Q. How do the Company's original and rebuttal revenue requirements compare with those proposed by the Parties?

A. Table No. 5 below provides the revenue requirements filed by Avista (original and rebuttal), and that of Staff, PC and AWEC (IEP, The Energy Project and Sierra Club did not provide a revenue requirement). Please note that on May 24, 2021 Public Counsel filed revised exhibits for Ms. Crane (Exhs. ACC-3-8) showing revised revenue requirement amounts of $8.5 million for electric and $4.395 million for natural gas.[4]

Table No. 5: Revenue Requirement Positions of the Parties[5] [REVISED]

Summary of Proposed Revenue Requirement Positions (000s) [REVISED][1]				
	Electric		Natural Gas	
Avista As-filed	$	44,183	$	12,790
Avista Rebuttal	$	40,155	$	10,714
Staff	$	10,553	$	6,055
Public Counsel	$	10,648	$	4,395
AWEC	$	14,709	$	5,075

[1]Revised revenue requirement balances reflect Staff, Public Counsel and AWEC revised positions for electric and natural gas as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation.

Q. Would you provide a more detailed breakdown of the positions of the Parties, by major revenue requirement items, that reconciles their revenue requirements with Avista's revenue requirements proposed on rebuttal?

A. Yes. Ms. Andrews provides the following breakdowns in Exh. EMA-6T:

[4] This update reflects increases in Public Counsel's proposed revenue requirement amounts as a result of updating for pro forma benefits as provided by Avista (Ms. Andrews discusses this in her rebuttal testimony).
[5] Copied from Exh. EMA-6T, Table No. 2 p. 9.

Table No. 6 - Electric Reconciliation of Avista Rebuttal versus Parties[6] [REVISED]

Line:	Electric Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s) [REVISED][3]				
		Staff	PC	AWEC	See Andrews (Section V.) Other Company Witnesses:
1	Parties As Filed	$ 10,553	$ 10,648	$ 14,709	
	Differences with Avista:				
2	Separate Tariff (AFUDC / Tax Benefit)			$ -	Andrews (see Section V.)
3	Miscellaneous Contested Adjustments:				
i.	Expenses reflect Avista use of actual 2020/2021 vs Parties 2019/2020	$ 6,764	$ 5,661	$ 1,372	Andrews (see Section V.)
ii.	Avista reflects actual 2020 Capital Additions[1]	$ 8,278	$ 3,418	$ 7,276	Schultz (Exh. KJS-3T), DiLuciano/La Bolle (Exh. JD/LL-1T)
ii.	PF Power Supply (Normalized Revenue) / PF Transmission		$ 1,143	$ 1,464	Knox (Exh. TLK-4T) Schlect (Exh. JAS-3T)
4	AMI Investment[2]	$ 19	$ 6,568	$ 3,163	Rosentrater/La Bolle (Exh. HR/LL-1T)
5	Wildfire Expenditures	$ 3,824	$ 1,130	$ 3,610	Howell (Exh. DRH-8T) Andrews (see Section VII.)
6	EIM (Benefits not reflected by AWEC, to be included with 60-day update)			$ (2,306)	Kinney (Exh. SJK-13T) Kalich (Exh. CGK-9T)
7	Colstrip / SmartBurn	$ 1,893	$ 295	$ 583	Thackston (Exh. JRT-12T)
8	Cost of Capital	$ 8,824	$11,292	$ 10,284	Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T)
9	Avista Rebuttal	$40,155	$40,155	$ 40,155	

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

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

[3]REVISED - Revenue Requirement balances reflect Staff, Public Counsel and AWEC revised positions for electric as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation.

Table No. 7 – Natural Gas Reconciliation of Avista Rebuttal versus Parties[7] [REVISED]

Line:	Natural Gas Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s) [REVISED][3]				
		Staff	PC	AWEC	See Andrews (Section V.) Other Company Witnesses:
1	Parties As Filed	$ 6,055	$ 4,396	$ 5,075	
	Differences with Avista:				
2	Separate Tariff (AFUDC / Tax Benefit)			$ -	Andrews (see Section V.)
3	Miscellaneous Contested Adjustments:				
i.	Expenses reflect Avista use of actual 2020/2021 vs Parties 2019/2020	$ 1,064	$ 1,038	$ 39	Andrews (see Section V.)
ii.	Avista reflects actual 2020 Capital Additions[1]	$ 1,443	$ 212	$ 2,163	Schultz (Exh. KJS-3T)
4	AMI Investment[2]	$ 7	$ 2,438	$ 981	Rosentrater/La Bolle (Exh. HR/LL-1T)
5	Cost of Capital	$ 2,145	$ 2,630	$ 2,455	Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T)
6	Avista Rebuttal	$10,714	$10,714	$ 10,713	

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

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

[3]REVISED - Revenue Requirement balances reflect Staff, Public Counsel and AWEC revised positions for natural gas as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation.

