BEFORE THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a AVISTA UTILITIES,

Respondent.

DOCKETS UE-200900, UG-200901 and UE-200894 (*Consolidated*)

POST-HEARING BRIEF OF AVISTA CORPORATION

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TABLE OF CONTENTS

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1 COMES NOW, Avista Corporation (hereinafter "Avista" or the "Company"), by and through its undersigned attorney, and respectfully submits this Post-Hearing Brief in the above-captioned matter.

I. INTRODUCTION

A. Introduction: "Getting the Rate Year Right"

2 This case is not about a multi-year rate plan. Avista's next filing will be, as required by law, if filed in 2022. But this case does provide the Commission with an opportunity to address issues ("materiality," "auditability," "pro forming beyond the test period," etc.) that will confound any future rate plan if not addressed in this case, as those issues aren't going away.

3 This case provides an early opportunity, post enactment of Senate Bill 5295 into law, for the Commission to use its broad discretion to get the "rate year" set right and provide Avista with a reasonable opportunity to earn anywhere near its authorized rate of return. Mr. Christie, on behalf of Avista, was quite emphatic:

> With utilities coming into the Commission with multiyear rate plans in the coming year, I believe that now is the time to send a signal to the utilities that the Commission will support used and useful capital in rates in that first rate effective period. That will provide assurances, in part, for utilities to file for longer rate plans, effectuating the primary goal of Senate Bill 5295.[1]

4 Mr. Christie further elaborated on this point, especially in light of the proposals of the

[1] Exh. KJC-1T, p.20, ll. 15-19.

parties:

> I am doing so to cast light on the impact of what Staff, Public Counsel and others are proposing in this case, and how far off the mark those proposals are in terms of establishing reasonable rates for the Rate Year, whether for a single upcoming Rate Year, or if this were the first Rate Year of a future rate plan. Consider this a "dress rehearsal" if you will.[2]

Should the Commission otherwise believe that the issues raised by Avista should await the filing of a multiyear rate plan, that still doesn't change the challenge of getting this Rate Year right. And, as will be discussed below, the Commission already has the "tools" in place to do it.[3]

5 Accordingly, this filing presents two fundamental issues that must be addressed:

(1) How to treat proforma 2020 capital additions, without use of an "arbitrary threshold" for excluding capital already serving customers for almost one year; and

(2) How to allow for the necessary audit and review of the prudency of expenditures (capital and expense) that occur after 2020, but prior to and during the Rate Year.

B. Overview of the Case.

6 The Company's rate case would have new base rates effective October 1, 2021, but which would be fully offset through the use of a Tax Customer Credit. Company Witness Andrews provided illustrations of the total capital additions (gross transfers-to-plant) pro formed by the Company in this case, including actual 2020 capital additions, and the additional four specific large and distinct capital projects -- i.e., AMI, EIM, Wildfire Plan, and Colstrip Units 3 and 4, totaling $199.1 million for Washington electric and $53.9 million for Washington natural gas.[4]

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[2] Exh. KJC-1T, p.21, ll. 8-11.

[3] Those "tools" include measures set forth in the Commissioner's Policy Statement on used and useful property, Dkt. U-190531, allowing for ex post facto review of adjustments that were made subject to refund (discussed infra), and using reasonable discretion in allowing for proforma adjustments, as opposed to "bright line" threshold limitations.

[4] Exh. EMA-6T, p. 14, ll. 6-21.

Illustration No. 1 – Electric Plant Additions

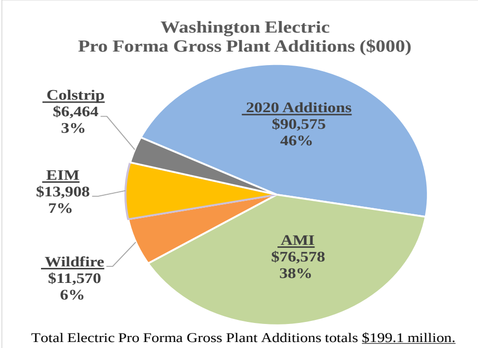
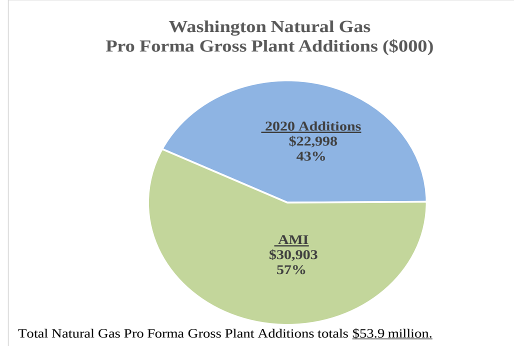


Illustration No. 2 – Natural Gas Plant Additions



7 The Company, on rebuttal, revised its natural gas and electric revenue requirement downward. That is reflected in the excerpted table below, along with the revised revenue requirement positions of the other parties.[5] / [6]

Table No. 2: Revenue Requirement Positions of the Parties[7]

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.				

Appendix A to this Brief is a reconciliation of adjustments made by the parties to arrive at a revenue requirement for electric and gas.

8 Within the Partial Multiparty Settlement Stipulation (Exh. JT-2), at paragraph 9, the Settling Parties agreed that Avista will provide an update to its filed Power Supply pro forma adjustment 60 days prior to the rate effective date (October 1, 2021) and that the effects of such an update will be incorporated into the electric revenue requirement approved by the Commission. In

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5 Id. at p.9, ll. 16-20.

6 Table No. 5 and discussions that follow, do not reflect the Company's revised Natural Gas Revenue Requirement of $10,666,000 per Avista's response to Bench Request 7, filed on August 6, 2021. The revised natural gas revenue requirement reflects a reduction of $48,000, from $10.714M to $10.666M, as result of updating natural gas AMI PF Adjustment 3.16 to reflect actual transfers to plant through July 31, 2021. Actual transfers to plant for electric AMI were higher than pro formed by Avista on Rebuttal, therefore, no changes were required for electric.

7 Table No. 2 does not reflect the revised positions of the Parties as reflected in the Updated Joint Issues List (UJIL) filed on August 11, 2021. Per the UJIL, the revised positions of the Parties for electric revenue requirement is a reduction of $1.058M (Staff), and an increase of $12.281M (Public Counsel) and $1.098M (AWEC.) For natural gas revenue requirement, per the UJIL, only Public Counsel revises its positions to $3.978M. These changes do not have a material change to the ROE tables (Table No. 8) discussed below.

compliance with the above-referenced settlement condition, Avista submitted its power supply compliance filing on July 30, 2021. This updated level of power supply costs would be used to determine the new base set of power supply revenues and expenses for ERM calculations beginning October 1, 2021. The excerpted table below shows the net impact of this power supply update, serving to reduce Avista's proposed revenue requirement by $11.609 million.

Revised Revenue Requirement

Rebuttal Revenue Requirements[(1)]	$ 40,155
60-Day Power Supply Transmission Update Impact	$ (11,609)
Avista Revised Revenue Requirement[(2)]	$ 28,546
Base Rate Increase	5.38%
(1) Per Exh. EMA-8, page 2, row 2. (2) Per 60-Day Update, Attachment A, pg. 2, row 7.	

The decrease of $11.6 million included with this 60-day update results from incorporating the recent three-month average of forward gas prices through June 15, 2021, adding new forward natural gas and power transactions, and accounting for known changes in power and transmission contracts for the October 1, 2021 - September 30, 2022 Rate Year.[8]

C. The Proposals of Other Parties Do Not Produce a Reasonable End Result.

9 Avista's presently authorized Return on Equity (ROE) is 9.4%. The Commission should not ignore the impact of adopting the positions of the other parties. The following Table, excerpted from Mr. Christie's testimony, tells a troubling story:

Table No. 8: ROE Results of the Parties[9]

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 160 to 180

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8 Per the UJIL filed on August 11, 2021, Staff and AWEC have revised their positions to reflect the 60-Day Power Supply and Transmission Pro Forma Adjustments 3.00P and 3.00T.

9 See Exh. KJC-1Tr, p.9, ll. 7-12.

basis points for electric, and 90 to 140 basis points for natural gas, under that currently authorized (9.4%).[10]

10 The teachings of Hope and Bluefield haven't gone away; a regulated utility must still be provided with a "reasonable opportunity" to earn its authorized return.[11] There is just no amount of prudent and reasonable cost cutting that will overcome revenue insufficiencies caused by the positions of the other parties.[12] This essentially provides "no opportunity" (much less a "reasonable" one) to earn the authorized return.

D. The Regulatory Lag on Recognizing Rate Base Additions is Untenable.

11 To provide needed context for a later discussion of particular rate base items, it is well to first note what the aggregate impact of rate base disallowances is, as recommended by the parties:

Table No. 7 – Electric Rate Base – Regulatory Lag[13]

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

The same showing can be made for natural gas, with Table No. 8 below:

Table No. 8 – Natural Gas Proposed Rate Base[14]

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)**

Staff excludes $197.5 million of combined electric and natural gas rate base that will be in service

10 Exh. KJC-1T, p.9, ll. 4-19.
11 *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).
12 Exh. KJC-1T, p.19, ll. 8-9.
13 Exh. EMA-6T, Table No. 7, p.29.
14 Id., Table No. 8, p.29.

at the end of this year (only 3 months into the Rate Year). Public Counsel, for its part, excludes approximately $246.6 million of combined rate base.[15]

12 The good news is that the Commission can use the tools already in its toolbox to remedy what amounts to a "guaranteed" underearning, by allowing the level of rate base supported by the Company in rates. These include recognized year-end 2020 rate base levels and a limited proforming of major capital projects.[16] It is important to recognize, for its part, as noted in Tables 7 and 8 above, by only incorporating select capital additions into its 2020 and 2021 capital additions proforma adjustments, the Company already accepted "regulatory lag" on approximately $101.7M of 2020 and 2021 capital investment that is or will be used and useful during the rate effective period.

E. As a Starting Point, 2020 Capital Additions Must Be Fully Captured in Rates.

13 Staff applies a "materiality threshold" to 2020 capital additions (discussed below), and otherwise eliminates "programmatic" spending. Public Counsel would allow all 2020 capital, except for $23.1M relating to Grid Modernization and Substation Rebuilds.[17] AWEC would only allow AMA capital (not year-end) for 2020.[18]

14 The Company has included certain (not all) 2020 capital additions, updated with actual in-service balances as of December 31, 2020, following guidance in the Commission's Used and Useful Policy Statement (Docket U-190531), as well as in the most recent PSE Order 08 in Dockets UE-190529 and UG-190530. All 2020 projects included are currently serving customers and "used and useful" ***nine (9) months prior*** to rates going into effect October 1, 2021. Moreover, the projects beyond 2020, were limited to four specific investments (AMI, EIM, Wildfire and Colstrip), mainly occurring in 2021, and with only two carrying over to 2022 (EIM March 2022 project, and the Colstrip June 2022 Dry Ash Disposal project).

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15 AWEC would exclude $389.4 million.

16 The Company already has a customer safeguard in place, which has not been needed in many years, because we haven't been overearning -- namely, a 50/50 earnings test as part of Avista's decoupling mechanism. Should the Company ever over-earn, half of any over-earnings would be returned to customers. (Exh. KJG-1T, p.27, ll. 17-22)

17 Exh. ACC-1T, p.34, ll. 5-8.

18 Exh. BGM-1T, p.12, ll. 19-23.

15 The Commission's guidance in its Policy Statement, supra, around types of projects it would consider for inclusion in rates relate to three broad types of investments: 1) specific - clearly defined, identifiable or discrete investments (e.g., generating asset); 2) programmatic - investments by their very nature are made according to a schedule, plan or method; and 3) projected. Using this guidance, the Company focused on specific capital projects (identifiable and distinct), as well as programmatic investments (on-going programs or scheduled investments), completed by year-end 2020, and certain limited 2021 and 2022 projects. In addition, the Company captured certain "short-lived assets" to be completed by year-end 2020. The Company then grouped its 2020 selected capital additions into either "large and distinct" or "programmatic" groupings or categories. This resulted in the groups pro formed into the 2020 Capital Additions Adjustments 3.11 – 3.15, sponsored by Ms. Schultz.

16 Ms. Higby, for Staff, further reduced the 2020 capital additions by using an arbitrary threshold of $4.1M (electric) and $0.9M (gas).[19] She used this as a "bright line" to exclude $56.2M of projects, and simply did not examine them. There is no other way to say it.

17 The following table summarizes these components:

2020 Pro Forma Capital Additions Avista versus Staff

	Avista's 2020 Pro Forma Capital Additions Detail (Actual Calendar Year Gross Transfers to Plant[2])					
	WA - Electric		WA - Natural Gas		Staff's Total 2020 Removal (E/G)	Staff's Removal of Amounts (E/G) Based on Threshold Total[3]
Adjustment [1]	**Avista**	**Staff**	**Avista**	**Staff**		**Staff**
3.11 - Customer at the Center	$ 11,294,285	$ 8,898,023	$ 3,296,022	$ 2,544,102	$ (3,148,181)	$ -
3.12 - Large Distinct Projects	$ 18,767,853	$ 6,346,087	$ 7,511,204	$ 6,407,759	$ (13,525,211)	$ (13,525,211)
3.13 - Programmatic	$ 50,120,804	$ 17,094,543	$ 6,913,013	$ 953,762	$ (38,985,512)	$ (27,372,699)
3.14 - Mandatory & Compliance	$ 38,282,625	$ 24,491,742	$ 10,855,217	$ 9,308,542	$ (15,337,558)	$ (15,337,558)
3.15 - Short-Lived Assets	$ 11,377,584	$ 9,690,872	$ 3,318,342	$ 2,789,070	$ (2,215,983)	$ -
Grand Total	**$ 129,843,151**	**$ 66,521,268**	**$ 31,893,798**	**$ 22,003,236**	**$ (73,212,445)**	**$ (56,235,469)**

[1] Staff applied a threshold of $4.1M (electric) and $0.9M (natural gas) to exclude projects from consideration that affected Adjustments 3.12-3.14. Further reductions were made by Staff associated with offsetting factors and/or meeting the definition of programmatic.
[2] Exh. KJS-4, Staff balances also provided in Exh. ANH-1T, p. 37-39
[3] Exh. ANH-1T, p. 20-23

18 Beyond application of an arbitrary threshold, Staff also improperly reduced rate base in each of the categories in the table above, for reasons explained in the Rebuttal Testimony of

[19] Exh. ANH-1T, p.3, l. 23 - p.4, l. 3.

Company Witness Schultz. (Exh. KJS-3T, at pp.18-26) For example, she addresses Staff's criticism that it did not include any offsetting "benefits" associated with its 2020 capital investment. (Exh. KJS-3T, pp.18-23)

19 The Commission has, however, provided recent guidance with respect to the use of "thresholds" or "materiality," as follows, at pages 4-5 of PSE's Order 08[20]:

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

20 In PSE Order 08, the Commission noted that "materiality is a regulatory concept that has become increasingly arbitrary and less relevant over time,"[21] and also declined to adopt a broad standard or "bright-line" threshold, or otherwise establish a "minimum size" acceptable for pro forma adjustments in a given case:[22]

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

In Avista's case as well, the Staff has failed to heed the Commission's recent admonishment that no "bright line" test should apply.

21 Ms. Andrews observed that "there is a difference, however, between using a threshold for reviewing a project versus using a threshold to <u>exclude</u> completed property for recovery, as proposed by Ms. Higby.[23] She went on to explain a sensible means for conducting an audit.[24]

> It is not reasonable to expect Staff and other Parties to perform a "comprehensive review" of <u>each and every capital project</u> included by the Company. Nor is an accountant who audits the books of any other Company expected to count every

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[20] Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.
[21] Order 08, <u>supra</u>, at ¶ 444.
[22] <u>Ibid</u>.
[23] Exh. EMA-6T, p.24, ll. 18-20.
[24] <u>Id</u>., at ll. 4-13.

> nut or bolt or "widget" in yearly inventory. Standard and accepted auditing practices in the industry use techniques for "sampling" and otherwise focusing on important or representative items. That is the only way any audit can be made manageable. For its part, however, a company is expected to freely open up its books and records for audit and assist in providing documentation. And that is what Avista has done in this case. It started by providing 63 business cases in its direct case and responded to 659 discovery requests (over 1,200 itemized questions or parts), that drilled down into specific items.

Accordingly, Avista has provided a "roadmap" consisting of 63 business cases supporting its investment in capital projects; this should have greatly facilitated Staff's audit work, allowing Staff to focus its attention where needed; of course, the Company stands ready to assist in the audit of any business case.[25]

22 Ms. Andrews then observes that, until the Commission provides guidance to the Staff and other parties to use standard auditing practices employed elsewhere, we will never solve this quandary and the Company will not recover used and useful rate base.[26] This, or a similar approach, is used by the Idaho and Oregon Commission Staffs when auditing Avista's capital additions, and other expenditures, included in any given case. Over the last several years, both Staffs have reviewed the Company's pro formed investments, and approved net plant investments right up to the rate - effective date of each GRC, without arbitrary exclusions based on an artificial threshold.[27]

23 The Commission might also look to the approach taken by every public accounting and auditing firm in the Unites States, including Avista's own auditing firm of Deloitte and Touche (D&T), who complete a review of Avista's expenditures on an annual basis. They too could not possibly do their job if a "comprehensive" review of every capital addition, or transaction, was expected of them.[28] Major accounting firms do not somehow "qualify" their opinions simply because they were unable to examine all items of inventory or other asset items. Stated differently,

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[25] Ms. Andrews offered the suggestion that sampling could be done for a group of projects in a certain Expenditure Request (ER) (Ms. Schultz notes that 95% of the Business Cases included by Avista reflect only one ER), or a sampling of similar ERs in a group of Business Cases. A first group of sampling could be done to review all large and distinct projects, and then a secondary sampling could be done to randomly select a number of other projects in the remaining projects. (Exh. EMA-6T, p.25, ll. 6-10)

[26] Exh. EMA-6T, p.25, ll. 10-13.

[27] Id., p.25, ll. 16-19.

[28] Id., p.26, ll. 3-7.

independent auditors still somehow manage to certify their audits without automatically removing items from the balance sheet because each item was not individually audited.

