

**Exh. JH-1T**  
**Dockets UE-190334, UG-190335,**  
**and UE-190222**  
**Witness: Joanna Huang**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,**

**Respondent.**

**DOCKETS UE-190334, UG-190335,  
and UE-190222 (*Consolidated*)**

**TESTIMONY OF**

**Joanna Huang**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Results of Operations and Revenue Requirements,  
Restate Debt Interest, Pro Forma Labor Non-Executive,  
Pro Forma Labor Executive, Pro Forma Employee Benefits,  
Pro Forma Insurance Expense, Pro Forma IS/IT Expense,  
Pro Forma Property Tax, Pro Forma Fee-Free Amortization,  
Pro Forma Colstrip Amortization*

**October 3, 2019**

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Exh. JH-2	Electric Pro Forma Analysis
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Exh. JH-11	Pro Forma Colstrip Amortization, Adjustment 3.13

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Joanna Huang. My business address is 621 Woodland Square Loop SE,  
5 Lacey, Washington, 98503. My business mailing address is P.O. Box 47250,  
6 Olympia, Washington, 98504-7250. My business email address is  
7 joanna.huang@utc.wa.gov.

8

9 **Q. By whom are you employed and in what capacity?**

10 A. I am employed by the Washington Utilities and Transportation Commission  
11 (“Commission” or “UTC”) as a Regulatory Analyst in the Energy Section of the  
12 Regulatory Services Division.

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have been employed by the Commission since June 1996.

16

17 **Q. Would you please state your educational and professional background?**

18 A. I received a Bachelor of Business Administration degree with a major in Accounting  
19 from National Chung-Hsing University, Taiwan, in 1987, and a Master of  
20 Accounting degree from Washington State University in 1991. Prior to my  
21 employment at the Commission, I was employed by the Washington State  
22 Department of Revenue as an Excise Tax Examiner. I performed desk audits on  
23 Business and Occupation tax returns.

1 I began my employment with the Commission in June 1996. My work  
2 generally includes financial, accounting and other analyses for general rate case  
3 proceedings and other tariff filings by the electric and natural gas utilities regulated  
4 by the Commission. I attended the National Association of Regulated Utility  
5 Commissioners Annual Utility School in 1996 and 2001. In addition, I have  
6 attended numerous training seminars and conferences regarding utility regulations  
7 and operations.

8  
9 **Q. Have you testified previously before the Commission?**

10 A. Yes. I testified in Puget Sound Energy (PSE) general rate cases in Dockets UE-  
11 090704 and UG-090705, and in Dockets UE-072300 and UG-072301; a PSE Power  
12 Cost Only Rate Case in Docket UE-130617; Pacific Power general rate cases in  
13 Dockets UE-152253, UE-130043 and UE-032065; Avista Corporation d/b/a Avista  
14 Utilities (“Avista” or “Company”) general rate cases in Dockets UE-170485 and  
15 UG-170486, Dockets UE-160228 and UG-160229, Dockets UE-140188 and UG-  
16 140189, Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135,  
17 and Dockets UE-991606 and UG-991607; and a Northwest Natural Gas Company  
18 (NW Natural) purchased gas adjustment tariff filing in Docket UG-111233.

19 I have also participated in Staff’s investigation in the following general rate  
20 cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483,  
21 Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and  
22 Dockets UE-110876 and UG-110877 (all Avista); Docket UG-152286 and Docket  
23 UG-060256 (Cascade Natural Gas Corporation); Docket UG-080546 and Docket

1 UG-031885 (NW Natural); and Dockets UE-070725 and UG-130137, UE-  
2 170033/UG-170034 (PSE).

3

4 **II. SCOPE AND SUMMARY OF TESTIMONY**

5

6 **Q. Please explain the purpose of your testimony.**

7 A. The purpose of my testimony is to present Staff's revenue requirement analysis for  
8 the first year (Rate Year 1) of Avista's proposed two-year rate plan. Staff conducted  
9 an independent, stand-alone analysis to determine the revenue required for the  
10 Company to have the opportunity to achieve Staff's recommended rate of return.  
11 Staff used a modified historical test year study with known and measurable pro  
12 forma adjustments. This portion of my testimony responds to the Company's Pro  
13 Forma Studies sponsored by Company witness Ms. Andrews in Exh. EMA-2 and  
14 Exh. EMA-3.

15

16 **Q. In addition to the revenue requirement analysis, did you also analyze any**  
17 **specific adjustments in this proceeding?**

18 A. Yes. I present Staff's recommendations on the following adjustments:

- 19 • Restate Debt Interest, Adjustment 2.14
- 20 • Pro Forma Labor Non-Executive, Adjustment 3.03
- 21 • Pro Forma Labor Executive, Adjustment 3.04
- 22 • Pro Forma Employee Benefits, Adjustment 3.05
- 23 • Pro Forma Insurance Expense, Adjustment 3.06
- 24 • Pro Forma IS/IT Expense, Adjustment 3.07
- 25 • Pro Forma Property Tax, Adjustment 3.08
- 26 • Pro Forma Fee-Free Amortization, Adjustment 3.12
- 27 • Pro Forma Colstrip Amortization, Adjustment 3.13

28

1 **Q. Have you prepared any exhibits in support of your testimony?**

2 A. Yes. Exh. JH-2 and Exh. JH-3 present Staff's revenue requirement analysis using a  
3 modified historical test year Pro Forma Study for electric and natural gas operations,  
4 respectively. My Exh. JH-2 and Exh. JH-3 are Staff's responses to Avista witness  
5 Ms. Andrews's Exh. EMA-2 and Exh. EMA-3 for Avista's electric and natural gas  
6 operations for the Rate Year 1 revenue requirement.