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[6] Copied from Exh. EMA-6T, Table No. 4 p. 11.

[7] Copied from Exh. EMA-6T, Table No. 5 p. 12.

Q. What would be the combined Washington return on equity ("ROE") for Avista using Staff's and the other Parties' proposed revenue requirements?

A. As discussed by Ms. Andrews in Exh. EMA-6T, using Staff's, Public Counsel's and AWEC's filed revenue requirements, compared to the level of rate base supported by the Company (which itself is already understated, as discussed later), results in the following Return on Equity:

Table No. 8: ROE Results of the Parties~~[8]~~ [REVISED]

Resulting ROE of Proposed Revenue Positions of Parties [REVISED][1]			
	ROE Electric	ROE Natural Gas	Current Authorized
Staff	7.60%	8.50%	
Public Counsel	7.60%	8.00%	
AWEC	7.90%	8.20%	

[1] Revised ROEs reflect Staff, Public Counsel and AWEC revised revenue requirement positions for electric and natural gas as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation. See Revised Table No. 2 above.

As shown in Table No. 8 above, approval of any of the recommended revenue increases proposed by Staff, Public Counsel, or AWEC would result in a return on equity (ROE) of over ~~200~~160 to ~~300~~180 basis points for electric, and ~~100~~90 to ~~310~~140 basis points for natural gas, under that currently authorized (9.4%). These results reflect a reduction of between ~~100~~ 90 basis points (Staff natural gas) to ~~310~~ 140 basis points (~~AWEC~~PC natural gas) below that currently authorized (9.4%). This seemingly would be a best-case scenario as well, given continued self-imposed lag discussed by Ms. Andrews.

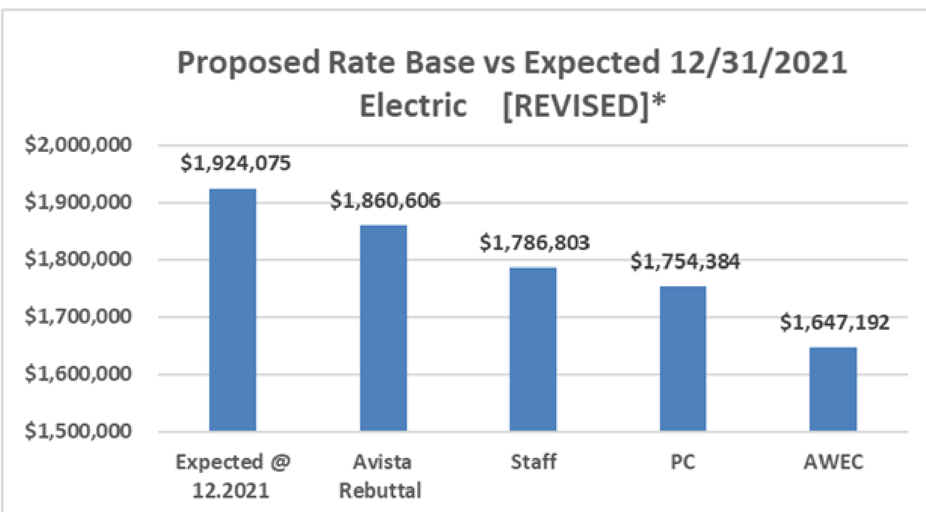
Q. What is this self-imposed lag Ms. Andrews testifies to?

A. As she notes in her testimony (Exh. EMA-6T), it is important to remember that

~~[8] AWEC ROE calculations reflect revised AWEC electric and natural gas revenue sufficiency (reductions) of $4.174 million and $264,000, respectively, as discussed by Ms. Andrews. The Public Counsel calculations reflect the May 24, 2021 revised revenue requirement as filed by Ms. Crane.~~

A. Yes. Staff proposes an increase of $~~7.2~~10.6 million in Electric revenue requirement and a $~~5.6~~6.1 million increase for Natural Gas. On Rebuttal, the Company has justified a $40.2 million revenue requirement for Electric and a $10.7 million increase in Natural Gas revenues. As shown in the following illustrations and tables, the revenue requirement of Staff excludes $~~86.4~~73.8 million of electric rate base, and $9.5 million of natural gas rate base versus that supported by the Company on rebuttal. This is all rate base that will be used and useful at the start of the Rate Year beginning October 1, 2021, leaving a combined ~~$95.9~~$83.3 million of plant in service unaccounted for in rates – even though its prudency has not been challenged.[25] And it is lag in capital cost recovery that is a primary driver of not realizing our authorized rate of return. Illustration No. 4 below shows how Avista's level of rate base on rebuttal underestimates the level of rate base as of December 31, 2021. The proposals of the other Parties introduce even more lag in capital cost recovery.