24 Avista is not opposed to the use of a threshold to establish a level of plant to review and audit, with opportunity to randomly "sample" other lesser plant. It is, however, unreasonable to use this threshold as a means to simply exclude projects from recovery – especially Avista's pro forma 2020 capital additions, which are in service, meeting the "used and useful" and "known and measurable" standards of this Commission, and nine months or more prior to new rates in effect. There is no "brighter line" than automatically excluding $56.2M of 2020 rate base, based on Staff's arbitrary auditing threshold.[29]

25 In addition to removing plant below an arbitrary threshold, Staff Witness Higby also removed "programmatic" investments -- i.e., those that are ongoing and reflect day-to-day requirements.[30] These are the "programs" referenced in the Commission's Policy Statement because they are under a specified plan and part of a methodical schedule for replacement.[31] There is no better example of basic "blocking and tackling" in the utility sector than ongoing programmatic investments, in addition to meeting compliance obligations.[32]

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[29] Total 2020 net plant additions removed by Staff is $70 million. *See* Revised Exhibit ERMA-7r, p.3, (electric) and p.5 (gas), difference between Staff and Avista's rate base columns, lines 11-15. This serves, in and of itself, to understate the Company's overall revenue requirement by approximately $9.7M. (See Exh. EMA-6T, sum of Table Nos. 4 and 5, pp. 11-12, Staff columns, line 3ii.)

[30] Examples of "programmatic investments" are: The on-going electric Minor Rebuild and gas Non-Revenue programs that are needed to maintain system reliability and safety for our customers. For electric, examples include ancillary work required by customer-requested rebuilds, "trouble work" - like the repair of damage from a car-hit-pole, investments needed to support joint use of our facilities, replacement of deteriorated or failed equipment that is not scheduled for planned asset condition replacement. For natural gas, examples include ancillary work required by customer-requested service, repair of damage from a dig-in of our facilities, investments needed to relocate facilities, repair of leaks, deepening pipeline sections that are too shallow, remediating failed under-sized or unsafe equipment, and correcting overbuild issues. For these on-going programs, the Company uses historical data to trend these forecasted capital investments. In this case, the Company included 2020 actual transfers to plant of approximately $12.2M on a system basis ($8.1M on a Washington electric basis), which is in line with recent historical spending. (See Exh. HLR-1T, pp. 20-21, 46-48 and Exh. HLR-11.)

[31] Exh. KJS-3T, p.25, ll. 12-18.

[32] Descriptions of Adjustments:

- (3.11) Customer at the Center: Investment in large and distinct projects specific to the Company's focus on its customers at the center of our business and priorities, project examples include Customer Facing Technology, Customer Experience Platform, and Customer Transactions Systems;
- (3.12) Large and Distinct: Select large and distinct projects, examples include, but are not limited to, the electric Rattlesnake Flat Wind Farm project, the electric Labor Day 2020 Storm Damage project (replacing Avista's Chelan-Stratford 115kV transmission line), or the natural gas Cheney High-Pressure Reinforcement project;

26 By way of summary, the recommended levels of rate base by each of the parties would result in electric rate base regulatory lag of between approximately $184 million and $376 million during the rate-effective period. This would result in an overall Washington combined annual revenue loss of between $18 million and $37 million on this excluded investment alone, as shown in Table No. 9, excerpted below:[33]

Table No. 9 – Washington Combined – Regulatory Lag and Lost Revenue

Total Washington Proposed Rate Base - Regulatory Lag [REVISED]*				
	Avista	**Staff**	**PC**	**AWEC**
Total Regulatory Lag @ 12/31/2021	**$ (101,638)**	**$(184,900)**	**$ (233,991)**	**$ (376,793)**
Net Revenue Impact - "Return On" only	**$ (9,998)**	**$ (18,189)**	**$ (23,018)**	**$ (37,066)**
Approximate Lag - Years	**1+ Year**	**2+ Years**	**2.5+ Years**	**4 Years**
*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.				

27 Expressed differently, the positions of the parties would result in a regulatory lag of between 2 and 4 years before the Company could once again, through its next filing, receive additional revenue recovery effective after September 30, 2022.[34] No amount of additional efficiencies, managing of costs or cost-cutting measures could make up for the lag as proposed by other parties.[35] This lag explains the expected ROEs ranging from 7.6% to 7.9% (electric) and 8.0% to 8.5% (gas) based on the Parties' proposals.[36] "Regulatory lag" has become a means to

- (3.13) Programmatic: Projects associated with on-going, reoccurring annual projects, examples include Wood Pole Management, substation rebuilds, and distribution grid modernization;
- (3.14) Mandatory & Compliance: On-going, reoccurring annual projects that are required to meet regulatory and other mandatory obligations, such as compliance with mandatory federal standards for transmission planning and operations, examples include Isolated Steel Replacement, Aldyl-A Pipe Replacement, and the Spokane River and Clark Fork PM&E implementation agreement projects; and
- (3.15) Short-Lived Assets: Investment related to various short-lived capital projects, examples include Endpoint Compute and Productivity Systems, Project Atlas, and Enterprise Security System projects.

33 Exh. EMA-6T, p.30, ll. 6-10.

34 These balances represent the revenue requirement on the return on net plant only, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net rate base, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022. (Exh. EMA-6T, p.30, fn. 41)

35 By only incorporating select capital additions into its 2020 and 2021 capital additions proforma adjustments, the Company already accepted "regulatory lag" on approximately $101.7M of 2020 and 2021 capital investment that is or will be used and useful during the rate effective period. (See Tables 7 and 8, supra.)

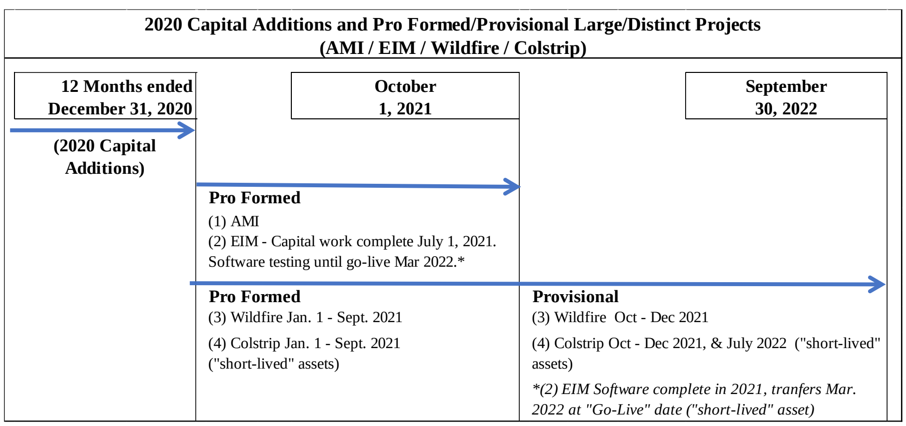
36 Exh. EMA-6Tr, p.5, l. 29 - p.6, l. 12.

moderate rate increases. For its part, Avista has proposed its own methods to moderate increases by use of the Tax Customer Credits. Furthermore, it is important to understand, any under-recovery of prudent net plant investment in this case, will simply exacerbate the next rate case, where tools like the tax customer credit will not be available for use.

F. **The Four Pro Formed Large Capital Projects are Well-Defined, Prudent, and Meet the Requirement for Pro Formed or "Provisional" Projects Under Commission Policy.**

28 Illustration No. 3 prepared by Ms. Andrews depicts not only capital additions reflected through the year-end 2020 (discussed above), but also the four separately pro formed projects that come into service later (both prior to the rate-effective date, and after the effective date, but still within the Rate Year):[37]

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



29 Consistent with the Policy Statement, supra, Avista proposes an after-the-fact review of the expenditures within the provisional portion of proforma adjustment 3.18 (EIM) and would extend this review to other provisional adjustments as well. The opportunity for review of these expenditures would occur in Avista's next GRC. The illustration above helps to identify other provisional adjustments. The following proposal by Avista represents advocacy that argues solely from the existing factual evidence of record. It does not depend on the introduction of new evidence.

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[37] Id. at p. 15.

30 Illustration No. 3, above, reflects specific proforma adjustments that are separately stated from other proforma adjustments. In Avista's view, each of the four reflect necessary (not discretionary) expenditures. Commissioner Balasbas, at time of hearing, generally inquired about any "mechanisms" that would allow for the recovery of expenditures leading up to and during the rate effective period. (Tr. pp.217-218) The Company would propose a retrospective evaluation process[38] or "mechanism" that would allow parties a reasonable opportunity to review and challenge the recovery of any investment placed in service during the "rate effective period," as it pertains to so-called "provisional" investments [EIM: Oct. 2021 - Mar. 2022/Wildfire: Oct.-Dec. 2021/Colstrip: Oct.-Dec. 2021 and July 22 re "short-lived" assets]. [39] In fact, the Company would be willing to extend this same process to these investments occurring after the filing of Response Testimony (April 2021) and up to the start of the Rate Year (Oct. 1, 2021).[40] This would align with the Commission's Policy Statement, by providing a further opportunity for parties to audit, after the fact, all expenditures for prudency, in the four distinct proforma adjustments discussed above in Illustration No. 3 (Wildfire, EIM, Colstrip and AMI[41]).

31 The Policy Statement, at para. 46, establishes a two-step approval process:

> The first step includes provisional approval for the inclusion in rates of identified rate-effective period investment. The second step involves final approval after the investments are reviewed and confirmed to be used and useful and prudent. Property granted provisional approval, with rates subject to refund, can either be embedded in base rates or recovered through a separate tariff schedule.

That process will unfold in Avista's next general rate case (as allowed in the Policy Statement) where final costs will be identified (after the fact), and available for thorough review by the parties,

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38 This is what was envisioned by Ms. Andrews' proposal in her pre-filed testimony in Exh. EMA-1T, at p.29, ll. 16-23.

39 "Specific" is defined in the Policy Statement, as "a clearly defined, identified or discrete investment." Id. at p.5, fn. 18. See Policy Statement on Property That Becomes Used and Useful After Rate Effective Date, dated January 31, 2020, in Docket No. U-190531.

40 The Company recognizes that in Cascade National Gas Company's recent GRC, the Commission only allowed investment up to the date of filing of Response Testimony by the Parties. WUTC v. Consolidated Nat'l Gas, Dkt. No. UG-200568, at ¶ 282.

41 As noted in Bench Request No. 9, as of July 2021, "Avista has substantially completed AMI deployments (**99.9%)** in all areas where AMI is set to be deployed, including both electric and gas areas." Detailed AMI transaction data through July 2021 was provided in Bench Request No. 7 on August 06, 2021 supporting pro formed AMI expenditures included in the Company's case.

including any offsetting cost savings. Avista would refund, with interest,[42] any amounts deemed imprudent or not known and measurable. No arbitrary threshold would be applied to the review of these projects, as the data will be reflective of only a limited number of specific proforma/provisional capital adjustments (Wildfire, EIM, AMI and Colstrip capital investment), and easily subject to audit. In the meantime, the Company will communicate with the other parties through periodic "expenditure reports" filed on a quarterly basis, commencing October 15, 2021. This should satisfy the needs of the parties and fully comply with the Policy Statement. All the "boxes" have been "checked." Furthermore, the provisional capital adjustments will be completed by December 31, 2021, with the exception of the EIM software application moving into service on March 1, 2022[43] or the Colstrip Dry Ash project completed by July 2022, prior to the filing of the Company's next general rate case, easily allowing for an opportunity to review and audit these projects.[44] The Company anticipates filing its next general rate case in the first quarter of 2022. (Tr. at 224, ll. 16-18) This approach directly addresses Staff's proffered concern over the ability to conduct a timely audit.

32 In addition, although the review process or mechanism, as discussed above, is specific to capital investment, the Company would extend this same review process, subject to refund, to the current 2021 labor union contract expense pro formed in its case, currently under negotiation as discussed at the July 7, 2021 hearing, and as testified, should become known and measurable in the fourth quarter of 2021. The Company understands that the Policy Statement is meant to address used and useful capital -- not expenses per se. That is not to say, however, that the concepts

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42 At the authorized AFUDC rate (or rate of return) approved by the Commission in this proceeding. The current authorized Washington AFUDC rate is 7.21%.

43 See discussion above. As noted, even though the EIM software and SCADA module application and integrations are complete and functioning by July 2021, market testing will commence through the "go-live" date, on or before March of 2022. Therefore, although contractual costs are known, vendors will not be paid until specific milestones are met, balances will not be capitalized until such time, and the final project will not transfer to plant until the market "go-live" in March of 2022.

44 Only $7.6 million associated with the distinct projects (EIM, Wildfire or Colstrip), out of the $199.1 million electric gross plant pro formed by the Company, as shown in Illustration No. 3 above, occurs after the rate effective period. See Exh. EMA-8 provided as Attachment 1-60-Day UD – Revised BR 1-WA Electric RR Model, provisional adjustment columns 3.17PV, 3.18PV and 3.19PV, row 37. For natural gas, there are no incremental pro forma plant additions beyond 2020, with the exception of AMI capital investment.

embodied in the Policy Statement (after-the-fact review in a subsequent GRC and subject to refund) couldn't or shouldn't be applied in the context of certain expenses (union contract to be approved in November of this year).

G. **A Final Thought on "Double Counting" of Investment.**

33 It is important that the Commission understand that there is no "double or triple counting" of investment in transmission, distribution, substations, grid hardening and modernization – or in any other area of the Company. (Tr. pp.155, ln. 10-11) It is true that the Infrastructure Plans for distribution (Exh. HLR-2) transmission (Exh. HLR-6) and substations (Exh. HLR-7) "overlap" -- and that is by design. Planning efforts in each of these areas must, perforce, overlay one another, because these efforts are so interdependent. Again, these are high-level plans meant for purposes of explaining, to multiple audiences, forces driving the need for investment in certain areas of the business. But it is important to remember that only the Business Cases provided in Exhibit HLR-11 (for distribution, transmission, and substations in particular) identify costs that are to be included in rates. The Business Cases are the operative documents for cost recovery, and they contain no overlap or duplication of requested cost recovery. A Business Case may reflect costs that are both transmission and distribution-related (and hence serve the objectives of both infrastructure plans), but that does not mean such costs are included in the Company's books twice. To do so knowingly on our books would, of course, constitute financial fraud. No jurisdiction or independent auditor has ever found improper accounting at Avista.

II. AMI: BOTH A RETURN "OF" AND "ON" CAPITAL IS WARRANTED

A. **Introduction - Positions of the Parties.**

34 Staff, Public Counsel and AWEC agree that the project is complete, and prudency should be determined in this case, with varying proposals on how the Company should earn on its investment. A summary of those proposals follows:[45]

[45] See Ms. Andrews' Exh. EMA-6T, p.87, l. 16 - p.18, l. 12.

1. Staff supports the Company earning its full rate of return of and on its investment.[46]
2. AWEC recommends the Commission limit the Company's return on its AMI investment in this case to the cost of debt, until such time more benefits can be demonstrated.[47]
3. Public Counsel 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.[48]

35 In doing so, AWEC removes $3.62 million of electric revenue requirement and $1.26 million of natural gas revenue requirement. Public Counsel removes $7.02 million of electric revenue requirement and $2.72 million of natural gas revenue requirement.[49] These are significant numbers. Both parties argue that Puget Sound Energy (PSE) was not allowed to earn a return on its AMI investment in its most recent completed general rate case because maximized benefits had not been demonstrated, and that Avista should suffer a similar result.

36 Ms. Andrews nicely summarizes the differences between PSE and Avista, in this regard:[50]

> First, as acknowledged by the Parties, PSE was not anywhere near completion of their meter installation. Avista has virtually completed installing its meters. Second, PSE was not disallowed from earning a return on its AMI investment installed prior to the project being completed. Rather, they were allowed to defer the return, which at least provides them the opportunity to actually earn that return in the future. By way of comparison, 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. Avista estimates that, after factoring lower O&M costs and other benefits of the project during this four to five-year period, Avista was denied the return of approximately $17.6 million for electric and natural gas service combined, as shown in Table No. 26.[51] [omitted] . . ..
>
> Lastly, Ms. Rosentrater and Mr. La Bolle have demonstrated that, unlike PSE, Avista has demonstrated that it is "optimizing" AMI across multiple "use cases."

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46 White Exh. AIW-1T, p. 10, ll. 6-10. Any difference between Avista and Staff with regards to the AMI investment relates to cost of capital differences only.
47 Mullins Exh. BGM-1T, p. 66, ll. 17-19.
48 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.
49 Exh. EMA-6T, p.88, ll. 13-16.
50 Id. at p.88, l. 22 - p.89, l. 15.
51 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 a return on investment was included. (Id. at p.89, fn. 124)

(Emphasis in original)

37 Avista's business case includes 28 different areas of financial benefit,[52] while PSE presented only three (3) areas of financial benefit. In addition, as noted above, PSE had not yet demonstrated the benefits of AMI, and did not have "any formal plan or proposal," nor was it anywhere near completion. Public Counsel Witness Bauman agreed that Avista, for its part, does have "a formal plan or proposal." (Tr. p.348, ll. 22-23) (See also Exh. JDD-2r) Nor did PSE discuss the "six use cases" for energy efficiency and how it was optimizing in those areas; Avista does. In fact, in its PSE Order, the Commission recognized that PSE's AMI implementation will not be completed until 2022-2023 (¶ 133) and that PSE will need to demonstrate AMI benefits once "the system is fully deployed" (¶ 156).

38 Avista's AMI system has been fully deployed since the beginning of 2021, in accordance with a detailed plan that describes and quantifies how it is optimizing AMI across the referenced use cases. Public Counsel Witness Bauman acknowledges that the Company has developed a plan to accomplish this and has included specific benefits in these areas that are discussed below. (Tr. p.350, ll. 13-17.)

B. Avista Is "Optimizing" the Value of AMI for Its Customers.

39 In August 2020, Avista's AMI report (Exh. JDD-2 and JDD-2r) noted that Avista had programs in place, or then in late-stage development, to capture energy efficiency savings for customers in several new areas, which were not included as part of its original 2016 business case. These additional "use cases" are discussed in the report by the American Council for an Energy Efficient Economy,[53] which was referred to by the Commission as a basis for denying a return on AMI for PSE.[54] These "use cases" have, or are in the process of becoming, fully optimized by Avista:

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52 Exh. HR/LL-1T, p.23, ll. 7-15; PSE Order, Supra, at paragraph 155.

53 *Leveraging Advanced Metering Infrastructure to Save Energy*. Rachel Gold, et al. The American Council for an Energy-Efficient Economy (ACEEE). January 2020.