7 I also sponsor Exh. JH-4 through Exh. JH-11. Exh. JH-4 shows Pro Forma  
8 Labor Non-Executive, Adjustment 3.03. Exh. JH-5 shows Staff's Pro Forma Labor  
9 Executive, Adjustment 3.04. Exhibits JH-6 through JH-9 show Staff's positions on  
10 Employee Benefits, Insurance Expense, IS/IT Expense and Property Tax. Exh. JH-10  
11 shows Staff's Pro Forma Fee-Free Amortization, Adjustment 3.12. Exh. JH-11  
12 shows Staff's Pro Forma Colstrip Amortization, Adjustment 3.13.

13  
14 **Q. Please identify the adjustments that other Staff witnesses address in their**  
15 **testimonies.**

16 A. Betty Erdahl addresses working capital, Adjustment 1.03. Aimee Higby discusses  
17 Pro Forma 2019 Major Capital Additions, Adjustment 3.10. David Gomez addresses  
18 Production Plant (Adjustment 3.15) and Power Supply, in relation to Colstrip.

19

1           **III. RESULTS OF OPERATIONS AND REVENUE REQUIREMENTS**

2

3           **A.     Avista’s Presentations of Revenue Requirements**

4

5   **Q.     What revenue requirement does Avista present for its electric operations in**  
6           **Washington?**

7   A.     Avista proposes an annual revenue increase of \$45.8 million to its electric revenues  
8           for Rate Year 1, beginning April 1, 2020. In addition, Avista proposes a subsequent  
9           revenue requirement increase of \$18.9 million for the second year of the rate plan  
10          (Rate Year 2) beginning April 1, 2021.

11

12   **Q.     What revenue requirements does Avista present for its natural gas operations in**  
13          **Washington?**

14   A.     Avista proposes an annual revenue increase of \$12.9 million to its natural gas  
15          revenues for Rate Year 1, beginning April 1, 2020. In addition, Avista proposes a  
16          subsequent revenue requirement increase of \$6.5 million for Rate Year 2 beginning  
17          April 1, 2021.

18

19   **Q.     How does the Company present its Rate Year 1 revenue requirement**  
20          **calculation in this general rate case?**

21   A.     First, Avista’s revenue requirement calculation starts with an average-of-monthly-  
22          averages (AMA) rate base as shown in Ms. Andrews’ Exh. EMA-2 and Exh. EMA-  
23          3, page 1, column (b). Second, the Company calculates its own modified historical



1 test period results of operations including several restating adjustments. Avista also  
2 includes a 2018 end-of-period (EOP) adjustment to rate base in Adjustment 2.19  
3 Electric and Adjustment 2.15 Gas to arrive at the restated results of operations shown  
4 on page 7 of Ms. Andrews's Exh. EMA-2 and Exh. EMA-3 for electric and natural  
5 gas operations, respectively. Third, the Company includes its proposed pro forma  
6 adjustments to arrive at its intended pro forma level results of operations.<sup>1</sup> The  
7 Company's overall revenue requirement calculation is shown in the third column of  
8 page 2 of Ms. Andrews's Exh. EMA-2 and Exh. EMA-3.

9  
10 **B. Staff's Presentations of Revenue Requirements**

11  
12 **Q. What is Staff's recommended revenue requirement for Avista's electric**  
13 **operations?**

14 A. Staff's analysis, based on a modified historical test period with limited pro forma  
15 adjustments, results in a recommended increase in annual revenues of approximately  
16 \$17.6 million for Avista's electric operations, or an increase of 3.51 percent.<sup>2</sup> Staff's  
17 revenue requirement calculation is based on Staff witness Mr. David Parcell's  
18 recommended 7.16 percent overall rate of return.

19  
20 **Q. What is Staff's recommended revenue requirement for Avista's natural gas**  
21 **operations?**

22 A. Staff's analysis, based on a modified historical test period with limited pro forma

---

<sup>1</sup> Andrews, Exh. EMA-2 and EMA-3 at pages 8-10.

<sup>2</sup> Huang, Exh. JH-2 at 2:9.

1 adjustments, results in a recommended increase in annual revenues of approximately  
2 \$7.0 million for Avista’s natural gas operations, or an increase of 7.52 percent.<sup>3</sup>  
3 Staff’s revenue requirement calculation is based on Staff witness Mr. Parcell’s  
4 recommended 7.16 percent overall rate of return.

