive efficient buildings, and CVR or volt/VAR optimization. The Commission is interested in PSE's analysis of the six use cases and whether or how they are applicable, as well additional information or metrics that demonstrate AMI's benefits to customers. Although we share PSE's optimism about the benefits AMI will ultimately produce, we reiterate our expectation that PSE will maximize those benefits.

As stated by Ms. Andrews, by way of comparison, Avista was 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.[19] 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. 4 below:

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[18] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy,* Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, & UG-190992, Order 08, 50 ¶ 157.

[19] 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.

<u>Table No. 4: AMI Project Lost Return on Investment</u>

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

To disallow earning a return, when all of the AMI equipment is used and useful, Ms. Rosentrater/Mr. La Bolle has demonstrated many of the benefits that customers are recognizing are in effect, and no party has identified any of the AMI investment is imprudent, confiscatory, and is unreasonable. Those proposals should be denied by the Commission.

VI. <u>TAX CUSTOMER CREDIT</u>

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.[20]

[20] Exh. BAE-1T, p. 12, ll. 7-12.

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[21].

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[22].

Q. Has the Company changed its view on the Tax Customer Credit proposal based on the testimony of the Parties?

A. As discussed by Ms. Andrews, although the Parties vary on how to return the tax credit benefit balances over time to customers, Avista continues to support its original position 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 no billed impact to customers. 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. Ultimately it is up to the Commission to weigh the positions of the Parties. But I would like to reiterate what I stated in my Direct Testimony. The Company's proposal is balancing a fine line between investment-grade metrics and customer offsets. Due to the potential impact on the Company's cash flow metrics, the

[21] Exh. BGM-1T, p. 70, ll. 19-21.
[22] Exh. ACC-1T, p. 46-47.

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 that approved on an annual basis, and does not go beyond a two year amortization period.[23]

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

A. Yes. As discussed by Ms. Andrews, the Commission approved the Company's Tax Accounting Petition (Dockets UE-200895 and UG-200896, Order 01) on March 11, 2021, 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,[24 / 25] providing the authority required from each of Avista's jurisdictions to consistently change its accounting for federal income tax expense from a normalization method to a flow-through method.[26] This final authorization allowed for the immediate benefits to customers to be deferred for later return to customers.[27]

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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[23] 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.

[24] 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.

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

[26] As described in Ms. Andrews 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.

[27] 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 close process.