54 Dockets UE-190529 and UG-190530 (consolidated), Order 08 ¶ 155 (July 8, 2020).

New AMI-Enabled Energy Efficiency 'Use Cases' Implemented by Avista:[55]

1. **Targeting Strategies** – Avista is using data from AMI and load disaggregation to provide targeted energy use feedback in support of Behavioral Energy Efficiency and other programs [net benefits of $3.7M].

2. **Behavioral Feedback Programs** – Avista has launched its new "Behavioral Energy Efficiency" program using AMI data and load disaggregation to provide customers personalized and actionable insights on their energy use [net benefits of $8.9M].

3. **Measurement and Verification** – Avista is using AMI data to improve these programs by reducing the lag time between implementation of measures and verification [see Items 1 and 2].

4. **Pay for Performance** – The capability of these energy efficiency strategies is being improved through the availability and use of AMI data [see Items 1 and 2].

5. **Grid Interactive Efficient Buildings** – AMI data is being integrated with other information and control systems to improve building energy efficiency and reduce customer costs for infrastructure investments [net benefits of $2.6M].

6. **Energy Use Feedback** – AMI is providing customers access to their energy-use data in combination with tips, incentives, and analytical tools to help them reduce energy costs [see Items 1 and 2].

7. **Conservation Voltage Reduction** – The Company is using AMI voltage data from customers' service points to improve the energy savings captured by lowering voltage on the feeder [net benefits of $18.5M].

8. **Retail Energy Pricing Strategies** – such as the 'time-varying' rate structures such as those described Witness Ms. Bauman,[56] will be put into effect in the near future. Indeed, other parties in this case were adamant that Avista implement such a program in the very near future (and this is only made possible by a functioning AMI system). In fact, the Multiparty Partial Settlement includes an agreed upon provision for the creation of a pilot program in this regard, to be effective no later than 2023 [Public Counsel believes this will provide net benefits of $58M].

40 Avista disagrees with Public Counsel's assertion that Avista's programs for Behavioral Energy Efficiency[57] and Grid Interactive Efficient Buildings[58] are not yet operational. Avista's new load disaggregation application is installed and is operational, supporting our new Targeting and Behavioral Energy Efficiency measures. This application, provided by Bidgely,[59] has been

[55] Exhibit JDD-2r, at pp.4-5, quantifies the net benefits provided by each of the "use cases," all of which are already embedded in the Company's overall net benefit assessment of AMI.
[56] Exh. SB-1T; beginning on p.27.
[57] Exh. SB-1T; p.21, ll. 14, 15.
[58] Exh. SB-1T; p.22, ll. 9-13.
[59] Energy Disaggregate - Bidgely UtilityAI™ - Energy Analytics.

recognized for its predictive analytics capabilities.[60] Avista's Grid-Interactive Efficient Buildings Initiative is also operational, as underscored by the grand opening of Spokane's South Landing Eco-District in September 2020.[61]/[62]

41 Finally, Avista has created a path forward for time-of-use (TOU) rates. It is only recently that Avista's Electric Integrated Resource Plan (IRP) determined that time-varying rate structures might provide a cost-effective alternative for meeting our expected capacity shortfall in year 2026.[63] All parties in this case have agreed to develop a pilot time-of-use program for implementation by 2023. (See Partial Multiparty Settlement Stipulation, Exh. JT-2C.) These and other efforts allowed Ms. Rosentrater to conclude:

> Avista has demonstrated it is actively using the promised features of its AMI system today, that we are currently maximizing the use of metering and other data to improve the quality of a range of services we provide our customers, and that we are maximizing the financial value of this investment.[64]

42 Public Counsel also questions the AMI-enabled outage benefits included in the Company's case. But with AMI, the Company has new tools in place that have fundamentally improved the outage restoration process. In the words of Ms. Rosentrater, "the change is remarkable."[65] So, instead of just receiving an 'outage alarm,' the first image Avista's dispatchers now see is the electric feeder map showing every meter impacted by the outage that is without power, as indicated

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[60] "Entering the leaderboard for the first time, Bidgely scored in the 'Contender' category for the success of its predictive analytics solution, Analytics Workbench, implemented by utilities to more effectively analyze the electric grid based on artificial intelligence (AI)-powered appliance-level consumption insights. Bidgely is also recognized for its expanded ability to support core utility objectives such as electrification, decarbonization, and time-of-use and peak load management." Energy Disaggregate - Bidgely Utility AI - Energy Analytics (Exh. HR/LL-1T, p.10, ll. 7-15).

[61] Avista is already using the operational capabilities of centralized heating and cooling for the Eco-District, including the integration of AMI data, renewable distributed generation and energy storage, to integrate and optimize each resource to reduce costs, greenhouse gas emissions, and to reduce the peak demand on electric infrastructure supporting the development. (Exh. HR/LL-1T, p.10, ll. 18-21)

[62] Indeed, new applications for AMI are being used successfully, even currently. A good example is that AMI was used to assist in identifying and de-energizing portions of the Company's distribution system during the recent prolonged heat wave. (Tr. p.173, l. 14 - p.174, l. 4)

[63] Exh. JDD-1Tr; pp.96, 97.

[64] Exh. HR/LL-1T, p.12, ll. 3-6.

[65] Id. at , p.14, l. 4 - p.15, l. 21.

by the red dots in the diagram in Illustration No. 3 in Ms. Rosentrater's testimony.[66]/[67]/[68]

43 Public Counsel's criticisms of the Interruption Cost Estimator (ICE) as a valid, quantitative model are also misplaced.[69] The ICE model has been properly applied by Avista for estimating the financial value for customers for reduced outage duration.[70] The Interruption Cost Estimator is the only widely available model in the industry for such valuation. And it should be remembered that the Company only uses this model for a limited purpose -- i.e., to provide an order of magnitude for financial benefits likely to be delivered by our new AMI-enabled outage management tools. And -- not to be forgotten -- Avista did not increase the financial benefits for improved outage management, even when our use of updated inputs to the model increased the overall project net financial benefits by roughly $4.5 million.[71] The alternative is for Avista to commission and have our customers pay for our own Value of Service Study; however, the potential additional increment of accuracy is not likely worth the investment. [72]

44 As it concerns savings associated with Conservation Voltage Reduction (CVR), Avista has the technology capabilities in place and functioning, and the ongoing evaluation processes needed to enable the Company to achieve over time the savings already identified in the AMI business case.[73] The Company's CVR program is not incomplete or otherwise in any jeopardy of producing "zero" benefits,[74] as speculated by Public Counsel. The Company has dramatically reduced the

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66 Ibid.

67 Public Counsel's argument that these new outage tools will have only a limited degree of impact in reducing outage duration is wide of the mark. (Exh. SB-1T; p.13, ll. 6-23; p.14, ll. 1-19; p.15, ll. 1-11) The benefits of AMI capture the Company's current financial valuation for Earlier Outage Notification based on an improvement of **7 minutes, 15 seconds** and for More Efficient Restoration Processes based on an improvement of **4 minutes, 50 seconds**. The Company has already committed to reporting out its progress in achieving these reductions, in its annual reliability report filed with the Commission, beginning in 2022. (Exh. HR/LL-1T, p.16, ll. 1-20)

68 The Company also illustrated the successful implementation and use of the "pinging tool," which allows the dispatcher to "ping" an individual meter, or to ping groups of meters to determine with certainty whether the meter has power, as shown in Illustration No. 4 of Rosentrater's testimony. (Exh. HR/LL-1T, p.15, ll. 7-21)

69 Exh. HR/LL-1T, p.17, ll. 1-13.

70 Exh. SB-1T; p.15, ll. 10-17; pp.16-18.

71 Exh No. HR/LL-1T, p.18, ll. 18-20.

72 Id. at p.18, ll. 1-21.

73 Id. at p.19, ll. 11-19.

74 Exh. SB-1T; p.25, l. 3.

uncertainty around achieving the level of benefits now stated in our case. [75] The Company is likely to exceed the stated benefits over the life of the AMI project.

45 Finally, Public Counsel's concern that Avista's financial benefits are in jeopardy because they are subject to an unreasonable degree of volatility is also misplaced.[76] From the Company's 2020 forecast until the present time, the variance in savings estimates by area of benefit have understandably varied as refinements of benefits continue, but those variances are not significant, and, in fact, largely offset one another, as shown in Table No. 1 of Ms. Rosentrater's testimony.[77]

C. The AMI Project Delivers Positive Net Benefits.

46 Avista's quantified "net benefits" have been refined over time, and have increased in value. These benefits, of course, do not even include the other very real non-quantified benefits discussed elsewhere.[78] And these "net benefits" do not include any benefits for the introduction of TOU rates, as only made possible through AMI. Indeed, Public Counsel's Witness Bauman acknowledges that: ". . . the shift of usage from peak periods provided by time varying rates is one of the largest potential benefits from AMI, second only to meter reading cost savings."[79] According to Witness Bauman, the financial value of such a program shift usage from peak periods could approximate $58 million.[80] Avista's net benefits do not even include this amount, and yet are positive, nonetheless. (As already noted, the Parties have agreed to implement such a program by 2023.)

47 Both Public Counsel[81] and AWEC[82] are critical of Avista for not basing its cost-benefit analysis on the net present value of the revenue requirement instead of the NPV of lifecycle costs

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[75] The Company's revised estimate for the financial benefits arising from Conservation Voltage Reduction has been reduced on a net present value basis from the initially-filed value of $18,494,601 to the currently estimated value of $16,896,343. (Exh. HR/LL-2, pp.89-91)
[76] Exh. SB-1T; p.25, ll. 6-14.
[77] Exh. HR/LL-1T, p.21, ll. 1-17.
[78] See AMI Report, Exh. JDD-2r. These benefits include: Improving customer convenience, experience and satisfaction; improving customer safety; and improvements in system design and operation.
[79] Exh. SB-1T; p.27, ll. 15-18.
[80] Exh. HR/LL-1T, p.22, ll. 1-7.
[81] Exh. SB-1T; p.4, ll. 17-21; p.5, ll. 1-23; p.6, ll. 1, 2.
[82] Exh. BGM-1T; p.63, ll. 3-14.

and benefits as presented in the Company's business case.[83] Avista's AMI project produces positive net financial benefits, whether measured as presented in the Company's business case, or as presented in the testimony of Ms. Bauman, on behalf of Public Counsel,[84] whose own analysis still shows a positive benefit-cost ratio of 1.1 to 1.0.[85] Moreover, her calculation does not include any financial value that will be created by our implementation of time-varying rate structures, as discussed above. For his part, Mr. Mullins did not even attempt to calculate any financial net benefits for Avista's AMI project.[86]

III. COLSTRIP ISSUES

A. Introduction.

48 In its filing, the Company pro formed the rate base and deferred accounting that had been approved in the Company's last general rate case, Docket No. UE-190334, for its Colstrip investment. In addition, the Company pro formed Colstrip capital additions between January 1, 2020, and September 30, 2022. For those additions, the Company accelerated the depreciation expense over the level approved in the last general rate case, to ensure the capital was fully depreciated by 2025. On rebuttal, the Company updated its Pro Forma Colstrip Capital and Amortization Adjustment 3.19 to reflect actual transfers-to-plant through December 31, 2020 and planned 2021 and 2022 additions.[87]/[88]

B. Installation of SmartBurn.

49 As noted, various parties propose that the Company's investment in the SmartBurn technology for Colstrip be disallowed in its entirety. While Idaho's share of SmartBurn was

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83 As testified to by Ms. LaBolle, a NPV of the lifecycle costs and benefits is the more appropriate analysis, given that the Company is not comparing alternatives to AMI (of which there are none). (Exh. HR/LL-1T)
84 Exh. SB-1T; p.5, ll. 13-23; p.6, ll. 1, 2.
85 Exh. HR/LL-1T, p.26, ll. 7-18.
86 Exh. BGM-1T; p.64, ll. 19-20.
87 On rebuttal, the Company proformed $6.464 million in capital for the period January 1, 2020, through September 30, 2022. This is a reduction of $5.897 million from the originally-filed case. Depreciation expense was reduced $1.127 million and deferred federal income taxes were increased $0.596 million to remove the error in the originally filed case. See Table No. 27 at p.95 of Exh. EMA-6T.
88 The resulting balances that remain in the Company's case on rebuttal, reflect an overall decrease in net rate base of $20.5 million, a net reduction to expenses of $608,000, resulting in an overall reduction in the revenue requirement of $2.5 million, compared to 2019 test period results. (See Exh. EMA-6T, p. 95, ll. 23-25)

litigated and deemed prudent by the Idaho Public Utilities Commission, in this case Avista's Washington share is contested, which is approximately $2.4 million—all of which would have to be written off by the Company in 2021.[89] Mr. Thackston on behalf of the Company observed:[90]

> The Commission should also bear in mind that the Company has already absorbed approximately $1.4 million of SmartBurn costs associated with the return on investment and associated depreciation relating to this project that went into service in 2016/2017 – but is not yet in rates. It would be especially unfair to add yet another $2.4 million write-off on top of that for a project that was prudent when the decision was made.[91]

50 While the Commission did previously rule on the SmartBurn issue, it did so <u>only for PSE</u>, based on the <u>record before it at the time</u>. The Commission found that PSE had provided insufficient documentation of its decision on SmartBurn to justify inclusion in rates (See Final Order 08, Docket No. UE-190529 et. al., at p. 62, para. 199):

> . . . PSE did not produce any contemporaneous documents or evidence identifying which future regulatory obligations were contemplated when PSE's management decided to install SmartBurn. PSE failed to rebut this allegation. Gomez further testifies that the Company should have documentation of its decision as required by the Colstrip Ownership and Operation Agreement. We agree. We note, however, that no such documentation exists. For these reasons, we disallow the SmartBurn pro forma adjustment, which reduces the electric revenue requirement by approximately $1.1 million.[92]

51 As discussed by Mr. Thackston (Exh. JRT-12T, p. 5, ll. 19-26), each case, of course, has to be decided on its own record. As is evident from both this rebuttal testimony and the Company's direct testimony that precedes it, the record in <u>this</u> case supports a different determination by the Commission. It should be remembered that the Commission did not decide that SmartBurn was imprudent in PSE's case—only that PSE had failed to provide sufficient documentation. There is

[89] Ms. Andrews, in Exh. EMA-6T, pp. 96-99, discusses that the electric revenue requirement impact of removing SmartBurn would be a reduction of $345,000. The $2.4 million would be a reduction to electric net rate base and subsequent write-off on the Company's books of record in 2021.

[90] Exh. JRT-12T, p.4, ll. 13-17.

[91] This also follows on the heels of a Colstrip write-off in 2020 of approximately $3.3 million (Order No. 09, Docket Nos. UE-190334, UG-190335 and UE-190222), related to the plant being down for several months due to MATS compliance issues. (Exh. JRT-12T, p.4, ll. 17-19)

[92] For whatever reason, PSE chose not to develop the record in support of its SmartBurn decision, leaving the Commission with little choice but to disallow the investment. Avista has remedied that deficiency in its filing and has developed a fresh record upon which the Commission can now base its decision. (See Exh. JRT-12T, p.5, ll. 15-18)

no inconsistency for the Commission to have decided against PSE on this issue, for want of documentation in the record, and for Avista, based on a more complete showing of prudency.

52 After reviewing the prefiled and rebuttal testimony filed by PSE, Avista did not find any contemporaneous documentation filed by PSE in support of SmartBurn. Not surprisingly, the Commission, in Final Order No. 8, noted a lack of SmartBurn documentation in the PSE case as a basis for its decision. Mr. Thackston provided Table No. 1 (Exh. JRT-12T, p. 7), that listed all of the documentation as provided by Avista and PSE, in their respective SmartBurn cases; the contrast is remarkable.

53 Most notable of all, was the failure of PSE to provide, for the record, the crucial BACT Report that was the basis for the decision to proceed with SmartBurn. For Avista, the TRC BACT Report contained in Exh. JRT-13C is a key piece of contemporaneous documentation used to finalize its decision to proceed with the SmartBurn investment – and it was missing from the record in the PSE case. This report by TRC included economic analyses, comparison of NOx control technologies, and findings of their research concerning NOx reduction technologies installed at coal plants across the United States. The TRC BACT Report concluded that, if installed in advance of a federal review, SmartBurn would satisfy BACT requirements, and SCR controls would not be required on Colstrip Units 3 & 4.[93]

54 The installation of SmartBurn on Unit 4 did not receive final ownership approval as part of the normal 2015 Colstrip budget process because the Owners had not been able to review the final BACT analysis (See Exh. JRT-13C), until February of 2015. [94] Final and unanimous approval of SmartBurn occurred in March of 2015 for Unit 4 and November of 2015 for Unit 3. (See JRT-14C). The following simplified timeline illustrates the sequence of events: [95]

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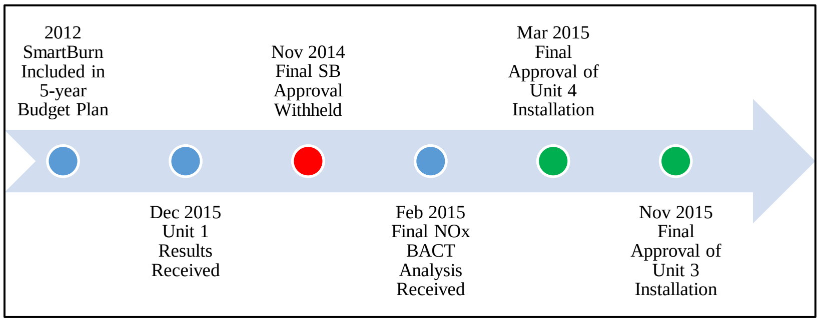
93 Exh. JRT-12T, p.9, ll. 19-29.

94 Id. at p.12, ll. 13-17.

95 While Avista has filed testimony regarding recovery of SmartBurn on multiple prior occasions, there has not been a definitive ruling concerning SmartBurn for Avista, however, because in one instance, the project had not met the materiality threshold and therefore, was not "at issue." In another, the project was excluded under settlement conditions for future review. Accordingly, the prudence of the SmartBurn investment has never been litigated in this jurisdiction for Avista. This case is the first opportunity to finally have a full review of all of the evidence provided by Avista in support of its investment in SmartBurn.