5  
6 **Q. Does your revenue requirement, based on a modified historical test period with**  
7 **limited pro forma adjustments, reflect Rate Year 2 of Avista’s proposed rate**  
8 **plan?**

9 A. No. My revenue requirement model and supporting exhibits recommend a single-  
10 year revenue requirement through the one-year rate period starting in April 2020.  
11 Staff witness Mr. Chris McGuire addresses Avista’s proposed revenues for Rate  
12 Year 2 starting April 2021. My testimony only responds to Company witness Ms.  
13 Andrews with respect to her Exh. EMA-2 and Exh. EMA-3.

14

15 **IV. CONTESTED ADJUSTMENTS**

16

17 **A. Restate Debt Interest – Electric and Gas, Adjustment 2.14**

18

19 **Q. Please describe Staff’s proposed Adjustment 2.14, Electric and Gas, - Restate**  
20 **Debt Interest.**

21 A. Staff’s proposed Restate Debt Interest calculates the tax effect on interest using Staff  
22 witness Mr. Parcell’s recommended weighted average cost of debt, 2.65 percent,

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<sup>3</sup> Huang, Exh. JH-3 at 2:9.

1 applied to Staff's recommended level of rate base. The difference between the  
2 Company's and Staff's adjustments results from differences in the weighted average  
3 cost of debt and the level of rate base used in the calculation.

4 The effect on federal income tax of the restated level of debt interest for the  
5 test period decreases Washington Net Operating Income by \$869,000 and \$190,000  
6 for electric and natural gas operations, respectively.

7  
8 **B. Pro Forma Labor Non-Executive (Adjustment 3.03)**

9  
10 **Q. What is the adjustment for Pro Forma Labor Non-Executive (Adjustment**  
11 **3.03)?**

12 A. This adjustment reflects changes to test period union and non-union employee wages  
13 and salaries, excluding executive salaries, which are handled separately in  
14 Adjustment 3.04, Pro Forma Labor Executive.

15  
16 **Q. Please explain how Avista adjusts the pro forma level of union employee wages**  
17 **and salaries for 2018, 2019 and 2020.**

18 A. During the test year, Avista gave its union employees a 3 percent increase on March  
19 26, 2018. The 2018 portion of the employee wage adjustment adjusts union  
20 employee wages effective January 1 to March 26, 2018, as if the raise were effective  
21 for the whole year. In addition, Avista adds 3 percent increases for 2019 and 2020 in  
22 accordance with contract terms.

1 **Q. Please explain how Avista adjusts the pro forma level of non-union employee**  
2 **wages and salaries for 2018, 2019 and 2020.**

3 A. For non-union employees, the adjustment annualizes the impact of non-union wage  
4 increases effective March 5, 2018. Avista also includes an additional 3 percent  
5 adjustment for the 2019 increases which became effective March 2019. Avista did  
6 not propose an increase for non-union employees for 2020.

7  
8 **Q. Do you agree with Avista's Pro Forma adjustment to capture the 3 percent**  
9 **wage increases in 2018?**

10 A. No. The 2018 wage increases are already embedded in current rates.

11  
12 **Q. Please explain how the 2018 wage increases are already embedded in current**  
13 **rates.**

14 A. In its 2017 general rate case filing in Dockets UE-170485 and UG-170486, Avista  
15 included two pro forma adjustments reflecting 3 percent wage increases for both  
16 union and non-union employees: one 3 percent increase for the period 3/1/2017-  
17 **2/2/2018** and another 3 percent increase for the period 3/1/2018-**2/28/2019**.<sup>4</sup> In that  
18 rate case, these wage increases were uncontested and so were included in the  
19 Commission's final revenue determination. Therefore, the full 3 percent increase for  
20 2018 is already embedded in current rates.

21

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<sup>4</sup> Huang, Exh. JH-4 at page 6.

1 **Q. Do you agree with Avista’s Pro Forma adjustment to capture the 3 percent**  
2 **wage increase in 2019?**

3 A. No. I disagree with Avista’s adjustment.

4  
5 **Q. Why do you disagree?**

6 A. As noted above, the Commission’s final revenue determination for Avista’s 2017  
7 general rate case included a 3 percent raise in both union and non-union employee  
8 salaries for March 1, 2018 to February 28, 2019. Therefore, the 3 percent increase is  
9 already partially (1/1/2019-2/28/2019) embedded in current rates.

10  
11 **Q. Do you agree with Avista’s Pro Forma Labor Non-Executive adjustment**  
12 **(Adjustment 3.03) as it pertains to the 3 percent increase for union employees in**  
13 **2020?**

14 A. Yes. I agree with the Company’s position.

15  
16 **Q. What does Staff propose for the Pro Forma Labor Non-Executive adjustment**  
17 **(Adjustment 3.03)?**

18 A. Staff completely removed the 3 percent wage increase for 2018 as it is duplicative of  
19 the 3 percent wage increase for 2018 already included in rates. For the 3 percent  
20 wage increase for 2019, Staff proportionally removed the increase for the period  
21 January 1, 2019, through February 28, 2019, as those amounts too are already  
22 embedded in rates. The resulting increase for 2019 is 2.52 percent. Staff does not  
23 contest Avista’s pro forma adjustment for 2020 union wages.

1 **Q. Please summarize your proposed adjustment for Pro Forma Labor Non-**  
2 **Executive for both union and non-union employees for 2018, 2019 and 2020.**

3 A. The following table is a comparison of Avista and Staff positions for Pro Forma  
4 Labor Non-Executive for both union and non-union employees for 2018, 2019 and  
5 2020.