Illustration No. 4 – Electric Proposed Rate Base[26] [REVISED]



***Revised rate base balances reflect Staff, Public Counsel and AWEC revised electric positions as provided in the Joint Issues List filed with the Commission on June 30, 2021.**

[25] With the exception of SmartBurn/Coal Ash projects at Colstrip.
[26] Exh. EMA-6T, Chart No. 1.

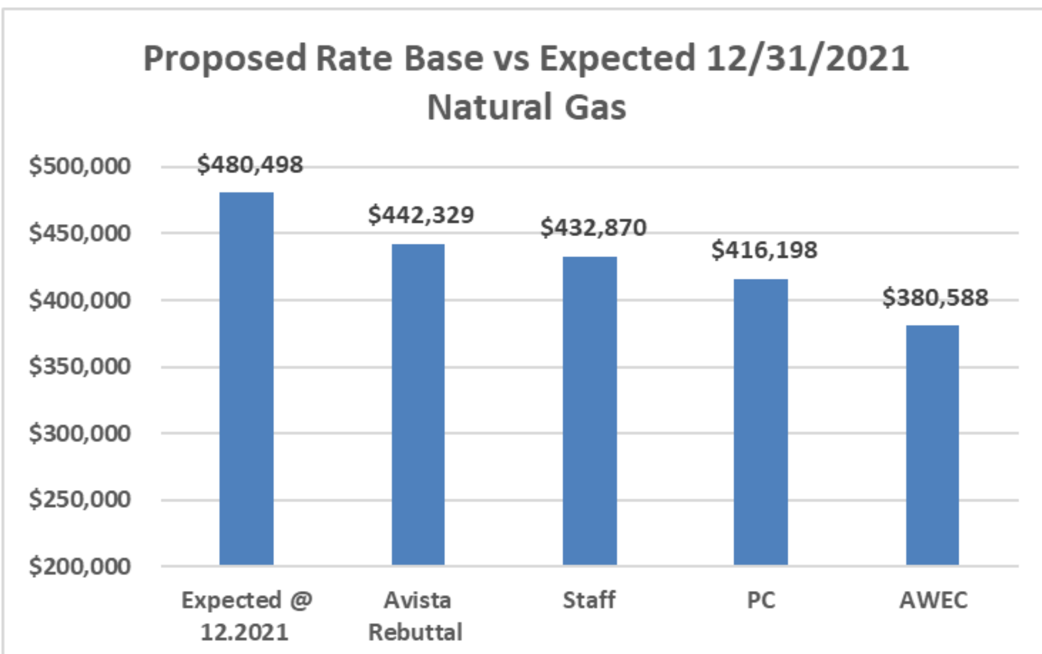
Table No. 9 translates that regulatory lag into levels of rate base that are providing no return to Avista.

Table No. 9 – Electric Rate Base – Regulatory Lag[27] [REVISED]

Proposed Rate Base - Regulatory Lag [REVISED]*				
Washington Electric				
Expected @ 12/31/2021	**Avista**	**Staff**	**PC**	**AWEC**
$ 1,924,075	$ 1,860,606	$ 1,786,803	$ 1,754,384	$ 1,647,192
Difference:	**$ (63,469)**	**$ (137,272)**	**$ (169,691)**	**$ (276,883)**
Revenue Impact - "Return On" only	**$ (6,244)**	**$ (13,504)**	**$ (16,693)**	**$ (27,238)**
*Revised rate base balances reflect Staff, Public Counsel and AWEC revised electric positions as provided in the Joint Issues List filed with the Commission on June 30, 2021.				

The same showing can be made for natural gas, with Illustration No. 5 again showing how each of the Parties' proposals understates rate base as of December 31, 2021:

Illustration No. 5 – Natural Gas Proposed Rate Base[28]



[27] Exh. EMA-6T, Table No. 7.
[28] Exh. EMA-6T, Chart No. 2.

Again, it is the same story, with no return on this excluded (but prudent) capital investment.