<u>Illustration No. 1: SmartBurn Timeline</u>[96]



55 At the outset, it is important to remember that the installation of SmartBurn <u>before</u> a federal determination of additional NOx controls, was the specific action that <u>would delay or even eliminate the requirement for a costly SCR because</u> of the future expected cost threshold requirements for Regional Haze. This early investment in SmartBurn would save customers from a substantial investment, while still complying with the Regional Haze Program.[97]

56 To understand the SmartBurn decision, one must understand that the cost of compliance was the key factor that the TRC BACT report (Exh. JRT-13C) evaluates, because the early NOx reductions achieved by SmartBurn would result in a smaller possible reduction from the later installation of an SCR because of the lower starting point. As explained by Mr. Thackston:[98]

> This lower NOx starting point at the next Regional Haze evaluation period would then drive the price of the smaller incremental NOx reduction achievable by an SCR after the early installation of SmartBurn to a much higher cost per unit of NOx removed. This higher incremental cost per unit of a post-SmartBurn SCR requirement would result in a delayed SCR installation requirement, or in the best-case scenario, the elimination of an SCR requirement whatsoever under a future Regional Haze Program determination.

57 Avista did indeed prudently plan for the possibility that an SCR would eventually have to be installed. As noted by Mr. Thackston, "the costs of being wrong and exposing customers to possible costs of SCR were far too high."[99] As noted on page 49 of the TRC BACT report (Exh. JRT-13C), an SCR for a <u>single</u> unit would cost <u>$369,500,000</u>, whereas SmartBurn on a <u>single</u> unit

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[96] <u>See</u> Exh. JRT-12T, p.13, ll. 1-10.
[97] <u>Id</u>. at p.14, ll. 12-23.
[98] <u>Id.</u> at p.15, ll. 13-18.
[99] Exh. JRT-12T, p.16, ll. 6-11.

would cost only $10,300,000 per unit.[100]

58 It is not too far-fetched to imagine this as an "insurance policy" of sorts, for which the Owners paid a one-time premium to avoid the risk of having to later install SCR -- i.e., at 2.8% of the possible cost exposure of having to install SCR ($10.3M ÷ $369.5M = 0.028).

59 SmartBurn, in and of itself, also provided two other substantial benefits: First, reduction of ongoing "chemical costs";[101] Secondly, by installing SmartBurn during regularly schedule outages, rather than waiting until some future installation date that coincided with an SCR installation, the Owners would avoid additional expensive down-time. As noted by Mr. Thackston, "depending on market conditions at the time of the outage, the additional cost of an extra week-long outage could be approximately one-half the cost of SmartBurn itself."[102]

60 Mr. Thackston also provided the reminder that:[103]

> . . . the Regional Haze Rules remain in effect and therefore if Colstrip continues to operate into the future, such controls may still be required. Remember, in 2015 when the decision was made, Avista and the other owners could not reasonably have foreseen that there might be an early closure before 2041, or that Parties would earlier dispose of their interests in the plant. The Colstrip plant will need to comply with the Regional Haze Rules as long as the plant operates, or the rules are changed.

61 Avista executed an agreement with SmartBurn in March 2015 given the information available at the time, including a detailed study performed by a third-party engineer (TRC), indicating that such an installation was the most cost-effective option for customers. Nor was Avista alone among the owners in supporting SmartBurn. When the matter was put to a vote to the committee in accordance with the Colstrip O&O agreement, the decision in 2015 was unanimous to proceed with the installation.

62 Lastly, it is also well to remember why the TAC BACT Report was prepared in the first place:

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[100] For both Units 3 & 4, the total is $739 million for SCR and $26 million for SmartBurn.

[101] As noted in the TRC BACT, the chemical cost savings differences between a full-sized and a smaller SCR nearly or completely cover the annual cost of SmartBurn, which the TRC BACT report determined to be **$884,000**. (See Table 2 of Thackston, Exh. JRT-12T, p.17)

[102] Exh. JRT-1T, p.58.

[103] Exh. JRT-12T, p.18, ll. 1-13.

> The Report was specifically commissioned by the partners at Colstrip to evaluate the most cost-effective, prudent course of action with respect to compliance with the Regional Haze Program. (See pp. 6 – 7 of Exh. JRT-13C.)

The TRC BACT report was received in February of 2015, prior to final approval of the first installation of SmartBurn on Colstrip Unit 4, and as such constitutes a contemporaneous analysis of the merits of installing SmartBurn. Avista and all the other Colstrip partners specifically withheld final approval of SmartBurn until after receipt and review of this Report. Even though SmartBurn was "approved" simply as a placeholder for budget planning purposes in 2012,[104] neither Avista nor any of the Colstrip owners entered into a financial commitment for the installation of SmartBurn on Units 3 & 4 until after the TRC BACT report was received and reviewed.[105] At the end of the day, it came down to this:

> The TRC BACT Report determined that if Colstrip Units 3 & 4 were retrofitted with SmartBurn in advance of a federal regional haze review, that the cost per ton removed associated with the installation of an SCR would be cost prohibitive under BACT rules and would therefore not be required. (See Exh. JRT-13C).

63 Mr. Thackston also explained why the owners did not just simply wait for the next five-year BACT review before deciding on SmartBurn:

> Based on the results of the TRC BACT report, installation of SmartBurn in advance of a 5-year regional review, would likely delay, or eliminate altogether the need for an enormously expensive SCR. On the other hand, waiting until a federal BACT analysis was performed without the incremental reduction in emissions that SmartBurn would have provided, would have likely resulted in a much higher cost SCR requirement . . ..[106]

The TRC BACT report concluded that SCRs would not be required in this circumstance because of the reductions accomplished by SmartBurn. (See Exh. JRT-13C.) The BACT Report also determined that an SCR, of any size, would likely not be required at all with the installation of

[104] During the 2012 timeframe, SmartBurn was simply approved as part of the 5-year capital investment plan for Units 3 & 4, for planning purposes. That approval did not financially commit the Colstrip Owners to installing SmartBurn and was not the final approval to proceed. Although the ownership group approved 5-year capital budgets in those timeframes, and those budgets contained SmartBurn "placeholders" in the capital planning portions of those budgets, final approval of SmartBurn, and a binding financial obligation for the Colstrip Owners, occurred in March of 2015 after the TRC BACT analysis was received.

[105] Exh. JRT-12T, p.21, ll. 3-10.

[106] Id. at p.23, ll. 2-9.

SmartBurn.[107] At the end of the day, Avista would much rather be before the Commission arguing for the prudence of $2.4M of SmartBurn expenditures, rather than explaining why it did not take reasonable steps to avoid its share of $739M of SCR costs.

64 Finally, it is well to remember that SCRs were often required for coal-fired facilities as BACT, during the time SmartBurn was chosen. Appendix A of the TRC BACT Report lists numerous examples of coal-fired facilities where SCRs were determined to be BACT.

65 By way of a summary, Mr. Thackston nicely laid out the argument for SmartBurn:[108]

- This issue was decided for PSE, but not for Avista. PSE did not provide the adequate supporting documentation that Avista has. The record in this case is a different record – one that supports the inclusion of SmartBurn in rates.
- Avista's final decision to enter into a binding commitment to install SmartBurn was made in 2015 (not 2012) and was based on the independent report by TRC (TRC Environmental is a major engineering and consulting firm with specific environmental consulting expertise), presented at the time to all Colstrip owners.
- The TRC report concluded that, with SmartBurn, the owners would avoid the risk of any later required installation of the far more expensive Selective Catalytic Reduction (SCR) alternative [SmartBurn: $26 million versus SCR: $739 million].
- Based on the documentation available at the time (2015), no one (not even Staff nor the Sierra Club) could say with any certainty that SCR wouldn't be required at some point in time; indeed, SCR was being employed elsewhere at the time.
- Avista acted prudently to avoid the possibility of a substantial cost exposure ($739 million) associated with SCR, should it be required, with a sensible investment in SmartBurn ($26 million).
- Disallowance of the recovery of SmartBurn, which is approximately $2.4 million—would require it to be written off by the Company in 2021. The Commission should also bear in mind that the Company has already absorbed approximately $1.4 million of SmartBurn costs associated with the return on investment and associated depreciation relating to this project that went into service in 2016/2017 – but is not yet in rates. It would be especially unfair to add yet another $2.4 million write-off on top of that for a project that was prudent when the decision was made.

C. Colstrip Dry Ash Disposal.

66 The Dry Ash Disposal System is not a discretionary project, as it is stipulated by the AOC

[107] See discussion in Exh. JRT-12T, p.25, l. 25 - p.26, l. 11.
[108] Exh. JRT-12T, p.2, l. 28 - p.3, l. 19.

Settlement Agreement.[109] Failure to pursue this project and complete it on time would place the Owners in a position of default under the agreement. The project is required for the plant to run past July 1, 2022, regardless of when the plant is shut down.[110] With design decisions in place, and much of the equipment identified and bid, the final budget is $39.9 million. Avista's share would be $6.0 million.[111]

67 Based on the knowledge of Talen, the plant operator, and the consultants they retained, a dry ash waste disposal system for a coal plant like Colstrip had not been built before. This would be a "first of its kind" type of dry ash system. As a result, the initial information provided to the Owners reflected this preliminary knowledge, and initial estimates that were based on mining applications were not necessarily reflective of what might be needed for Colstrip. As the scale of the project and the equipment needs became clear, specifications and bids have been prepared and received. The current estimate of nearly $40 million is now supported by quotes, bids, and better estimates based on better understanding of the final scope of the project. [112]/ [113]

68 Staff also argues that Avista did not consider more cost-effective solutions. (Exh. DCG-1CT, pg. 28). As stated previously, this project was dictated in a legal settlement requiring this specific remedy. Nor does this Dry Ash Project violate the Company's commitment not to support projects that extend the life of the plant.

D. Other Colstrip Capital Project Issues.

69 Avista did not include the Unit 3 Overhaul costs for the purpose of extending the life of Colstrip Unit 3, as Sierra Club Witness Mr. Burgess contends.[114] Those overhaul costs are consistent with the 2019 GRC settlement concerning the prohibition on capital projects that extend the life of the Colstrip plant beyond 2025. These projects are replacing worn out, failed, or sub-

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[109] The AOC, or the Administrative Order On Consent, between the Operator of Colstrip and the Montana Department of Environmental Quality (MDEQ) requires, as a matter of law, that a Dry Ash Disposal System must be installed and operational by July l, 2022.
[110] Exh. JRT-12T, p.32, ll. 6-10.
[111] Id. at p.32, ll. 12-14.
[112] Exh. JRT-12T, p.35, ll. 3-5.
[113] The final budget for the project was provided in Talen's letter request of March 5, 2021, and is $39,887,000. (Exh. JRT-22C)
[114] Exh. EB-1CT, pg. 27.

optimal performing equipment to maintain safe and reliable operation of the plant while it is still being used to serve customer loads prior to 2025. As noted by Mr. Thackston, "these are projects that are needed so that the unit can run at a reasonable level of reliability and ensure that emission controls are functioning properly."[115]

70 Staff cited concerns about the uncertainty of the capital budget at Colstrip as a reason to not include the Unit 3 Overhaul costs in rates.[116] Staff's concerns with the status of the 2021 capital budget have all been resolved. While the budget approval process for Colstrip this year was drawn out, the issues have now been resolved. The 2021 Colstrip capital budget plan was approved and documented in Talen's January 18, 2021, letter to the Owners provided in response to Staff Discovery Request 127 (See Exh. JRT-21C). Subsequent to the approval of the Capital Overhaul budget, on February 12, 2021, the Owners approved a budget for ARO and AOC work for 2021 (See Exh. JRT-23C). On March 24, 2021, the Owners approved an O&M Budget (See Exh. JRT-24C).

71 Finally, Staff Witness Mr. Gomez suggested in his testimony (DCG-1CT, pg. 31) that Avista could unilaterally minimize its fuel quality risks at Colstrip by only taking its operating minimum for each unit. Running the units at minimum loads would only create additional expenses that Avista would still be obligated to meet. As Mr. Thackston explained, the Owners & Operators (O&O) agreement does not provide for a pro-rata sharing of these expenses.[117] Owners would still be billed based on their ownership share and base plant operations and maintenance would remain unchanged. Capital expenditures would also remain the same and Avista would still be obligated for its share of the expenses, but those expenses would be spread out over fewer MWhs.

72 In conclusion, Unit No. 3 overhaul costs are necessary and are not for the primary purpose of extending the life of the plant. They have become final and approved by Owners, after considerable discussion and debate. They are known and measurable. Lastly, the Colstrip capital

[115] Exh. JRT-12T, p.38, ll. 1-7.
[116] Exh. DCG-1CT, pp.23-25.
[117] Exh. JRT-12T, p.40, ll. 4-16.

projects are "short-lived" assets for purposes of cost-recovery, given the 2025 removal from service for purposes of serving Washington load.

IV. WILDFIRE EXPENDITURES AT LEVELS PROPOSED BY AVISTA, ARE BOTH REASONABLE AND NECESSARY

A. Introduction.

73 As updated, Avista has proformed net plant of $11.185M and $4.338M of expense as part of its revenue requirement adjustment, as it relates to its wildfire expenditures.[118] This reflects 2020 end-of-period rate base and expenses, as well as planned 2021 additions. In addition, the Company had proposed the deferral of wildfire expenses for the period of January 1, 2021, through September 30, 2021, for possible later recovery. Lastly, the Company has proposed a two-way balancing account for future wildfire expenses (not capital) that would begin with the rate-effective date of October 1, 2021.[119]

B. The Wildfire Plan Itself.

74 As explained by Company Witness Howell, the Plan, appended as Exh. DRH-2 was published in May of 2020 and was the culmination of 18 months of development starting with project chartering and goal setting, risk tabletop analysis, risk assessment, cost forecasting, various stages of internal review and approval, combined with feedback from various sources, including fire protection agencies, peer utilities, industry manufacturers, community leaders, and regulators.

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[118] See Exh. EMA 10, p.44, adj. 3.17 "Wildfire Resiliency Plan." (Exh. EMA-6T, p.120, ll. 15-16)

[119] Although Staff does not take issue with the Wildfire Plan itself, Staff does take issue with costs included in this case with respect to capital and expenses beyond that incurred in 2020. Ms. White also takes issue with Avista's Wildfire O&M Balancing Account, proposed to track O&M expenses over the life of the 10-year plan, and also does not support Avista's deferred accounting request to defer, for later recovery, costs incurred from January 1, 2021, to September 30, 2021. Staff would remove $11.6 million of capital and $2.8 million of expenses, thereby reducing Avista's revenue requirement by $4.0 million. (White Exh. AIW-1T, p.24, l. 10 – p. 25, l. 14.) Public Counsel would also reject portions of Avista's Wildfire Plan cost recovery in this case, removing an $11.5 million amount of capital. However, since they are supportive of Avista's pro formed wildfire expenses, they only remove $234,000 of expense associated with depreciation expense on removed capital. Public Counsel's proposed treatment reduces Avista's revenue requirement by $1.3 million. (Crane Exh. Acc-1T, p.37, ll. 10-16.) Public Counsel also supports Avista's Wildfire O&M Balancing Account and its deferred accounting request to defer expenses incurred from January 1, 2021, to September 30, 2021. (Alvarez, Exh. PADS-1T, p.22, ll. 9-13.) Finally, for its part, AWEC entirely removes Avista's Wildfire capital additions of $13.1 million, instead using the overall 2020 additions incorporated elsewhere by Mr. Mullins. Mr. Mullins removes all pro forma wildfire expenses, beyond actual 2020 expenses incurred, in the amount of $2.5 million, and does not support Avista's Wildfire O&M Balancing Account, or its request for deferred accounting of the 2021 wildfire expenses incurred before new rates are in effect. AWEC thereby reduces Avista's revenue requirement by $3.8 million. (Mullins Exh. BGM-1T, p.38 ll. 17- 20, p.39, ll. 3-5, and p.42, ll. 6-9.)

Since that time, the Company has been working to implement elements of the Plan. The Plan is comprised of four major categories. The first element is “grid hardening” to reduce spark ignition events and make the system more resilient. Second is enhanced vegetation management practices. The third involves situational awareness, primarily grid control and monitoring technology and use of dry land mode. And fourth is emergency operations and planning, which includes partnerships and operational tactics.[120]

75 External input to Avista’s plan was provided through the Pacific Northwest Wildfire Working Group,[121] a peer group of utilities from the Northwest that came together to specifically address the evolving threat of wildfire, to better understand the risk, share best practices, and ensure that the administration of wildfire plans are consistent where appropriate and aligned with each company’s unique geographic and operating conditions.

76 Far from being improvident, it could be argued that Avista’s plan is conservative by comparison with other utilities who have developed plans. The Company examined the Wildfire Resiliency Plans filed by San Diego Gas & Electric,[122] Pacific Gas & Electric,[123] Southern California Edison,[124] and PacifiCorp (California only)[125] who are required to report expenditures on a uniform basis to the California Public Utilities Commission every year. Avista also reviewed plans filed by NV Energy[126] and Rocky Mountain Power[127] and Idaho Power as well, although Idaho Power does not account for wildfire programs and expenditures in the same manner as the

120 See Exh. DRH-8T, p.3, ll. 9-19.
121 The Pacific Northwest Wildfire Working Group included a group of peer utilities brought together by Avista Utilities. Participants included Puget Sound Energy, Portland General Electric, PacifiCorp, Rocky Mountain Power, Berkshire Hathaway Energy, Chelan PUD, NorthWestern and Idaho Power.
122 Https://www.sdge.com/sites/default/files/regulatory/SDG%26E%202021%20WMP%20Update%2002-05-2021.pdf pp.7-8
123 https://www.pge.com/pge_global/common/pdfs/safety/emergency-preparedness/natural-disaster/wildfires/wildfire-mitigation-plan/2021-Wildfire-Safety-Plan.pdf pg. 36-37
124 https://www.sce.com/sites/default/files/AEM/Wildfire%20Mitigation%20Plan/2021/SCE%202021%20WMP%20Update.pdf pg. 30-31
125 https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/wildfire-mitigation/R.18-10-007_PacifiCorp_2021_Wildfire_Mitigation_Plan_Update_3-5-21.pdf pg. 23-24
126 https://www.nvenergy.com/safety/ndpp - Download PUC Plan via this webpage. (Note that this was scanned in so is not searchable), pp.35-92, 109, 113, 124. Summary chart on pg. 129-131
127 https://www.rockymountainpower.net/content/dam/pcorp/documents/en/rockymountainpower/rates-regulation/utah/filings/docket-20-035-04/10-05-20-phase-i-revenue-requirement-rebuttal-testimony/07_Mansfield_Testimony_and_Exhibits.pdf pg. 2

other utilities and so are not a direct comparison to Avista.[128]

77 The Company examined a number of wildfire spending comparisons, including average cost-per-customer, average cost-per-line-mile of transmission and distribution, type of "grid hardening" activities engaged in by each, and the overall percent of expenditures on capital versus O&M by each -- all for comparison purposes. We examined the average of three years of actual or budgeted spending for each company (2020-2022), as that is what was filed with the Commissions. This research indicates that Avista is closely aligned with utilities in the West with the elements of its Plan and is, in fact, conservative in its spending, as testified to by Mr. Howell.[129] He noted that Avista's approach is in no way "above and beyond industry standard practices,"[130] as suggested by Public Counsel.