Parties	Categories	2018	2019	2020
Avista	Union	0.714 %	3 %	3 %
	Non-Union	0.519 %	3 %	0 %
Staff	Union:	0 %	2.52 %	3 %
	Non-Union	0 %	2.52 %	0 %

6  
7 **Q. What is the overall impact of Staff’s proposed Pro Forma Labor Non-Executive**  
8 **adjustment (Adjustment 3.03)?**

9 A. The overall net impact of Staff’s proposed Pro Forma Labor Non-Executive  
10 adjustment is a decrease to electric and natural gas Net Operating Income of  
11 \$1,525,000 and \$455,000, respectively. These amounts are shown in my Exh. JH-2 at  
12 page 8 for electric operations and JH-3 at page 8 for natural gas operations.

13  
14 **C. Pro Forma Labor Executive (Adjustment 3.04)**

15  
16 **Q. What is the Pro Forma Labor Executive adjustment (Adjustment 3.04)?**

17 A. This adjustment reflects executive salary levels approved by Avista’s Board of  
18 Directors and that are in effect as of March 2019.

1 **Q. Do you agree with Avista's Pro Forma Labor Executive adjustment?**

2 A. No. Avista continues to include the salary of Mr. Scott Morris, CEO, in the pro  
3 forma level of expense in the rate year (4/1/2020-3/21/2021), even though Mr.  
4 Morris will be retiring March 1, 2020. Therefore, his salary will not be an expense  
5 in the rate year. Avista has failed to remove this amount even though the retirement  
6 is known and measurable.

7 Mr. Morris will transition his CEO duties to Avista's President Mr. Dennis  
8 Vermillion, who was elected as CEO by the board, effective October 1, 2019.<sup>5</sup>

9  
10 **Q. What is Staff's proposed adjustment to Pro Forma Labor Executive,  
11 Adjustment 3.04?**

12 A. Staff removed the salary of Mr. Morris, CEO, from the pro forma adjustment,  
13 resulting in an increase to electric and natural gas Net Operating Income of \$4,000  
14 and \$2,000, respectively. These amounts are shown in my Exh. JH-2 and JH-3 at  
15 page 8 for both electric operations natural gas operations.

16  
17 **D. Pro Forma Employee Benefits (Adjustment 3.05)**

18  
19 **Q. Please explain Avista's adjustment for Pro Forma Employee Benefits.**

20 A. Avista adjusts the 2018 retirement plans (401(k) and pension), and medical insurance  
21 for active employees and for those retired (post-retirement medical) to the expected  
22 amount for 2020. Annually, the Company works with independent consultants to

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<sup>5</sup> Huang, Exh. JH-5 at page 4.

1 determine the appropriate level of expense for both the Retirement Plans (Willis  
2 Towers Watson) and the Medical Plans (Mercer).

3

4 **Q. What is the amount of the adjustment?**

5 A. Avista proposed including a 15.42 percent increase to its current employee benefits  
6 of \$63,273,059. This equals a \$9,754,395 pro forma increase to its test year level of  
7 expense.

8

9 **Q. Do you dispute Avista's proposed increase for Employee Benefits?**

10 A. Yes. Avista's proposed increase of \$9,754,395 represents an abnormally high  
11 increase, especially considering that employee benefits expense embedded in the test  
12 year are already nearly 30 percent higher than only three years prior.<sup>6</sup> The  
13 Company's proposed changes to pro forma employee benefits from 2013 to 2018  
14 have ranged from -3,494,110 to \$8,726,888.<sup>7</sup>

15

16 **Q. Has Avista been accurate in projecting the pro forma Employee Benefits  
17 expense?**

18 A. No. For example, in Avista's 2014 general rate case, in Dockets UE-140188 and  
19 UG-140189, Avista proposed a pro forma level of Employee Benefits of  
20 \$53,951,000.<sup>8</sup> In the next year's rate case, in Dockets UE-150205 and Docket UG-

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<sup>6</sup> The pro forma level of employee benefits was \$53,951,000 in Dockets UE-140188 and UG-140189. See Huang, Exh. JH-6 at page 3, shaded in green.

<sup>7</sup> Huang, Exh. JH-6 at page 3.

<sup>8</sup> Huang, Exh. JH-6 at page 3, shaded in green.



1 150206, Avista provided the actual expense for Employee Benefits. The actual  
2 expense level was \$51,194,312,<sup>9</sup> which is approximately \$2.8 million lower than  
3 what Avista claimed for the pro forma level of Employee Benefits in the prior year's  
4 general rate case.

5 In Dockets UE-150205 and UG-150206, Avista's proposed pro forma level  
6 of Employee Benefits was \$59,921,200,<sup>10</sup> while the actual Employee Benefits  
7 provided in Dockets UE-160228 and Docket UG-160229 were \$57,902,170,<sup>11</sup> again  
8 more than \$2 million lower than what Avista claimed for the pro forma level in the  
9 prior year's general rate case.