Table No. 10 – Natural Gas Proposed Rate Base[29]

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

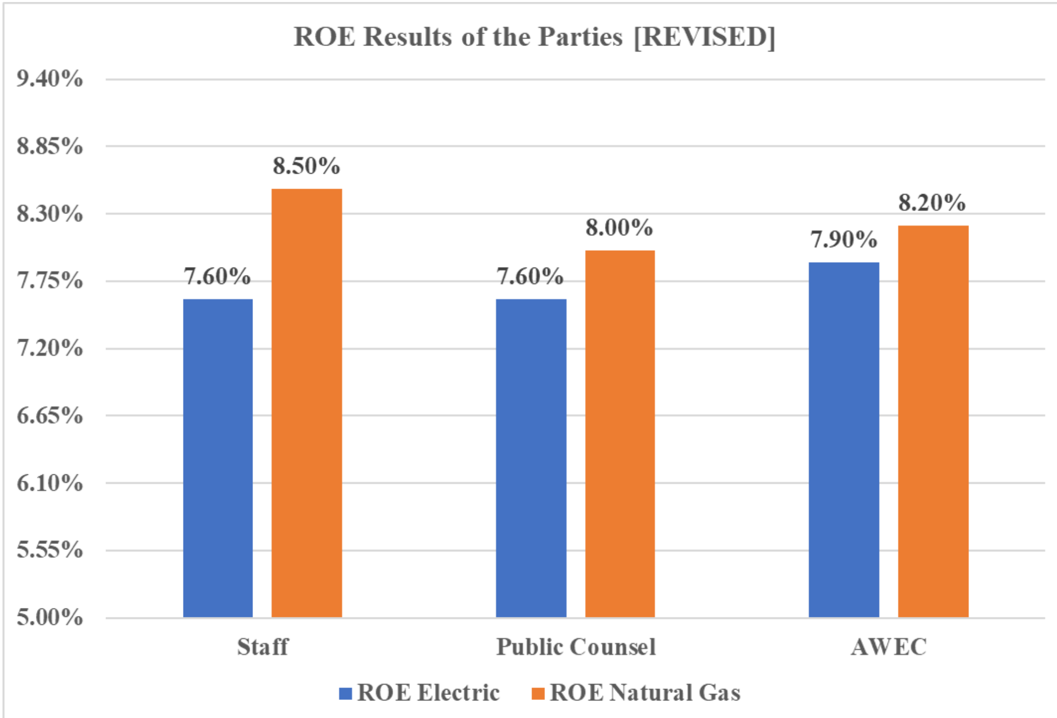
To focus only on Public Counsel, for example, it proposes an increase of $~~7.2~~10.6 million in Electric Revenue requirement and a $4.4~~0~~ million increase for Natural Gas rates. Public Counsel's combined revenue requirement excludes nearly $133~~45~~ million of rate base that will be used and useful at the start of the Rate Year beginning in October of 2021 (and of course much more if we were to look at December 31, 2021, where an astounding ~~$246.6~~$234.0 million of electric and natural gas rate base is excluded).

Q. But even since 2019, wasn't the rate base statute (RCW 80.04.250) changed to call for consideration of "used and useful" plant that is in service, "by or during the rate effective period"?

A. Those legislative changes took effect on May 1, 2019 — over two years ago. And, unfortunately, not much has changed. We are still battling to get recognition of plant in service, even as of the rate effective date (October 1, 2021) — much less "during" the rate effective period. Moreover, the Commission continues to emphasize that there are no "bright line" tests for proforma capital adjustments, but it seems that these adjustments are only sparingly awarded. And the seemingly intractable problem of "major thresholds" persist, whereby an arbitrary dollar value is assigned to determine which projects are to be reviewed (e.g., $5 million),

[29] Exh. EMA-6T, Table No. 8.

<u>Illustration No. 7: ROE Results of the Parties [REVISED]</u>



Clearly the proposals of the parties in this case are not a good harbinger of things to come as we look into the future of ratemaking in the state of Washington.

Q. What if the Commission includes too much capital such that Avista over earns in the rate effective period.

A. For reasons just stated, we don't believe that will occur. But should that happen, there is already a customer safeguard in place, which has not been needed in many years, because we haven't been overearning in recent years. Namely, we have a <u>50/50 earnings test</u> as a part of the Company's decoupling mechanism. Should the Company actually over earn, half of any overearnings would be returned to customers. But recall that Avista is continuing to invest in our system to serve our customers, and most of that plant investment beyond 2020 was not even included in this case. We will continue to absorb the depreciation expense (and lost return on