78 Avista's average cost per-customer-per year (including operations and capital) for the period 2020-2022 is $52.53, which is among the very lowest of the group of Western utilities, as shown in Illustration No. 1 of Mr. Howell's testimony:[131] (California utility costs-per-customer ranged from $322 to $981.)

79 Table No. 1, as set forth in Mr. Howell's testimony,[132] also compares the "average cost-per-line mile" with other companies identified above who have established programs. For Avista, that number is $973 per-line-mile, while the California companies range anywhere from $7,299 to $39,994 per mile.

80 Yes, but is Avista doing something out of the ordinary in its Plan? Not at all. The information presented in Avista's Wildfire Mitigation Plan contains no new or unverified elements, but are based upon industry standard approaches being developed across the U.S. as a result of wildfire risks and mitigation efforts. As shown in Table No. 2 in Mr. Howell's testimony, Avista actually engages in somewhat fewer hardening activities than the others at present, suggesting that we are, if anything, somewhat conservative in our approach. Even so, we remain

[128] https://puc.idaho.gov/Fileroom/PublicFiles/ELEC/IPC/IPCE2102/Staff/20210408Comments.pdf pg. 7-8
[129] Exh. DRH-8T, p.6, ll. 1-6.
[130] Exh. PADS-1T, p. 8, ll. 13-15.
[131] See Exh. DRH-8T, p.6, ll. 9-18.
[132] Id. at p.7, ll. 7-13.

closely aligned with what more experienced utilities have determined to be sensible activities.[133]

81 Messrs. Stephens and Alvarez, for Public Counsel, also seem to question the overall proportion of capital versus expense (e.g., vegetation management) dedicated to its wildfire planning efforts, suggesting that Avista's efforts at "grid hardening" provide a lesser risk reduction per dollar spent. (Exh. PADS-1T, p. 21) That much is true, if not obvious. And we should expect it to be so. The overall benefit-cost ratio of capital investments associated with grid hardening activities is lower than expense-related activities such as enhanced vegetation. However, it should be noted that grid hardening costs are contained within the 2020-2029 operating horizon while the expense related activities such as annual risk tree inspections and removals will persist well beyond 2029.[134] Illustration No. 2, in Mr. Howell's testimony, contains bar charts showing this "mix" of expenditure type, demonstrating that Avista does not differ materially from the others with respect to the proportional amount of capital and O&M spent on wildfire efforts.[135]/[136]

82 On cross-examination, Public Counsel Witnesses Stephens and Alvarez recognized that a wildfire plan should be tailored to the unique conditions of a service territory. (Tr. at 360, ll. 20-25) And yet Mr. Stephens has never even been to Spokane and Mr. Alvarez last visited a decade ago. (Tr. at 361, ll. 4-7) Mr. Stephens cannot simply look out of his window in Evergreen, Colorado, and assume that Avista's service territory is the same. (See Tr. at 363, ll. 6-10) And yet that lack of familiarity did not stop them from making some very specific recommendations and adjustments that would remove $11.5M of wildfire capital.

83 We understand that 'enhanced vegetation management' provides the best return on investment, and our efforts are calibrated to expand those efforts over time. But other areas need to be addressed as well. Table No. 4 in Mr. Howell's testimony shows the trend in planned

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[133] Exh. DRH-8T, p.9, ll. 8-20.
[134] Id. at p.11, ll. 7-16.
[135] Id. at p.11, l. 22 - p.12, l. 16.
[136] Putting all the elements together, Avista's 10-year Wildfire Resiliency Plan is forecast to cost $326.7 million. Using the correct numbers of $326,700,000 divided by Avista's electric customer count as of the end of 2020 of 389,911 customers divided by 10 years, computes to approximately $83.79/customer/year or about $7 per month. (Id. at p.15, ll. 16-20.) Public Counsel misses the mark badly, by estimating a per customer cost of $838/customer/year, because it used $3.267 billion, instead of $326.7 million. Ibid.

expenditures, demonstrating a further ramping up of vegetation management.[137] As can be seen, capital expenditures will level off, but you will see a ramping up of vegetation expense. You will also see a certain level of variability over the ten years in <u>operating expenses</u> which is why a "balancing account" makes sense. (<u>See</u> discussion below.) For its part, Commission Staff recognizes the immediate need to mitigate wildfire risk noting the need for action to mitigate wildfires sooner rather than later. (Exh. AIW-1T, p. 20, ll. 13-16)

84 Ironically, while Staff Witness White expresses support for expenditures related to mitigating potential wildfires, Staff does not, however, support additional costs in this case beyond 2020 levels, even though rates in this case are being set for the rate effective period is October 1, 2021, through September 30, 2022. Nor does Staff even support the deferral of wildfire costs for the nine-month period of January 1, 2021 - September 30, 2021, for possible future recovery, even though it raises no questions of prudence and even though the costs during this period are of the same kind and character as costs previously incurred in 2020 (which it did find prudent). (Tr. at 231, ll. 13-21) [138]

85 Accordingly, Staff's position does nothing for the "interim" expenses incurred from January 1, 2021, through September 30, 2021 – the subject of the Company's Deferred Accounting Petition.[139] As explained by Ms. Andrews, without the Commission's approval of the Deferred Accounting Petition, the Company has no means to recover these incremental 2021 expenses (approximately $2.6M) – they would simply be absorbed by the Company even though prudent. If this Commission were to allow the Company to defer these costs, this would at least allow Avista

[137] Exh. DRH-8T, p.17, l. 13 - p.18, l. 9.

[138] Even so, Staff does recognize that some deference should be paid to the Company's subject matter experts, on such things as fiberglass cross-arms, etc. Staff Witness White (Exh. AIW at p. 21, ll. 13-14) acknowledges:

> Staff does believe the plan to be a good-faith effort by the Company and its subject matter experts. Staff's expertise lies elsewhere than in wildfire mitigation and must leave picking and choosing among facets of the Wildfire Plan to the subject matter experts who developed the Plan. As such, Staff does not feel that singling out individual parts of the plan for potential denial, such as crossarm replacement, is within the scope of Staff's expertise. Such an errand would be, in Staff's estimation, analogous to the managed care plan accountant who dictates what care a patient can and cannot receive, overriding what a patient and their physician have decided on the best course of treatment for that patient.

[139] It also does nothing for the expenses Avista has already incurred in 2020, as these costs were already absorbed by the Company.

the opportunity – not a guarantee - to recover these costs in a future proceeding.[140]

C. There Is a Need For a Balancing Account to Assure that the Company Does Not Over-or-Under-Recover Wildfire Expenses Over Time.

86 With the O&M Balancing Account, any differences over time on wildfire expenses, would be deferred, up or down, protecting customers from any differences between actual and planned expenditures (a matter of concern to Staff Witness White). As shown in Illustration No. 2 of Ms. Andrews' testimony, the O&M expenses on a system annual basis over the 10-year life of the Wildfire Plan increase from $5.4 million in 2021 to a maximum increase of $7.4 million in 2024, before declining over the remaining years to $5.1 million in 2029, producing more of a "bell-shaped" curve.

87 As Ms. Andrews explained, given this expected "bell-shaped" curve of expenses and in order to protect customers by ensuring customers pay no-more/no-less of the O&M expenses of this Wildfire Plan, the Company believes it prudent for the Commission to establish a two-way balancing account for these costs.[141] The O&M Balancing account is just meant to recover these costs – not "over-recover" them, as explained by Ms. Andrews.[142]/[143]

D. Conclusion: There Should be No "Gap" in the Recovery of Prudent Wildfire Expenses.

88 A combination of a deferral (for possible later cost recovery) and a balancing account thereafter would avoid a "gap" in cost-recovery for what most would say is a serious attempt at addressing a serious problem.

(1) First of all, there is general agreement that wildfire capital and expenses through the end of 2020 are acceptable;

[140] Exh. EMA-6T, p.125, ll. 3-89.
[141] Exh. EMA-6T, p.134, ll. 10-19.
[142] Ibid.
[143] Ms. White also suggests that the Commission could consider a Cost Recovery Mechanism (CRM) similar to that approved for Cascade Natural Gas under the terms of the Commission Policy Statement regarding accelerated replacement of pipelines. (White Exh. AIW-1T, p.30, ll. 14-20. Docket UG-120715, Policy Statement, 15-16, paras. 59-62 (Dec. 31, 2012). Avista would not be opposed to the Commission approving some form of CRM for Avista's Wildfire Plan, but only if it included O&M expenses. For example, where the CRM for accelerated replacement of pipelines did not include O&M expenses, it is very important a CRM for Wildfire expenditures would include O&M expenses. The Pipeline CRM was a "capital additions" issue, Wildfire costs impact both expenses and capital. (Exh. EMA-6T, p.137, l. 16 - p.138, l. 2)

(2) In order to bridge the "gap" between the end of the 2020 test period and the beginning of the rate-effective period (October 1, 2021), the Company has pending a deferral request for those "interim" incremental expenses; and

(3) The O&M balancing account would then take over on October 1, 2021.

In none of these three steps is the Company proposing to deny any party the right to challenge the prudency of any expenditures: the deferral request merely preserves the "opportunity" to later recover prudent expenses; the balancing account assures that only actual and prudent costs thereafter are recovered. At every step of the way, the costs must be prudent and can be challenged by the parties.

V. AVISTA'S INVESTMENTS IN GRID MODERNIZATION AND SUBSTATION REBUILDS ARE PRUDENT

A. Introduction.

89 Public Counsel would exclude investment in assets currently in service and benefiting customers in 2019 and 2020 pertaining to Grid Modernization and Substation Rebuilds. (Crane, Exh. ACC-1T, p.38) Table 29, in Ms. Andrews' testimony (Exh. EMA-6T, p.100, ll. 1-8), provides information on the net rate base associated with each: Grid Modernization ($11.3M) and Substation Rebuilds ($11.8M). If this Commission were to disallow recovery of these balances, it would require a write-off of this investment on Avista's books and records of approximately $23.1 million in 2021.

90 Public Counsel's criticisms of investments in Grid Modernization and Substation Rebuilding generally fall into two categories:

1) That the capital budgets for these programs are unconstrained and are established independent of either demonstrated historical demand or identified infrastructure needs, which Public Counsel mischaracterized as "Standing Budgets."[144]

2) That the approach used by Avista to determine the "end of useful life" for electric assets is "deeply flawed,"[145] and as such, results in wasteful overinvestment in electric infrastructure,[146] which they again mischaracterized as "Prospective

[144] Exh. PADS-1T; p.28, ll. 8-11; p.34, ll. 6, 7.
[145] Id. at p.41, ll. 11-12.
[146] Id. at p.43, ll. 6-9.

Replacement."[147] Instead, Public Counsel advocates a "run to failure" philosophy.

91 The term "Standing Budgets" used by Public Counsel is a misnomer; instead, the work is the result of a rigorous planning process that makes use of multiple planning tools, as discussed below. Avista does not simply create "buckets" to be refilled without study and examination.

92 Nor does Avista wastefully spend on what Public Counsel terms "prospective replacement." Quite to the contrary, Avista's practices are based on proven, state-of-the-art analyses that have been regularly presented to and relied upon by the Commission over the years, and have formed the basis for the prior approval of hundreds of millions of dollars of infrastructure investment made by the Company.[148]

93 Avista uses a variety of analytical tools as part of its "lifecycle cost analysis." These tools or "modules" are part of the analytical application known as "Availability Workbench."[149] The Company explained how these "tools" have been used in a variety of contexts to optimize system investments:

> We use these tools or modules together to evaluate how best to manage high-risk assets like Aldyl pipe, to cost-effectively upgrade technology like LED streetlights, to analyze alternative maintenance strategies for inspection, testing, repair and replacement of equipment, as in our Wood Pole Management program, and we integrate results of these analyses to identify the lowest-cost strategies for rebuilding infrastructure like electric transmission lines, distribution feeders (Grid Modernization) and substations (Substation Rebuilds).[150]

Accordingly, Avista has made continuous use of Availability Workbench since 2006, which we have applied across Avista's natural gas, electric and generation lines of business.[151]/[152]

B. Avista Does Not Employ "Standing Budgets" for Either Grid Modernization or Its Substation Rebuild Programs.

94 Public Counsel Witnesses appear to draw on their prior experiences elsewhere, where they

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147 Id. at p.33, ll. 9-15.
148 Exh. JD/LL-1T, p.5, l. 19 - p.6, l. 1.
149 Availability Workbench is an integrated set of asset management applications provided by the firm Isograph, which Avista has used continuously since 2006. Isograph's website is available at www.isograph.com.
150 Exh. JD/LL-1T, p.6, l. 20 - p.7, l. 3.
151 See Illustration No. 1 of Exh. JD/LL-1T, p.7.
152 Avista's analyses include the Company's well-known Aldyl A Pipe Replacement Protocol, in which substantial investments have been deemed a prudent response to the risks associated with this pipe in all our jurisdictions, and which foundational analysis is based on the very lifecycle cost modeling now challenged by Public Counsel.

believed capital was apparently unconstrained and where managers apparently had a practice of requesting more budget than was needed, and where managers were encouraged to spend their entire budget each year to help ensure they would receive at least the same level of budget (i.e., "Standing Budget") in the following year.[153] Nowhere, do they demonstrate that any of this holds true for Avista.

95 Avista witnesses describe what happens, in fact, at the Company; it cannot, of course, speak to what might happen elsewhere (or more precisely, what Public Counsel's witnesses believe happens elsewhere).[154] When establishing budgets for both its Grid Modernization Feeders and Substation Rebuilds, this company (Avista) otherwise comports with the very principles expressed by Public Counsel:

- ✓ **Avista Constrains Capital Spending** below the level requested by projects and programs to promote innovation, balance cost and risk, to efficiently allocate capital and to reduce year-to-year variability in rates.[155] The result is not all of the prioritized programs will be funded in a given year at the level requested.[156]
- ✓ **Grid Investment Needs are Properly Evaluated** through comprehensive planning, evaluation of alternatives, and integrated prioritization.
- ✓ **Evaluated Grid Needs Drive Capital Requests** based on the planning, evaluation and prioritization, noted above, which determines the overall need for capital.
- ✓ **Funding Requests are Properly Evaluated** through multiple types of processes including comprehensive engineering review, evaluation, and prioritization, and robust analyses of lifecycle costs, benefits and financial risks, leading to solutions that deliver service to our customers at the lowest reasonable optimized cost.
- ✓ **Historical Spending is Properly Applied** to establish budgets for programs that address investment needs that cannot be determined through "zero-based" budgeting.

96 For the 'Planned Projects' portion of the Substation Rebuilds program, specific projects are developed in response to needs identified through the planning process, from which, specific project requests are evaluated and prioritized and are ultimately sequenced in time for implementation. The capital budget for this portion of the Substation Rebuilds program is "built up" from the aggregated project needs identified in prior planning for implementation in the

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153 Exh. PADS-1T, p.35, ll. 3-7.
154 JD/LL-1T, p.16, ll. 1-19.
155 Exh. MTT-1T, pp.5, 6.
156 As explained in detail in Avista's response to PC-DR-128, provided as Exh. JD/LL-2, pp.149-150.

current period.[157]

97 To establish budgets for its Grid Modernization program, Avista performed a comprehensive evaluation and prioritization of its electric feeders and has prepared detailed engineering reports (Feeder Baseline Studies)[158] for each of the feeders selected for such a rebuild. Detailed designs are prepared for feeders ultimately selected and construction is sequenced, often over a period of years for each individual feeder. The capital budget for Grid Modernization, like that for Substation Rebuilds, is then 'built up' from the design and construction cost estimates for the work to be performed in the time frames planned.[159]

98 Once a budget is established, it is reviewed and subject to revisions each year, <u>i.e.</u>, it is not a "bucket" that simply gets "filled" each year without additional thought. The budgets are always constrained by the amount of funding Avista believes is reasonable; a budget once approved for Grid Modernization or Substations <u>is often subject to revision</u>, even within a construction year, to accommodate more-critical needs that may arise elsewhere through the course of the year.[160]/[161]

C. <u>Public Counsel's Default "Run to Failure" Strategy is Misguided and Would Produce Higher Costs Over Time</u>.

99 Public Counsel's witnesses claim that Avista's methodologies for determining when to replace electric assets represents an overinvestment in service reliability,[162] is motivated by our desire to remove fully depreciated assets in order to boost earnings,[163] and that such practices are harmful to customers because the benefits derived fail to exceed the cost they ultimately have to pay in rates.[164] They take issue with "prospective replacement" (their term).