10 In Dockets UE-170485 and UG-170486, Avista included an uncontested pro  
11 forma level of employee benefits of \$69,690,986.<sup>12</sup> However, the actual employee  
12 benefits expense in 2018 (presented in Dockets UE-190334 and UG-190335) was  
13 \$63,273,059,<sup>13</sup> approximately \$6.5 million lower than what Avista claimed for the  
14 pro forma level in the prior year's general rate case filing.

15

16 **Q. What is the takeaway from these pro forma versus actual Employee Benefits**  
17 **expenses?**

18 A. Avista consistently overestimates the level of Employee Benefits expense it will  
19 incur in the rate year.

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<sup>9</sup> Huang, Exh. JH-6 at page 3, shaded in green.

<sup>10</sup> Huang, Exh. JH-6 at page 3, shaded in purple.

<sup>11</sup> Huang, Exh. JH-6 at page 3, shaded in purple.

<sup>12</sup> Huang, Exh. JH-6 at page 3, shaded in orange.

<sup>13</sup> Huang, Exh. JH-6, page 3, shaded in orange.

1                    Since its 2014 general rate case, Avista has overestimated its Employee  
2                    Benefits by a total of \$11 million. Therefore, Avista’s ratepayers have overpaid \$11  
3                    million over the last four years.

4

5    **Q.    What were Avista’s actual Employee Benefits in the most recent three years?**

6    A.    Avista’s actual Employee Benefits were \$70,405,510 in 2016, \$66,083,302 in 2017  
7                    and \$63,273,059 in 2018<sup>14</sup> demonstrating a downward trend in costs.

8

9    **Q.    What was the average level of Avista’s Employee Benefits in the last five years?**

10   A.    Avista’s average Employee Benefits level was \$61,919,122 for the last five years  
11                    from 2014 to 2018.<sup>15</sup>

12

13   **Q.    Please summarize your conclusion to Avista’s proposed Employee Benefits in  
14                    this proceeding?**

15   A.    Avista proposes a 15.42 percent pro forma increase to its current medical benefit of  
16                    \$63,273,059. This adjustment represents an increase of \$9,754,395 to the Company’s  
17                    test year level of expense, which increases the rate year level of Employee Benefits  
18                    to \$73,027,454. Given that Avista has consistently over-estimated these costs, and  
19                    that Employee Benefits expense is trending downward rather than upward, Staff is  
20                    unconvinced that Avista’s pro forma level of expense is realistic.

21

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<sup>14</sup> Huang, Exh. JH-6, Avista’s Response to UTC Staff Data Request No. 9.

<sup>15</sup> Huang, Exh. JH-6 at page 4.

1 **Q. What is your proposed adjustment to Avista’s Employee Benefits in this**  
2 **proceeding?**

3 A. Staff removes Avista’s pro forma adjustment to Employee Benefits expense, and  
4 uses the test period actual expense for the revenue requirement calculation. The test  
5 period actual expense of \$63,273,059 is known and measurable, and is reasonably  
6 consistent with Avista’s average Employee Benefits of \$61,919,122 for the last five  
7 years from 2014 to 2018.<sup>16</sup>

8

9 **E. Pro Forma Insurance Expense (Adjustment 3.06)**

10

11 **Q. Please explain the Pro Forma Insurance expense adjustment.**

12 A. This adjustment reflects the 2018 level of insurance expense for general liability,  
13 directors and officers (“D&O”) liability, and property insurance to the level of  
14 insurance expense the Company will experience during the rate year. This pro forma  
15 Insurance expense excludes D&O insurance and is reduced by 10 percent for  
16 ratemaking purposes.

17

18 **Q. Do you agree with Avista’s Pro Forma Insurance expense adjustment?**

19 A. No. I dispute the adjustment.

20

---

<sup>16</sup> See Huang, Exh. JH-6 at page 4.

1 **Q. Why do you dispute the adjustment?**

2 A. As with Employee Benefits expense, Avista has a history of overestimating its level  
3 of Insurance expense.

4

5 **Q. Please explain Avista's history of overestimating its level of Insurance expense.**

6 A. Avista's proposed level of pro forma Insurance expense was \$5,813,343<sup>17</sup> in Dockets  
7 UE-140188 and UG-140189. This level of expense was not challenged and was  
8 approved by the Commission. The actual Insurance expense, which was provided in  
9 Dockets UE-150205 and UG-150206, was \$4,917,693.<sup>18</sup> This actual Insurance  
10 expense is approximately \$0.9 million lower than what Avista claimed for the pro  
11 forma level of Insurance expense in the prior year's general rate case.

12 In Dockets UE-150205 and UG-150206, Avista's proposed pro forma level  
13 of Insurance expense was \$5,575,651.<sup>19</sup> This level of expense was not challenged  
14 and was approved by the Commission. The actual Insurance expense, which was  
15 provided in Dockets UE-160228 and Docket UG-160229, was \$5,095,310.<sup>20</sup> This  
16 actual Insurance expense is nearly \$0.5 million lower than what Avista claimed for  
17 the pro forma level of Insurance of \$5,575,651 in the prior year's general rate case.

18 Avista did not present traditional pro forma Insurance Expense adjustment in  
19 its next rate case, Dockets UE-160228 and UG-160229. In its "Cross Check" in that  
20 case, however, which resembled pro forma adjustment, Avista included estimated

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<sup>17</sup> Huang, Exh. JH-7 at page 3, shaded in green

<sup>18</sup> Huang, Exh. JH-7 at page 3, shaded in green.

<sup>19</sup> Huang, Exh. JH-7 at page 3, shaded in purple.

<sup>20</sup> Huang, Exh. JH-7 at page 3, shaded in purple.

1 pro forma Insurance expense levels of \$5,242,104<sup>21</sup> for 2017 and \$5,515,707 for  
2 2018. Avista did not make any Insurance expense adjustments in its next general rate  
3 case, in Dockets UE-170485 and UG-170486. In the instant proceeding, however  
4 (that is, Dockets UE-190334 and UG-190335), the actual Insurance expense that  
5 Avista provided was again lower than Avista’s estimate. The actual Insurance  
6 expense for 2018 in Dockets UE-190334 and UG-190335 was \$4,590,085.22 This  
7 actual Insurance expense for 2018 is more than \$0.9 million lower than what Avista  
8 claimed for the “Cross Check” pro forma level of Insurance expense of \$5,515,707  
9 in Dockets UE-160228 and UG-160229. In addition, this actual Insurance expense  
10 for 2018 is \$0.7 million lower than what Avista claimed for the “Cross Check” pro  
11 forma level of Insurance expense \$5,242,104 for 2017 in Dockets UE-160228 and  
12 UG-160229.

13

14 **Q. What do you conclude from your comparison of the estimated an actual**  
15 **Insurance expense levels over the five-year period from 2013 to 2018?**

16 A. Avista has consistently overestimated its Insurance expense since its general rate  
17 case filing in Dockets UE-140188 and UG-140189.

18

19 **Q. What is your proposed adjustment to Avista’s Insurance expense in the current**  
20 **proceeding?**

21 A. Staff proposes rejecting Avista’s pro forma Insurance expense adjustment and  
22 leaving Insurance expense at the actual test period level. The test period expense

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<sup>21</sup> Huang, Exh. JH-7 at page 3, shaded in yellow

<sup>22</sup> Huang, Exh. JH-7 at page 3, shaded in yellow.

1 level is more representative of the rate year Insurance expense than Avista's pro  
2 forma estimate.

3

4 **F. Pro Forma IS/IT Expense (Adjustment 3.07)**

5

6 **Q. Please explain the Pro Forma IS/IT expense adjustment.**

7 A. This adjustment purports to update the test year level of information services and  
8 technology expense of 2018 to levels expected during the rate period beginning April  
9 1, 2020.

10

11 **Q. Do you agree with Avista's adjustment on Pro Forma IS/IT expense?**

12 A. No. I disagree. Like Employee Benefits and Insurance expense, Avista's proposed  
13 IS/IT expense is unsubstantiated.

14

15 **Q. Can you please explain why you believe that Avista's proposed IS/IT expense is**  
16 **unsubstantiated?**

17 A. Yes. Avista's proposed level of pro forma IS/IT expense was \$2,173,626<sup>23</sup> in  
18 Dockets UE-140188 and UG-140189. This level of expense was not challenged and  
19 was approved by the Commission in Dockets UE-140188 and UG-140189. The  
20 actual IS/IT expense was provided in Dockets UE-150205 and UG-150206 and was  
21 only \$832,324.<sup>24</sup> This actual IS/IT expense is more than \$1.3 million lower than the  
22 pro forma level of IS/IT expense of \$2,173,626 that Avista estimated in the prior

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<sup>23</sup> Huang, Exh. JH-8 at page 3, shaded in green.

<sup>24</sup> Huang, Exh. JH-8 at page 3, shaded in green, non-labor only.

1 year's general rate case. Avista proposed and IS/IT expense adjustment in its Cross  
2 Check Study in Dockets UE-160228 and Docket UG-160229. In its Cross Check  
3 Study, Avista proposed an outrageous pro forma IS/IT expense of \$23,226,485<sup>25</sup> for  
4 2017 and \$23,935,095<sup>26</sup> for 2018. The actual IS/IT expense of \$18,558,146<sup>27</sup> that  
5 Avista provided in its 2017 general rate case in Dockets UE-170485 and UG-170486  
6 was again much lower than the Company's estimate in its Cross Check Study in the  
7 2016 general rate case.

8  
9 **Q. Did Avista propose any IS/IT expense adjustment in Dockets UE-170485 and**  
10 **Docket UG-170486?**

11 A. Yes.

12  
13 **Q. Please continue.**

14 A. In Dockets UE-170485 and UG-170486, Avista's proposed pro forma level of IS/IT  
15 expense was \$19,897,122<sup>28</sup> for the 2017 level of pro forma IS/IT expense. In  
16 Dockets UE-170485 and UG-170486, Avista included the non-labor and labor  
17 portions of IS/IT expenses. This is significant because in its next general rate case  
18 Avista included only non-labor portions of the expense. My Exh. JH-8, at page 3,  
19 contains both the whole amounts and the separate amounts of the non-labor and labor  
20 portions of IS/IT expenses. The level of pro forma IS/IT expense was not

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<sup>25</sup> Huang, Exh. JH-8 at page 3, shaded in red, non-labor only

<sup>26</sup> Huang, Exh. JH-8 at page 3, shaded in red, non-labor only.