100 Avista's "Lifecycle Cost Analysis" is based on the lifetime failure characteristics[165] of each

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[157] Exh. JD/LL-1T, p.16, l. 22 - p.17, l. 3.
[158] In Exh. PADS-16, Public Counsel has included over 650 pages of these feeder reports, which were provided by Avista in response to PC-DR-110.
[159] Exh. JD/LL-1T, p.16, ll. 14-18.
[160] The limit on the annual funding provided results from Avista's overarching constraint on capital spending and the requirement to allocate available capital to highest priority needs across the enterprise each year.
[161] Exh. JD/LL-1T, p.16, ll. 14-18.
[162] Exh. PADS-1T, p.37, ll. 1-7.
[163] <u>Id</u>. at p.30, ll. 3-7.
[164] <u>Id</u>. at p.54, ll. 7-9.
[165] Public Counsel witnesses have focused on a spurious notion that the asset failure data relied upon by Avista is somehow biased in a way that understates the expected life of an asset. In Public Counsel's own cross examination

asset combined with the costs incurred to keep the asset in service. This analysis is used to evaluate a range of replacement alternatives for an asset, which alternatives always include a 'base case' "run to fail" option among others. Instead of simply adopting a default "Run to Fail," Avista uses "Lifecycle Cost Analysis" to identify the unique replacement strategy, based on "Economic End of Life," that achieves the "Economic Optimum," or the lowest total cost of ownership for the asset.[166] Total cost of ownership includes the initial investment, maintenance, and replacement costs, as well as risk costs associated with operation and failure-in-service (e.g., outage risk, safety risk, environmental risk, among others).[167]/[168]

101 The following example illustrates this point: The Company analyzed the cost savings for customers, based on this approach for Transformer Replacements,[169] as part of its 2017 Wood Pole Management Program Review and Recommendations (see Exh. JD/LL-2, pages 2-94). The financial results reported were based on the output of <u>172 different Availability Workbench models</u> integrated together to provide optimized solutions for individual assets and programs including the transformer changeout work as part of the Wood Pole Management and Grid Modernization programs,[170] which is identical to its application in Distribution Minor Rebuild.[171] As testified to by the Company:

> Including transformer changeouts with the program reduced the total lifecycle cost to customers by $18.3 million in direct costs and by $46.9 million in risk costs, for a <u>combined reduction in lifecycle costs to customers of $65.2 million</u>, compared with the "Run-to-Fail" alternative of allowing the transformers and attached

exhibit (Exh. JD/LL-7X) Avista clearly explains how its asset failure data is properly based on failures and functional failures and is further calibrated to accurately reflect inspection results and the actual asset failures we experience on our system.

[166] Public Counsel's own cross examination exhibit (Exh. JD/LL-5X) illustrates how Avista's achievement of the "Economic Optimum" for an asset produces the lowest cost for our customers compared with a "Run to Fail" option.

[167] Exh. JD/LL-1T, p.20, ll. 1-24.

[168] The term "Economic End of Life," as applied by Avista, is specifically recognized by that name as a fundamental approach for determining the end of life of an asset, as noted in the guidance manual of the Institute of Asset Management. This guidance comports with the International Standards for Asset Management, PAS-55 and ISO 55000 series.

[169] Exh. JD/LL-1T, p.22, ll. 24-30.

[170] Public Counsel's own cross examination exhibit (Exh. JD/LL-5X) provides updated results for these analyses conducted for Public Counsel which shows that Avista achieves customer internal rates of return on its transformer replacements ranging from 10.6% to 15.9%, compared with -1.0 to 2.9% for the alternative "Run to Fail" option.

[171] And, also as noted in the Company's Distribution Feeder Management Plan, included as Exh. PADS-27.

equipment, including the cutout,[172] to fail in service and returning to the feeder later to replace them one at a time.[173]/[174]

102 By way of yet another example, if Avista were to adopt a Five-Year "Run to Fail" period or a Ten-Year "Run to Fail" period for its Wood Pole Management Program, the forecasted financial consequences for our customers, expressed as an increase in total costs they would pay, would be $51.7 million and $93.5 million, respectively.[175] "Clearly, the default Run to Fail strategy recommended to the Commission by Public Counsel is out of touch with the reality of how best to manage our distribution assets and is not in our customers' best interest, financial or otherwise," according to Di Luciano/La Bolle."[176]/[177]

103 The underlying fallacy of Public Counsel's "Run-to-Fail" approach is perhaps best illustrated in the context of substation rebuilds. In this instance, Public Counsel assumes that every Avista substation is fully redundant, and as a result, customers typically don't experience an outage when work needs to be performed on substation equipment. They therefore assume that the end of life for every piece of substation equipment can be fully determined and practically implemented by inspection, testing, refurbishment, and replacement etc., without resulting in an outage for customers (i.e., there is simply no need for lifecycle cost analyses to determine end of life for assets).[178] Just take the substation out of service when equipment needs to be replaced, or let it fail in service and then replace it as it happens.

104 Public Counsel Witnesses are astonishingly uninformed when it comes to Avista's substations. They proceed based on their assumption that:

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[172] Contrary to the assertion of witness Mr. Stephens (Exh. PADS-1T; p.64, ll. 12-14), these analyses performed for replacement of transformers and cutouts is in no way based on the analyses performed for high-risk Chance cutouts, or PCB Transformers. (Ibid.)

[173] Exh. JD/LL-2, pp.52-54.

[174] Id. at p.22, l. 31 - p.23, l. 4.

[175] As shown in Illustration No. 7, Exh. JD/LL-1T, p.30, ll. 1-23.

[176] Exh. JD/LL-1T, p.31, ll. 1-3.

[177] The Company also explained that its "lifecycle analysis" is not motivated by a desire to prematurely replace depreciated assets with new ones, to achieve better earnings:

> ". . . neither depreciation of an asset, nor revenues from the asset, nor utility revenues in general, are included in any way in the lifecycle cost analysis. Lifecycle analysis simply determines how to manage an asset and when to replace it based on what is in the best financial interest of our customers – the lowest optimized cost. We are not being motivated by a desire to replace fully depreciated assets so we can begin to earn a return on new investments, notwithstanding his jaundiced viewpoint." (Exh. JD/LL-1T, p.28, ll. 1-6.)

[178] Exh. JD/LL-1T, p.42, l. 20 - p.43, l. 5.

> All utilities design substations with full redundancy, called "N-1" design. In an N-1 design, each substation is designed to accommodate the loads of adjacent substations should one of those adjacent substations fail. Thus, the failure of a piece of equipment, and hence its availability risk, does not necessarily result in a service outage for customers.[179]

105 Ironically, Public Counsel's own cross-examination exhibit (JD/LL-4X), undermines their assumption. As shown, only 55% of Avista's substations are characterized as "fully redundant," and every one of them has full redundancy for only part of the year . (See Exh. JD/LL-4X, appendix of substations, at p.3). Because of that, none of the substations have available full redundancy 100% of the time. (See Exh. JD/LL-4X, p.2)

106 What does this all mean? The Company does not have sufficient redundancy in its substations to simply take them out of service to perform work or allow equipment to "run-to-fail," before performing work on them. The consequence would, not surprisingly, be extended service outages for vast numbers of affected customers until work was performed or repairs could be effected. That would be irresponsible, and, as Avista's lifecycle cost analysis has demonstrated, not cost effective for our customers.[180]

107 When pressed on cross-examination, Witness Stephens could not point to any evidence in the record to support his claim that "redundant" substations with an "N-1" design are a "standard utility practice." (Tr. p.386, ll. 12-16) He was simply relying on his own understanding of the industry. He also seemed to acknowledge that N-1 contingency design is a NERC transmission requirement; he could provide no evidence that similar design criteria are required for distribution networks. (Id.)

D. Conclusion.

- There is no basis for disallowing $11.27 million for Grid Modernization and $11.48 million for Substation Rebuilds as recommended by Public Counsel.

[179] (Emphasis added) Exh. PADS-1T; p. 40, ll. 7-9.
[180] Avista's substations do not have "full redundancy," and this is certainly not unique to Avista (and Public Counsel Witnesses should know this). Some of its substations are on radial transmission, and in addition, there are no interconnected "adjacent substations" that can pick up the customers in the event of an outage, whether due to equipment failure, other interruption, or the need to perform equipment inspection, testing, maintenance or replacement. We have other stations that may have two sources of transmission supply; however, just like the example above, any outage at the substation will result in a large customer outage because there are no interconnected adjacent stations to pick up the load. (Exh. JD/LL-1T, p.44, ll. 13-21)

- The capital budgets for these efforts are not "unconstrained" or otherwise a "Standing Budget" simply filled without detailed study and analysis.
- Avista has for many years used a structured and disciplined approach for determining equipment replacement, employing it in the many ways described in its testimony.
- Avista's "lifecycle cost analysis" is a rigorous analytical process that takes into account a myriad of factors to arrive at the reasonably lowest cost for managing system upgrades and replacements.
- Public Counsel's "use it until it breaks" philosophy, which it argues is superior to Avista's lifecycle cost analysis, is unsupported and will place hardships on customers, while actually increasing costs over time; not to mention, the concerning impacts to community safety, customer reliability, and wildfire risk that run to failure philosophy creates.

VI. OTHER CONTESTED ADJUSTMENTS

108 Table No. 18 in Ms. Andrews' Rebuttal Testimony (at EMA-6T, p.45), is reproduced as Appendix B to this Brief, and lists the "contested" adjustments.

a) Cost of Capital (Adj. 2.14): [Discussed in Section VII of Brief.]

b) Injuries and Damages (Adj. 2.05):

109 The Commission should continue to use a six-year rolling average from 2014-2019, in accordance with the previously approved methodology (not the five years recommended by Public Counsel); Public Counsel "cherry picks" to remove 2014.[181]

c) Restate Incentives (Adj. 2.13):

110 Public Counsel recommends a disallowance of 50% incentive for non-executive employees reflecting the O&M component of the Short-Term Incentive Plan, and 100% of the executive compensation, reducing revenue requirement by $2.1 million for electric and $617,000 for natural gas.[182]

111 As discussed at Exh. EMA-1T at p. 49, the Company restates actual O&M incentive compensation expense recorded in 2019 to reflect a six-year average (2014-2019) of actual payouts. The use of a six-year average of payouts is consistent with Staff's methodology approved

[181] Exh. EMA-6T, pp.48-49.
[182] Crane Exh. ACC-5, p. 1 and Exh. ACC-8, p. 1.

by the Commission in Dockets UE-170485 and UG-170486.

112 The costs associated with the Company's incentive plan included in Avista's case, however, are based entirely on metrics related to ratepayers – O&M cost per customer, customer satisfaction, reliability, and response time. None of the metrics included in the Company's adjustment are based on financial performance metrics, such as earnings per share results or common stock performance. Any incentive compensation related to financial results or common stock performance is already recorded as non-utility and is excluded from this case by the Company and borne by shareholders.[183]/[184]

d) Pro Forma Transmission (Adj. 3.00T):

113 AWEC Witness Mr. Mullins recommends forecasting short-term and non-firm wheeling revenues for the Company based solely upon actual revenues recognized in the 2019 test year,[185] which reflects the unique disruptions caused by the 2019 Enbridge pipeline rupture, rather than using a three-year average as proposed by Company. He thereby artificially increases system wheeling revenues by $811,411, reducing the Company's Washington electric revenue requirement $557,000. As discussed in Exh. JAS-3T, the Company has consistently included in past general rate cases, pro forma adjustments to OASIS revenues based upon a three-year average, thereby appropriately recognizing volatility in the Company's OASIS revenues.

e) Pro Forma Labor as Non-Exec (Adj. 3.04):

114 Staff recommends disallowance of the 3% wage increase to the pro forma level of union employee wages and salaries for 2021 due to the status of the union contract, which would remove from labor expense $608,000 electric and $185,000 natural gas.[186]

115 The 2021 union expense included by the Company is expected to be approved in the early fourth quarter 2021, so is appropriate for the Commission to approve for the rate effective period.[187] To the extent that the expected increase in labor expense does not materialize, as

[183] Exh. EMA-6T, p.52, l. 19 - p.53, l. 3.
[184] For a more general discussion see EMA-6T, pp.49-53.
[185] Mullins Exh. BGM-1T, p. 33, ll. 4-8.
[186] Huang Exh. JH-1T, p. 12, ll. 5-8.
[187] See Exh. EMA-6T, pp.56-59.

expected, the Company would separately account for and return any overcollection in rates, with interest, as part of its next rate filing. (See discussion, infra)

116 Public Counsel recommends a disallowance for the 2021 payroll increases as it extends too far from the test period,[188] resulting in a decrease to electric and natural gas expense of $1,510,530 electric and $452,000 natural gas. As noted by the Company, however, wage increases of 3% for 2021 for Non-Executives, Non-Union totaling $902,000 electric and $439,000 natural gas were approved by the Board and have been in effect as of March 1, 2021, well in advance of the rate effective period.[189]/[190]

117 Lastly, AWEC recommends a disallowance for all non-executive labor increases beyond the 2019 test period, removing $3,267,000 electric and $978,000 natural gas labor expenses.[191] Mr. Mullins' analysis of operating and maintenance (O&M) changes excluded certain accounts, double counted others, and excluded administrative and general (A&G) expenses, which resulted in misleading results that the Company's O&M expenses had declined. This is obviously not the case.[192]

f) Pro Forma Labor Exec (Adj. 3.05):

118 Staff recommends that the Commission rejects all increases for executive officers between 2019 and 2020, based on lack of "sufficient documentation"[193], resulting in a decrease to electric and natural gas expense of $466,000 and $142,00.[194]

119 To the contrary, the Company responded to all data requests (approximately ten) with more than sufficient documentation, concerning executive compensation. The Company provided an overview of the setting of executive compensation in Andrews Exh. EMA-1T which includes the

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[188] Crane Exh. ACC-1T, p. 22, ll. 10-16.
[189] EMA-6T, p.57, ll. 1-3.
[190] The Commission stated in Order 10, in Dockets UE-090134 and UG-090135, p. 44, para. 105, that:

> Staff and Public Counsel generally agree that known and measurable company obligations, such as union wage increases resulting from collective bargaining agreements or non-union wage increases approved by the board of directors, are proper adjustments. (emphasis added).(Exh. EMA-6T, p.57, ll. 8-14)

[191] Exh. BGM-1T, p.50, ll. 6-19.
[192] See Exh. EMA-6T, p.58, l. 7 - p.59, l. 12.
[193] Exh. JH-1T p. 13, ln 16
[194] Exh. JH-2, p. 8 and Exh. JH-3, p. 9.

evaluation of internal factors such as individual and Company performance goals, succession planning, job complexity and breadth of knowledge.[195] The Company also provided the external third-party compensation consultant benchmarking report[196] prepared by Meridian Partners LLC (Meridian) which compares our executives against a group of companies with similar business profiles, similar revenue size and market capitalization. Also, the 2020 Proxy data is a publicly available document which contains very detailed information on what is the basis for our executive compensation for 2020.[197] Staff also failed to take into account the impact of any changes in leadership between 2019 and 2020, which caused increases that were the result of changes to management personnel.[198]/[199]

g) <u>Pro Forma Employee Benefits (Adj. 3.06)</u>:

120 This includes Pension and Post-Retirement Medical, 401(k) expense, and medical/health insurance expense. Avista has revised its employee expenses to reflect 2020 actual benefit expense as this final information is now known and measurable.[200] The Company has consistently utilized the same methodology in estimating the pro forma benefit expense in general rate cases in its last several rate cases (at least since 2012).

121 Ms. Huang, on behalf of Staff, contends that "projections have resulted in overestimating of its employee benefits expense in every one of its general rate cases since its filing in Docket No. UE-140188 and UE-140189."[201] Ms. Huang's analysis, however, is inaccurate given it is based on the initial pro forma estimates, rather than the <u>final approved pro forma</u> levels in previous general rate cases.

122 It is simply not true that "Avista has overestimated its employee benefits by a total of $16.8

[195] The approval was memorialized in the Board Compensation Committee notes provided in the Company's response to Staff Data Response 033. Additionally, in response to AWEC Data Request 057, Avista provided an organization chart demonstrating the level of responsibility for each of the Executives included in the case.

[196] The final analysis / report created by Meridian which benchmark our executives was provided in response to Staff Data Response 08.

[197] <u>See</u> Exh. EMA-6T, pp.60-61.

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

[199] Exh. EMA-6T, p.62, l. 1 - p.63, l. 12.

[200] The Company provided this update in response to Public Counsel Data Request 315, as well as provided similar information in response to Data Request Staff Supplemental 016. <u>See</u> Exh. EMA-10, pp.18-22.

[201] Huang Exh. JH-1T, p. 16, ll. 1 - 3.

million," according to Ms. Huang, and that Avista's ratepayers have overpaid $16.8 million since its 2014 general rate case."[202] As shown in Table No. 20 of Ms. Andrews' rebuttal testimony (Exh. EMA-6T, p.66, ll. 12-21), although the balances have varied both over and under between approved and actual levels in any given year, the net effect is an <u>under collection</u> from customers over the six-year period 2015 – 2020 of approximately $4.4 million on an O&M expense level.[203]

123 For its part, Public Counsel accepts the 2020 actual employee benefits costs.[204] Mr. Mullins, for AWEC, made no recommendation in regard to the Company's pro forma benefits adjustment.

h) <u>Pro Forma Insurance Expense (Adj. 3.07)</u>:

124 The Company has consistently applied the reduction of 10% for D&O insurance since ordered by the Commission in Docket Nos. UE-090134 and UG-090135, Order 10, where a 90/10 sharing for D&O insurance was accepted.[205] In this same Order No. 10, at p. 58, paras. 141-142, the Commission also ordered the 50% / 50% split for Director Fees and meeting costs, and recognized the distinction between a 50/50 sharing of Director Fees and a 90/10 sharing of D&O costs.

i) <u>Pro Forma IS/IT Expenses (3.08)</u>:

125 The Company increased Information Services / Information Technology (IS/IT) expenses above 2019 test period levels, by including incremental costs primarily <u>associated with contractual agreements in place, pre-paid costs, or the continuation of costs for products and services that have increased beyond the 2019 historical test period</u>.[206]

126 Public Counsel accepts Avista's 2020 incremental expenses, but excludes 2021

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[202] Exh. JH-1T, p. 17, ll. 10-16.
[203] Exh. EMA-6T, p.67, ll. 1-2.
[204] Exh. ACC-1T, p. 24, ll. 11-19.
[205] "D&O insurance is a benefit that is part of the compensation package offered to attract and retain qualified officers and directors. Accordingly, it makes sense to split the costs in the same manner we require other elements of their compensation to be shared. Based on the formula currently used to allocate officer compensation between ratepayers and shareholders, this results in 90% of the costs being included for recovery in rates." (Emphasis added) (Order No. 10, p.56, para. 137)
[206] Exh. EMA-6T, p.72, ll. 8-20.

incremental expense, arguing the Company had reached too far beyond the 2019 test period.[207] As explained by Ms. Andrews, the Company limited its pro forma expenses to known and measurable expenses that were contractual or prepaid well before the rate effective date. To exclude the 2021 expenses would significantly understate known IS/IT expenses by approximately $1.3M.[208]/[209]

127 Staff argues that Avista "habitually overestimates IS/IT expenses" and "ratepayers then overpay for something that was never implemented."[210] Ms. Huang incorrectly compares different as-filed (pro forma) amounts from one GRC or point in time, that does not align with the actual data period she then uses to compare, i.e., does not produce accurate "apples" to "apples" of year-over-year comparisons.[211] Ms. Huang does not even attempt to reconcile the non-calendar test period results with what the Commission approved, versus actual IS/IT costs in either year.[212]

128 As an example, Ms. Huang argues Avista over collected from customers in 2018 over $9 million, whereas the Company actually under-collected it's IS/IT expenses from customers by approximately $1.4 million. Ms. Huang mistakenly uses this same inaccurate analysis to arrive at Avista's pro formed level of expenses in this case.[213]

j) Pro Forma Property Tax (Adj. 3.09):

129 Avista has updated its pro forma property tax expense to reflect actual property tax assessments Avista received in December 2020 (Idaho) and April 2021 (Washington). After reflecting the Idaho and Washington tax assessments, the increase in property expense above 2019 test period levels is $635,000 for electric and $126,000 for natural gas.[214]

130 Ms. Huang, on behalf of Staff, criticizes Avista for having a pattern of overestimating its

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207 Crane Exh. ACC-1T, p. 26, ll. 15-17. Ms. Crane's adjustment reduced her revenue requirement by $1,000,000 electric and $305,000 natural gas.
208 Exh. EMA-6T, p.73.
209 AWEC removed $414,087 of "Salesforce" expenses, which it erroneously believed to be of benefit to a subsidiary. Salesforce was the vendor selected through a request for proposal (RFP) that was conducted to select the systems, including the underlying technology to accomplish the objectives of the Company's overall Customer Experience Platform (CXP) project. The master agreement with Salesforce was signed in October 2018. Clearly, this project is not related to an Avista subsidiary, and directly benefits Avista's utility customers. (Exh. EMA-6T, p.74, ll. 3-13.)
210 Exh. JH-1T, p.28.
211 Exh. EMA-6T, p.75, l. 1 - p.79.
212 Id., at p.76, ll. 11-12.
213 Exh. EMA-6T, p.79, ll. 6-10.
214 Exh. EMA-6T, p.80, ll. 1-17.

property tax expense when the case is filed and then reducing it during the process of the case.[215] She ignores the fact that Avista has always provided updated estimates using the best information available several months after the case was filed. This is necessary because the timing of actual property tax assessments.