<sup>27</sup> Huang, Exh. JH-8 at page 3.

<sup>28</sup> Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.

1 challenged in Dockets UE-170485 and UG-170486 and was approved by the  
2 Commission.

3 In Avista's 2017 general rate case, the Company proposed a rate plan.  
4 Associated with the rate plan, Avista presented a Rate Year Study for 2018 IS/IT  
5 expense. The estimated level of 2018 IS/IT expense in the Rate Year Study was  
6 \$20,503,092.<sup>29</sup> The rate plan, and thus, the Rate Year Study, in Dockets UE-170485  
7 and UG-170486 was not accepted by the Commission.

8 In Avista's next general rate case, in Dockets UE-190334 and Docket UG-  
9 190335, Avista used a level of IS/IT expense that included only non-labor portions  
10 of the expense. The actual level of 2018 IS/IT expense was \$11,440,101. This actual  
11 IS/IT expense is approximately one half of the amount of what Avista claimed for  
12 the pro forma level of IS/IT Expense in the prior years' general rate case filings in  
13 2016 and 2017. (For comparison purposes, I have used only the non-labor portion of  
14 IS/IT expenses here.)

15  
16 **Q. What was the trend that developed over the five-year period from 2013 to 2018?**

17 A. Avista seems to habitually overestimate its IS/IT expense. My analysis demonstrates  
18 just how aggressive and far-fetched these estimates are. When Avista overestimates  
19 its IS/IT expense, ratepayers then overpay for something that was never  
20 implemented.

21

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<sup>29</sup> Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.



1 **Q. What is your proposed adjustment to Avista’s IS/IT expense in Dockets UE-**  
2 **190334 and Docket UG-190335, in this proceeding?**

3 A. Staff proposes to leave the current test period actual expense as the pro forma level  
4 expense. The current test period actual expense is more representative of the pro  
5 forma level expense.

6

7 **G. Pro Forma Property Tax (Adjustment 3.08)**

8

9 **Q. Please explain the Pro Forma Property Tax expense adjustment.**

10 A. This adjustment is to bring the 2018 level of property tax expense included in  
11 adjustment (2.02) Restate 2018 Property Tax, to the level of property tax expense the  
12 Company will experience during the rate year.

13

14 **Q. Do you agree with Avista’s Pro Forma Property Tax expense adjustment?**

15 A. No. I disagree with the Company’s proposed Pro Forma Property Tax adjustment.

16

17 **Q. How much is the Pro Forma Property Tax increase that Avista proposed in its**  
18 **general rate case filing on April 29, 2019, in this proceeding?**

19 A. Avista proposed a 14.88 percent increase to its current property tax of \$35,313,692.  
20 This adjustment represents an increase of \$5,254,802 increase to the Company’s test  
21 year level of Property Tax expense.

22

1 **Q. Did Avista revise its Pro Forma Property Tax expense increase after its general**  
2 **rate case filing?**

3 A. Yes. In a response to Staff discovery, Avista significantly reduced its proposed  
4 expense for both electric and natural gas operations.

6 **Q. By how much did Avista propose to revise its Pro Forma Property Tax expense**  
7 **increase?**

8 A. Avista proposed to reduce its original proposed amount by more than two-thirds for  
9 both electric and natural gas operations. This means that the Company's original  
10 proposed amounts were more than three times higher than the revised amounts for  
11 both electric and natural gas operations.<sup>30</sup> Even Avista seems to have recognized that  
12 it had overestimated Pro Forma Property Tax significantly.

14 **Q. Please continue.**

15 A. The following table shows the original proposed Pro Forma Property Tax expense  
16 contrasted with the revised amounts for both electric and natural gas operations.<sup>31</sup>

	<b>WA Electric</b>	<b>WA Gas</b>
Adjustment, as filed	\$ 3,558,274	\$ 475,894
<b>Adjustment, as updated</b>	<b>1,052,718</b>	<b>103,435</b>
Reduction to Property Tax Expense in GRC	\$(2,505,556)	\$(372,459)

17

18

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<sup>30</sup> Huang, JH-9 at page 4.

<sup>31</sup> Huang, JH-9 at page 4.

1 **Q. What is your proposed adjustment to Avista’s property tax in this proceeding?**

2 A. Staff proposes to adopt Avista’s revised level of proposed Property Tax expense. The  
3 overall net impact of this adjustment to Avista’s filed case is a decrease to electric and  
4 natural gas Net Operating Income of \$832,000 and \$81,000, respectively. These  
5 amounts are shown in my Exh. JH-2 and Exh. JH-3 at page 9 for both electric and  
6 natural gas operations.

7  
8 **H. Pro Forma Fee-Free Amortization (Adjustment 3.12)**

9  
10 **Q. Please explain the Pro Forma Fee-Free Amortization adjustment.**

11 A. The Commission approved deferral of the costs Avista incurs to offer a fee-free  
12 payment program for its residential customers. Avista’s residential customers  
13 previously had to pay a third-party vendor when making a credit or debit card  
14 payment through any payment channel or a one-time Automated Clearing House  
15 (ACH) payment. As approved in Dockets UE-160071 and UG-160072, Avista is  
16 allowed to recover the costs associated with offering this program from all customers  
17 in a general rate case. Pro Forma Fee-Free Amortization reflects the annual expense  
18 associated with the “fee-free” payment expense incurred during the rate year  
19 (\$775,000 electric and \$497,000 natural gas), as well as the annual amortization  
20 expense as a result of amortizing the “fee-free” payments deferred from February  
21 2017 through March 2020 over a two year period (April 1, 2020 through March 31,  
22 2022).

23

1 **Q. When will Avista’s fee-free payment program be discontinued?**

2 A. Avista’s fee-free payment program concludes January 31, 2020, which is three years  
3 after the initial starting date.

4

5 **Q. How does the program work?**

6 A. Avista defers the actual costs associated with this program incurred from a third-party  
7 vendor. The deferrals are recorded in FERC Account 182.3 – Other Regulatory Assets.  
8 Avista is authorized to amortize (over a two-year period) the actual costs to FERC  
9 Account 407.3 – Regulatory Debits – Amortization. The deferred actual costs can be  
10 recovered in a general rate case proceeding.

11

12 **Q. What is at issue for this adjustment?**

13 A. Avista has presented deferred costs for recovery in this proceeding, based not only  
14 on incurred costs but on projections. Staff has no issue with Avista’s fee-free  
15 payment program with respect to the program itself. And Staff does not dispute  
16 recording deferrals as FERC Account 182.3 – Other Regulatory Assets or amortizing  
17 the actual costs over a two-year period in FERC Account 407.3 – Regulatory Debits.  
18 What is at issue here is that Avista estimated how much the monthly cost will be for  
19 the future rate year and added a layer of uncertain costs to the program.

20

1 **Q. Why is an estimated monthly program cost for the whole year not appropriate?**

2 A. Avista's original accounting petition for deferring a fee-free payment program cost  
3 proposes a deferral up to 36 months of ACTUAL program expenses, not estimated  
4 program expenses.<sup>32</sup>

5  
6 **Q. What is Staff's proposed adjustment to the Pro Forma Fee-Free Amortization  
7 adjustment?**

8 A. Staff removed Avista's estimated program expense for the 12-month period for the  
9 pro forma level of adjustment. Staff believes that Avista should defer the actual  
10 program costs, not the estimated program costs, as approved in Avista's accounting  
11 petition in Dockets UE-160071 and UG-160072. The overall net impact of this  
12 adjustment is a decrease to electric and natural gas Net Operating Income of  
13 \$1,029,000 and \$660,000, respectively. These amounts are shown in my Exh. JH-2  
14 and Exh. JH-3 at page 9 for both electric and natural gas operations.

15

16 **I. Pro Forma Colstrip Amortization (Electric, Adjustment 3.13)**

17

18 **Q. Please explain the Pro Forma Colstrip Amortization adjustment.**

19 A. This adjustment reflects the Company's proposed treatment for recovery of its  
20 investment in Colstrip Units 3 and 4 after applying an accelerated depreciation rate  
21 through 2027.

22

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<sup>32</sup> Avista's Accounting Petition, page 12, lines 26-27, to page 13, line 1.

1 **Q. Did Avista revise its adjustment to Pro Forma Colstrip Amortization,**  
2 **Adjustment 3.13 after its general rate case filing on April 29, 2019?**

3 A. Yes, in response to Staff discovery, Avista significantly changed its adjustment to  
4 Pro Forma Colstrip Amortization, Adjustment 3.13, on August 26, 2019.<sup>33</sup>

5  
6 **Q. What did Avista change in its updated adjustment to Pro Forma Colstrip**  
7 **Amortization, Adjustment 3.13?**

8 A. Avista changed two items: (1) the amount of capital that will transfer to plant in 2019  
9 for Colstrip and (2) depreciation expense.<sup>34</sup> Regarding the first item, Avista  
10 originally estimated the Colstrip expense through December 2019. The revised  
11 adjustment used actual Transfer to Plant (TTP) of Colstrip for January 1, 2019,  
12 through May 31, 2019, and simultaneously updated its forecasted TTP through  
13 December 2019. Second, Avista inadvertently omitted from the adjustment the 2019  
14 depreciation and its impact on accumulated depreciation. The revised adjustment  
15 corrected this error.

16  
17 **Q. What is your proposed adjustment to Pro Forma Colstrip Amortization,**  
18 **Adjustment 3.13?**

19 A. Staff's adjustment reflects Avista's updates to this adjustment, which the Company  
20 provided in a supplemental response to Staff discovery.<sup>35</sup> The overall net impact of

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<sup>33</sup> Huang, Exh. JH-11 at page 3.

<sup>34</sup> Huang, Exh. JH-11 at page 4.

<sup>35</sup> Huang, Exh. JH-11 at 3-4.

1           this adjustment is a decrease to electric Net Operating Income and Rate Base of  
2           \$1,315,000 and \$14,194,000, respectively.

3

4   **Q.    Does this conclude your testimony?**

5   A.    Yes.