131 Because of the recurring difficulties in estimating taxes, Avista is proposing that the Commission allow Avista to use a Property Tax Tracker, similar to the method used by Puget Sound Energy (PSE) to recover its property tax expenses.[216]

k) Pro Forma 2020 Capital Additions (Adj. 3.11 - 3.15):

132 Company Witness Schultz sponsors the five Pro Forma 2020 Capital Additions adjustments, reflecting additions that fall into the following categories: Customer at the Center (PF 3.11); Large and Distinct (PF 3.12); Programmatic (PF 3.13); Mandatory and Compliance (PF 3.14); and Short-Lived Assets (PF 3.15). As discussed by Ms. Schultz on rebuttal, these pro formed capital additions, reflect capital projects completed by year-end December 2020 – nine months or more prior to the October 1, 2020, rate effective date.[217]

133 Ms. Higby, however, for Staff, recommends a substantial reduction to these five adjustments, resulting in a reduction to electric and natural gas revenue requirement of $9.6 million and $2.1 million respectively. Ms. Higby's reduction to electric and natural gas rate base totals $68.2 million and $13.0 million, respectively.[218]/[219] The Company addressed these adjustments in Section I(E) of the Brief.

[215] Huang Exh. JH-1T, p.33, ll. 9-12.
[216] The Commission, in its Final Order in PSE's 2010/2011 general rate case, directed PSE to bring forward a proposal that would allow for property taxes—no more and no less—to be recovered in rates by means of a rider. PSE's Property Tax Tracker, as provided in the Commission's Order 07 (Final Order Granting Petition) in Dockets UE-121697 and UG-121705 (consolidated) and the Commission's Order 07 (Final Order Authorizing Rates) in Dockets UE-130137 and UG-130138 (consolidated) ("Order 07"), includes a mechanism for adjusting rates annually, both up and down, to pass through the cost of property taxes consistent with amounts PSE pays. Avista would like the Commission to direct Avista to bring forward a proposal for a similar tracker mechanism in its next filed general rate case. (Exh. EMA-6T, p.83, l. 14 - p.84, l. 2)
[217] Exh. KJS-3T, p.13, ll. 1-2.
[218] Higby Exh. ANH-1T, p. 3, ll. 23 – p. 5, ll. 1.
[219] For its part, Public Counsel recommends the Commission approve Avista's electric and natural gas actual 2020 plant additions for the five categories in Adjustments 3.11 – 3.15 as updated.

VII. COST OF CAPITAL

134 The following table summary contains the cost of capital recommendations of the parties:

Table No. 2: Parties Proposed Cost of Capital[220]

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%**

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%**

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%**

A. Return on Equity.

135 The ROE recommendations of Staff, Public Counsel, and AWEC fall well below a fair and reasonable level for the Company's utility operations, for a variety of reasons:[221]

- The ROE recommendations of the ROE Witnesses fall below accepted benchmarks.
- Their discussions of current capital market conditions are incomplete and potentially misleading.
  - Trends in Treasury bond yields do not provide a basis to evaluate changes in the cost of common equity.
  - Higher beta values support the view that the forward-looking risks of electric utility stocks have increased, which implies a higher ROE.
- The analyses of Staff and Public Counsel are undermined by numerous methodological flaws, including:
  - Unwarranted exclusion of comparable-risk utilities from the proxy group.
  - Application of the Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") using a range of historical data that fails to reflect investors' expectations and current capital market conditions.
  - Application of financial models in a manner that is inconsistent with their underlying assumptions.
  - Failure to evaluate the reasonableness of individual DCF cost of equity

[220] See. Exh. MTT-6T, p.7.
[221] Exh. AMM-15T, p.2, ll. 4-31.

estimates and exclude illogical results.

- Failure to consider the impact of flotation costs contradicts the findings of the financial literature and the economic requirements underlying a fair rate of return on equity.

136 Their recommendations are well below authorized ROEs.[222] Between 1974 and 2019, the annual average allowed ROE for electric utilities ranged from 9.56% to 15.78%. At no time during the 46-year period has the annual average authorized ROE for electric utilities been as low as the value recommended by the ROE Witnesses in this case.[223]

(1) The Parties' ROE Recommendations Fail to Meet Regulatory Standards.

137 Their recommendations would be below recent average ROEs authorized by other state commissions. In 2019, the average allowed ROE for vertically integrated electric companies (like Avista) was 9.74%; for 2020 it was 9.55%.[224] For gas utilities, the average allowed ROE was 9.71% in 2019 and 9.46% for 2020.[225]

138 Even more telling are the authorized ROE data for the specific firms in the ROE Witnesses' own proxy groups. As shown in Exh. AMM-15, the authorized ROEs for the firms in Mr. Parcell's proxy group range from 9.25% to 10.03% and average 9.60% (page 1). For Dr. Woolridge's electric proxy group, the range is 8.70% to 12.5%, with an average of 9.86% (page 2). Company Witness McKenzie concluded:

> In other words, allowed ROEs for the utilities that Mr. Parcell characterizes as "a substitute for Avista,"[226] indicate that the ROE Witnesses' recommendations are too low to meet regulatory standards. Dr. Woolridge states that he believes that "Avista's investment risk is at the high end of the range" of his proxy companies. (Exh. JRW-1T at 20), which further supports my conclusion that the ROE Witnesses' recommendations are too low when compared against the average returns authorized for their proxy groups. [227]

139 The ROEs implied by the expected earnings approach for the proxy groups of utilities referenced by the ROE witnesses are also well above their recommendations. The year-end returns

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[222] See p.3 of Exh. AMM-10
[223] Exh. AMM-15T, p.3, l. 12 - p.4, l. 13.
[224] S&P Global Market Intelligence, *Major Rate Case Decisions*, RRA Regulatory Focus, (February 2, 2021).
[225] *Id.*
[226] Exh. DCP-1T at 26.
[227] Exh. AMM-15T, p.4, ll. 8-13.

on common equity projected by the Value Line Investment Survey ("Value Line") over its forecast horizon for the firms in the ROE Witnesses' proxy groups are shown in Exh. AMM-16. Once adjusted to a mid-year basis,[228] reference to expected earnings implied an annual average cost of equity for the utilities referenced by Mr. Parcell of <u>10.2%</u>. The result for Dr. Woolridge's electric proxy group is <u>11.1%</u>. These book return estimates are an "apples to apples" comparison to their ROE recommendations, as testified to by Mr. McKenzie.[229]

140 Company Witness McKenzie concluded that, adopting an ROE for Avista that is well below the ROEs for comparable utilities could lead investors to "view the Commission's regulatory framework as unsupportive, an outcome that would undermine investors' willingness to support future capital availability for investment in Washington."[230] Moody's Investors Service ("Moody's") noted that, "[f]undamentally, the regulatory environment is the most important driver of our outlook."[231] Similarly, S&P concluded that "[t]he regulatory framework/regime's influence is of critical importance when assessing regulated utilities' credit risk because it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance."[232]

141 Furthermore, expected rates of return for firms in the competitive sector of the economy are also relevant in determining the appropriate return to be allowed for rate-setting purposes.[233] As observed by Mr. McKenzie:

> . . . any casual observer of stock market commentary and the investment media quickly comes to the realization that investors' choices are almost limitless. It follows that utilities must offer a return that can compete with other risk-

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[228] Because Value Line reports end-of-year book values, an adjustment factor was incorporated to compute an average rate of return over the year, which is consistent with the theory underlying this approach. Use of an average return in developing the sustainable growth rate is well supported. *See, e.g.*, Roger A. Morin, *New Regulatory Finance*, Pub. Util. Reports, Inc. (2006) at 305-306, which discusses the need to adjust Value Line's end-of-year data. FERC has affirmed the need for this adjustment to "r" in *Bangor Hydro-Elec. Co.*, 122 FERC ¶ 61,265 (2008).

[229] Exh. AMM-15T, p.7, ll. 10-19.

[230] Exh. AMM-15T, p. 8, ll. 20-23.

[231] Moody's Investors Service, *Regulation Will Keep Cash Flow Stable As Major Tax Break Ends*, Industry Outlook (Feb. 19, 2014).

[232] Standard & Poor's Corporation, *Key Credit Factors For The Regulated Utilities Industry*, RATINGSDIRECT (Nov. 19, 2013).

[233] Exh. AMM-15T at 41-43.

> comparable alternatives, or capital will simply go elsewhere.[234]
>
> Mr. Parcell also recognizes that investors gauge their required returns from utilities against those available from utility and non-utility firms of comparable risk.[235]

142 Moreover, a comparison of objective risk measures demonstrates conclusively that the Non-Utility Group is regarded as less risky than Avista, making it a conservative benchmark for a fair ROE in this case.[236] The results of the ROE analysis for the Non-Utility Group demonstrate that the average ROEs for the Non-Utility group ranged from 9.5% to 10.4%. The midpoint of this range is 9.9%.[237]

143 Avista's credit ratings generally also indicate that the Company would be regarded as a riskier investment than its regional peers, which suggests that investors' required cost of equity would also be higher.[238] See Table R-2 below:

TABLE R-2 – COMPARISON OF CREDIT RATINGS (REGIONAL UTILITIES)

	Company	(a) S&P Corporate Rating	(b) Moody's Long-term Rating
1	Cascade Natural Gas	BBB+	NR
2	Idaho Power	BBB	A3
3	Northwest Natural Gas	A+	Baa1
4	Pacificorp (WA & OR)	A	A3
5	Portland General Electric	BBB+	A3
6	Puget Sound Energy	BBB	Baa1
		BBB+	**A3**
	Avista Corp.	**BBB**	**Baa2**

(a) Issuer credit rating from www.standardandpoors.com (retrieved May 22, 2021).
(b) Long-term rating from www.moodys.com (retrieved May 22, 2021).

Utility betas (a measure of risk) have also increased significantly in the wake of the economic turmoil caused by the pandemic. The average Value Line beta value for 38 publicly traded electric utilities was 0.58 on January 24, 2020. This same group of utilities had an average beta of 0.88 on March 12, 2021. Similarly, Avista's beta increased from 0.60 on January 24, 2020, to 0.95 on March 12, 2021.[239]

234 Exh. AMM-15T, p.10, ll. 17-20.
235 Exh. DCP-1T at p.6.
236 Exh. AMM-15T, p.13, ll. 11-20.
237 See Exh. AMM-12, at p.3.
238 Exh. AMM-15T, p.15, ll. 1-12.
239 Exh. AMM-15T, p.17, ll. 3-9.

144 Moreover, Mr. Parcell suggest that investors expect that interest rates will remain low.[240] That is not in line with economic forecasters, who anticipate that yields on Treasury securities will increase significantly over the near-term.[241] These forecasts anticipate that interest rates will rise over the period when rates established in this proceeding will be in effect. This evidence suggests that investors anticipate that long-term capital costs—including the cost of equity—will increase.[242] Moreover, all Fed policymakers on the FOMC expect the federal funds benchmark to be dramatically higher than current levels. [243]/[244]

145 At the end of the day, the relevant indicators all suggest that Avista's authorized return on equity should increase above the currently authorized return of 9.4%.[245]

B. <u>Capital Structure</u>.

146 One of the ratemaking "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.[246] Both Idaho and Oregon currently use this ratemaking tool of adjusting the capital structure by excluding short-term debt from the calculation.[247]

147 Revealing is Mr. McKenzie's Table R-5 (Exh. AMM-15T, p.98, ll. 1-10), excerpted below, which presents the range and average common equity ratios approved for electric utilities over the most recent nine quarters of published data:

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240 *See, e.g.*, Parcell Direct at 12 (citing a "continuing reduction in actual and expected investment returns." Woolridge Direct at 7-9, and Oliver Direct at 24.

241 Exh. AMM-15T, p.19, ll. 14-18.

242 <u>See</u> Table R-3 - Interest Rate Trends, Exh. AMM-15T, p.19, ll. 1-19.

243 The FOMC members are projecting a midpoint federal funds rate of 2.0% to 3.0%, versus the current level of 0.125%.

244 Exh. AMM-15T, p.20, ll. 5-6.

245 The 8.0% mean DCF cost of equity resulting from Dr. Purcell's DCF analysis falls 155 basis points below the average ROE of 9.55% authorized for vertically integrated electric utilities in 2020 reported by RRA. (Exh. AMM-15T, p.35, ll. 14-17)

246 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).

247 Exh. MTT-6T, p.8, ll. 8-10.

<u>McKenzie - Table R-5 – Electric Utility Allowed Common Equity Ratios</u>

	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.

148 Furthermore, as shown in Mr. Parcell's own testimony at Exh. DCP-7 (and as another reference point), the <u>average equity ratio for Mr. Parcell's proxy group is actually higher than that proposed by Avista</u> (excluding short-term debt). And, for his part, 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.[248]

C. <u>Cost of Debt</u>.

149 Only Mr. Mullins takes issue with the Company's proposal cost of debt (4.97% vs. 4.75%). The Company inadvertently included the COVID related $100M term loan in short term debt in a discovery response used by Mr. Mullins. 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 Exh. BGM-6, p. 1 (in between lines 18 and 19) moves the cost of debt back to 4.97%, which again was not addressed by any other party.[249]

VIII. <u>USE OF TAX CREDIT TO OFFSET INCREASE</u>

150 The other Parties propose to return the tax deferral to customers as follows:

1. 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.[250]

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[248] Exh. MTT-6T, p.11, ll. 1-4.
[249] <u>Id</u>. at p.11, l. 18 - p.12, l. 1.
[250] Exh. BAE-1T, p. 12, ll. 7-12.

2. AWEC proposes the estimated balances on December 31, 2020, and future deferrals associated with IDD#5 and meters be returned over a five-year period.[251]

3. Public Counsel proposes the estimated balances on 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. [252]

151 Avista continues to support its original position to begin amortization of the Washington portion of those benefits through a 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.[253] Ultimately, the Commission has the authority to use these funds as it so desires, but should also take into account potential impacts to the Company's credit metrics if it deviates from the Company's original request.[254] The Company requests that the electric and natural gas tax benefit amortization matches the base revenue increase ordered by the Commission, and offsets that amount for no shorter than two years. Any remaining tax benefits not used in that two year period would then be amortized over ten (10) years.[255]/[256]/[257] Company Witness Thies testified the Company's proposal is "balancing a fine line between investment-grade metrics and customer offsets.[258]

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[251] Exh. BGM-1T, p. 70, ll. 19-21.
[252] Exh. ACC-1T, p. 46-47.
[253] Exh. MTT-6T, p.19, ll. 16-22.
[254] Tr. at p. 237, ll. 20-25
[255] The amortization period of Tariff 76 (electric) would be approximately October 1, 2021, thru early 2023. The amortization period of Tariff 176 (natural gas) would be approximately October 1, 2021, thru September 30, 2023.
[256] 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. 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 and the Public Utility Commission of Oregon (OPUC) recently approved it on May 4, 2021, Order No. 21-131, OPUC Case UM 2124.
[257] Regardless of the electric and natural gas base revenue increases approved in this case, the electric and natural gas tax benefit amortization <u>should not go beyond base rate increase levels approved on an annual basis and should not go beyond a two-year amortization period</u>. Currently the Company's credit rating is at BBB, two notches above "non-investment grade" rating levels. A downgrade to our ratings to one-notch above or to non-investment grade, could be possible if the Commission were to include a higher amortization balance than designed to simply offset the approved rate increases. That is true as well if the Commission went beyond the two-year amortization period proposed in this filing. (Exh. EMA-6T, p.115, l. 26 - p.116, l. 5)
[258] Exh. MTT-6T, p.19, ll. 25-26.

IX. COST OF SERVICE

152 Staff was of the view that the Company's cost of service studies (both electric and natural gas) met the requirements of the new cost of service presentation and methodology rules found in Chapter 480-85 of the WAC.[259]/[260]

153 For its part, however, Public Counsel included objections to the new peak credit methodology required by WAC 480-85-060.[261] The revenue-to-cost parity ratios, however, that Staff used to inform their rate spread recommendations would not have been materially different if the peak credit had been reversed to reflect 67% energy-related and 33% demand-related.[262]

154 WAC 480-85-060, the new cost of service methodology requires demand-related generation costs to be allocated based on load net of renewable generation, using 12 monthly coincident peaks. Public Counsel suggests that demand allocations based on the Company's test year peak demand estimation process utilized between load studies do not provide usable results. The Company tested the sensitivity of overall cost of service results to potential inaccuracies in the demand allocators. In the Company's 2009 case (Docket UE-090334), the Company prepared four demand allocator sensitivity scenarios to establish that the cost-of-service study could provide a sound foundation for rate spread purposes. Illustration No. 2 of Ms. Knox's testimony showed that the fine tuning that more precise demand allocations might provide would not change the overall direction or implications of the cost-of-service study.[263]/[264]

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[259] Exh. ELJ-1T, p.7.

[260] The Company accepts Staff's Revenue Normalization Adjustment. (Exh. ELJ-1T, pp.5-6) Staff has reflected in its testimony the fact that a large Schedule 25 customer will close its factory and no longer take usage during the rate year. Therefore, it is appropriate to revise the pro-forma revenue normalization adjustment to reflect this closure of a large industrial customer. (Exh. TLK-4T, p.2, ll. 1-14.) When the Company ran the power supply update filed on July 30, 2021, it incorporated the loss of the load from this customer into the normalized historical loads. Company Witness Ms. Andrews has already included the reduction in revenue in adjustment 3.01 and with the July 30, 2021 power supply update, the loss of load was reflected in the revised normalized historical loads, reducing proforma power supply expense in adjustment 3.00. (Exh. TLK-4T, P.3, ll. 13-15)

[261] Exh. GAW-1T pp. 8-19.

[262] Exh. TLK-4T, p.4, ll. 10-21.

[263] Exh. TLK-4T, p.7, ll. 1-4.

[264] Public Counsel argues that the class cost of service study does not include or reflect any of the estimated AMI benefits. This is incorrect. All estimated AMI benefits that Ms. Andrews identified as part of revenue requirement are included in both the electric and natural gas cost of service studies. In addition to direct savings that reduce the Company's costs, there are other benefits that accrue directly to customers. Ms. Andrews worked with the AMI project team to identify which categories represented direct benefits to customers, which were revenue requirement cost reductions, and the cost savings which were expected to be redeployed. (Exh. TLK-4T, p.8, ll. 1-22.) The

155 In conclusion, Public Counsel's concerns are unfounded or immaterial. During the cost-of-service rulemaking Dockets UE-170002 and UG-170003, the Commission requested each electric and natural gas utility provide cost of service scenarios testing various potential classification and allocation methodologies.[265] The Commission found that to "the surprise of the Commission and several stakeholders, the results of the requested scenarios submitted by the electric and natural gas utilities showed negligible or no impact to a cost of service study from the selection of any particular methodology modeled."[266]

156 Staff recommends a rate spread that focuses on classes whose parity ratio falls outside what it characterizes as a "range of reasonableness," especially those schedules experiencing what it terms as "excessive or grossly excessive cross-class subsidization." such as General Service and Large General Service customer classes (Schedules 11/12 and 21/22).[267] For classes that are within a range of reasonableness (Schedules 25, 31/32, and 41-48), Staff recommends a uniform percentage of revenue increase which preserves the parity ratio at or near current levels.[268]

157 The Company is not opposed to the Staff rate spread proposal if the Commission were to order a lower revenue requirement. Both the Company and Staff acknowledge that certain rate schedules are drastically over (Schedules 11/12 and 21/22) or under (Schedules 1/2) paying on a relative cost of service basis. To mitigate this inequity between rate schedules, the Company is supportive of making substantive movement, as proposed by Staff, if the Commission is to order a revenue requirement lower than what the Company is proposing in this case.[269]

158 The Company, however, continues to support a uniform percentage increase to all rate

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direct customer benefits, of course, do not have an impact on cost of service and are rightfully excluded from the revenue requirement and related cost of service studies. Illustration No. 3 in Ms. Knox's testimony (Exh. TLK-4T, p.11, ll. 1-15) shows the cost-of-service parity ratio results from the cost-of-service studies as filed compared to the studies re-run with the incremental AMI savings (both direct reduction and redeployed savings) treated as customer-related costs. The negligible differences shown in Illustration No. 3 indicate that alternative assumptions associated with AMI O&M savings in these cost-of-service studies would not materially change the overall results.

[265] Exh. TLK-4T, p.11, ll. 17-22.
[266] Dockets UE-170002 and UG-170003, General Order R-599, p.6, ¶24.
[267] Exh. No. ELJ-1T p. 10 ll. 1-5.
[268] Exh. No. ELJ-1T p. 13 ll. 1-10.
[269] Exh. JDM-8T, p.4, ll. 12-18.

schedules at or near the Company's full revenue requirement.[270]

159 Similar to electric, both the Company and Staff have come to the same conclusion that certain natural gas rate schedules are grossly overpaying on a relative cost of service basis (Schedules 111/112/116 and 131/132). To mitigate this inequity between rate schedules, the Company is supportive of the prescriptive movement, as proposed by Staff.

160 Public Counsel proposes[271] an equal percentage of margin increase across all rate schedules regardless of the final revenue requirement ordered in this proceeding. The Company supports a uniform percentage increase to all rate schedules at or near the Company's full revenue requirement but would embrace Staff's proposal at lesser revenue requirement levels.[272]

X. IEP SPECIAL CONTRACT

A. Introduction.

161 The Joint Testimony of Bonfield and Rasler (Exh. SJB-KR-1T) explains that in Avista's 2019 general rate case, Commission Staff identified the substantial difference in load characteristics between IEP and all other customers on Schedule 25, under which IEP currently takes service. Specifically, Staff witness Jason Ball noted in his testimony in that case that IEP "has an average demand that is over ten times higher than the class average;" that IEP "uses almost half (45 percent) of all kWh's" and that IEP "is responsible for over 80 percent of the primary voltage discount the schedule receives."[273] Mr. Ball expressed concern that, due to these characteristics, Schedule 25 did not serve a homogenous group of customers, which raised rate discrimination and undue preference concerns.[274] To remedy this potential legal problem, Mr. Ball made several recommendations, one of which was to develop a Special Contract for IEP so that it took service apart from Schedule 25.[275]

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[270] Both Public Counsel (Exh. No. GAW-1T, p.27, ll. 5-14) and The Energy Project (Exh. No. SMC-1T, p.20, ll. 10-12) were both supportive of the Company's uniform percent of revenue proposal regardless of the final revenue requirement ordered in this proceeding. For its part, AWEC did not offer a rate spread proposal in this proceeding.

[271] Exh. No. GAW-1T p. 34 ll. 18-23.

[272] Exh. JDM-8T, p.7, ll. 10-17.

[273] Docket Nos. UE-190334/UG-190335/UE-190222, Exh. JLB-1T at 24:4-8.

[274] Id. at 24:11-24.

[275] Exh. SJB-KR-1T, p.2, l. 22 - p.3, l. 8.

162 IEP witness Mr. Rasler provided an overview of the Special Contract negotiations that have taken place between Avista and IEP beginning in June 2020.[276] During the discussions among the Settling Parties to the Partial Settlement, the Special Contract was included as an item for consideration as part of a settlement package. During the settlement negotiations, Avista and IEP were able to resolve all outstanding issues to both parties' satisfaction, with the Settling Parties offering their support of all terms to be included within the Special Contract.[277]

163 Avista and IEP were able to resolve any remaining issues and enter into a contractual arrangement. The Special Contract was executed on June 24, 2021 and will only become effective on the rate effective date in these proceedings, if the Commission approves of its terms, including the recovery of any Lost Margin from other customers. A copy of the Special Contract appears in confidential Exhibit SJB-KR-2C.

164 As explained by Mr. Bonfield, the Partial Settlement provides support from the Settling Parties for the Company to enter into the Special Contract and to ensure that the Special Contract does not result in Lost Margin or a loss of funding for its energy conservation programs and Low-Income Rate Assistance Program, as well as providing the Company with Demand Response that it can count on in future years.[278]

165 As will be explained below, the Special Contract is in the Public Interest. The Special Contract results in lower rates for Avista's remaining customers over the term of the contract than would have been the case if IEP had left Avista's system. If IEP bypasses Avista's system, through construction of a cogeneration system, the share of fixed costs paid by IEP would otherwise be paid by Avista's remaining customers. The Special Contract also gives Avista access to a valuable Demand Response resource.[279]

B. <u>Economic Bypass Rate Will Contribute to Fixed Cost Recovery</u>.

166 At the outset, it should be recognized that IEP has both the physical space and infrastructure

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[276] Exhibit KR-1CT at page 5.
[277] Exh. SJB-KR-1T.
[278] <u>Ibid</u>.
[279] <u>Ibid</u>.

necessary to support a cogeneration system that could meet nearly all of IEP's electrical load. IEP has evaluated the economic viability of constructing a cogeneration system and concluded that such a system could meet 97% of the mill's electricity needs and it would be cost-effective over the 30-year life of the project.

167 IEP witness Dr. Lance Kaufman demonstrated the economic viability of the cogeneration system in Exhibit LDK-1T, supported by: (1) a cogeneration study (confidential Exhibit No. LDK 3C); (2) a generation model (confidential Exhibit No. LDK-4C); and (3) a marginal cost study (confidential Exhibit No. LDK-5C). Avista has reviewed the cogeneration feasibility study (Exhibit LDK-3C) provided by IEP and concluded that IEP can, in fact, pursue a cogeneration system to meet nearly all of its electrical load.[280]

168 As noted, Dr. Kaufman also completed a long run marginal cost study that established a baseline for measuring how IEP's rates contribute to Avista's fixed costs. Dr. Kaufman's study showed IEP could receive an Economic Bypass Rate which would contribute to Avista's fixed costs in the short run and would exceed the long run costs of serving IEP. Avista Witness Ms. Knox, in Exhibit TLK-4T, reviewed the marginal cost study and concluded that Dr. Kaufman's long-run marginal cost study is reasonable.

169 As explained in the Joint Testimony: The Economic Bypass Revenue Requirement was included within the context of a Special Contract that was being negotiated as a "complete package." From each party's perspective the goal was to reach an agreeable Economic Bypass Revenue Requirement that benefited IEP while not greatly impacting all other customers and ensured a meaningful contribution to fixed costs.[281]

170 The Economic Bypass Revenue Requirement will also be updated in future years. To further ensure that IEP continues to contribute to Avista's fixed costs over the term of the Special Contract, the Economic Bypass Revenue Requirement will be tied to rate changes to Schedule 25

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[280] Exh. SJB-KR-1T.
[281] Ibid.

through use of a "rate factor."[282]

171 The Special Contract "revenue adjustment" will be recovered from all other electric customers in the same manner as the spread of the Allowance for Funds Used During Construction ("AFUDC") deferral balance discussed in ¶ 12 of the Partial Settlement. That is, the adjustment will be spread to each class based on allocated rate base, unless the Commission selects a different method for return of the AFUDC deferral.

C. Demand Response.

172 In Avista's view, Demand Response can be a cost-effective method to meet customer resource adequacy requirements. Avista's 2021 Electric IRP identified several price and direct load control programs to assist in meeting the Company's peak load requirements in the future. IEP is the only Avista customer in Washington large enough to provide more than 10 MW of Demand Response. According to Company Witness Bonfield, "A Demand Response program with IEP is a unique opportunity for Avista to have a single point of contact for a large and reliable curtailment."[283]

173 Mr. Bonfield went on to provide an opinion of the Demand Response program.[284] The Demand Response program consists of a Pre-Commitment Period (October 1, 2021 through October 31, 2026) and a Post-Commitment Period (November 1, 2026 through October 31, 2031). During the Pre-Commitment Period, the Demand Response is an economic product called on only where market and IEP's operational conditions allow it. As such, during the Pre-Commitment Period Avista cannot rely on the Demand Response for resource planning purposes.

174 During the Post-Commitment Period, Avista will provide IEP an upfront payment for IEP's commitment to provide 30 MW of Demand Response for 25 events per year. The level of Demand Response is measured from IEP's non-coincident peak demand and is referred to in the Special

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[282] Specifically, a "rate factor" will be based on the total cost to serve Schedule 25 (without IEP) on a $/MWh basis using rates approved in this proceeding and the total cost to serve IEP under the Special Contract, also on a $/MWh basis using rates approved in this proceeding. The Economic Bypass Revenue Requirement will then increase or decrease by the rate factor. Rate design for the Special Contract will also mirror Schedule 25. (Exh. SJB-KR-1T, p.12, ll. 18-22)

[283] Exh. SJB-KR-1T, p.14, ll. 1-6.

[284] Id. at p.14, ll. 9-21.

Contract as the "Curtailed Demand Limit." During the Post-Commitment Period, IEP must achieve the Curtailed Demand Limit whenever Avista calls a Demand Response Event or pay a penalty for the amount of load that exceeds the Curtailed Demand Limit (referred to in the Special Contract as the "Curtailment Shortfall").

175 Mr. Rasler explained how IEP will reduce its load in response to a Demand Response event requested by Avista. IEP's primary energy consumption comes from operating a Thermo-Mechanical Pulp ("TMP") system. IEP plans to maintain sufficient inventory that it can turn off the TMP machinery for an agreed period of time to fulfill a Demand Response Event.[285] The Demand Response during the Post-Commitment Period was valued at $50 per kW-year; this is the value Avista assigned to IEP's Demand Response in its recently filed IRP. If IEP does not respond to an Avista Demand Response call in the Post-Commitment Period, IEP will need to pay the difference between its Special Contract rate and the prevailing market price at the time. This essentially shifts market risk during the Demand Response period from Avista and its other customers to IEP.[286]/[287]

176 In addition to meeting the other requirements of WAC 480-80-143, parties must demonstrate that the contract does not result in unreasonable preference or rate discrimination, in violation of RCW 80.28.090 and 80.28.100; demonstrate, at a minimum, that the contract charges recover all costs resulting from providing the service during its term, and, in addition, provide a contribution to the utility's fixed costs; summarize the basis of the charges proposed in the contract and explain the derivation of the proposed charges including all cost computations involved; and indicate the basis for using a contract rather than a filed tariff for the specific service involved (WAC 480-80-143(5)).

177 As explained at the outset, IEP, as Avista's largest Washington customer, is unique both in

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[285] Exh. SJB-KR-1T.
[286] Exh. SJB-KR-1T, p.16, ll. 17-21.
[287] Additionally, during either the Pre-Commitment Period or the Post-Commitment Period, if IEP agrees to an Avista call to provide Demand Response, but then does not follow through, IEP will be subject to an incremental 25% penalty; that is, IEP will pay at least the difference between the applicable market rate and the IEP tariff rate, multiplied by 125%. (Exh. SJB-KR-1T, p.16, l. 22 - p.17, l. 2)

terms of its size and its load profile. Indeed, Staff was concerned that by remaining on Schedule 25, this itself raised rate discrimination and undue preference concerns.[288] IEP is also differently situated from other customers by virtue of its ability to pursue cogeneration to serve its load. Consequently, the Special Contract does not treat IEP differently from similarly situated customers because there are no similarly situated customers in Washington.[289] Most importantly, the Special Contract will recover all costs of serving IEP and continue to provide a substantial contribution to fixed costs.

178 The Joint Testimony of Bonfield/Rasler nicely summarized the importance of the Special Contract: the Special Contract will provide significant benefits to IEP, Avista, and Avista's other customers. This includes: (1) ensuring IEP remains on Avista's system and contributes to Avista's fixed costs; (2) preventing the development of a new natural gas-fired generation resource in Washington during the term of the Special Contract; (3) providing Avista with Demand Response, which will help meet Avista's peak capacity needs cost effectively and with zero emissions; and (4) ensuring IEP continues to pay its fully allocated costs for all applicable tariff riders, including energy efficiency and low-income assistance.

XI. CONCLUSION

179 This case provides the Commission with the opportunity to put the Company on a more secure regulatory footing, in terms of reasonable cost-recovery and addressing "regulatory lag." Now is the time to address these issues as we prepare for the new era of multi-year rate plans.

180 RESPECTFULLY SUBMITTED this 13th day of August, 2021.

AVISTA CORPORATION

By: *\/s/ David J. Meyer*
David J. Meyer
Chief Counsel for Regulatory and Governmental Affairs
Avista Corporation

[288] Docket Nos. UE-190334/UG-190335/UE-190222, Exh. JLB-1T at 24:11-24.
[289] Exh. SJB-KR-1T, p.22, ll. 8-14.

APPENDIX A

Reconciliation of Electric and Natural Gas

REVISED 7-1-21

Exh. EMA-7r

RECONCILIATION TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT [REVISED]**

	Adj.	**ELECTRIC** Adjustments:	Avista Rebuttal Revenue Requirement	Avista Rebuttal Rate Base	UTC Staff (1) Revenue Requirement	UTC Staff (1) Rate Base	Public Counsel (2) Revenue Requirement	Public Counsel (2) Rate Base	AWEC (3) Revenue Requirement	AWEC (3) Rate Base
			(50.0% CE / 9.9% ROE / 4.97% COD)		(48.5% CE / 9.3% ROE / 4.97% COD)		(48.5% CE / 9.0% ROE / 4.97% COD)		(48.5% CE / 9.4% ROE / 4.75% COD)	
		Amount As Filed Per Company	**$ 44,183**	**$ 1,877,557**	**$ 44,183**	**$ 1,877,557**	**$ 44,183**	**$ 1,877,557**	**$ 44,183**	**$ 1,877,557**
1		Adjust Cost of Capital (4)			(8,442)		(10,925)		(10,441)	
2	2.14	Restate Debt Interest			(382)		(367)		157	
3	2.04	Regulatory Expense	428							
4	2.05	Injuries & Damages Expense					(28)			
5	2.13	Restate Incentives					(2,123)			
6	2.19	Restate 2019 AMA Rate Base to EOP	862	(903)			722	(903)		
7	3.00T	Pro Forma Transmission*							(557)	
8	3.00P	Pro Forma Power Supply - EIM Benefits (5)	(2,323)		(2,323)		(2,559)			
9	3.00P	Pro Forma Power Supply - Load Change (5) / (6)	(236)							
10	3.01	PF Revenue Normalization (6)	1,143		907					
11	3.03	Pro Forma ARAM DFIT	20		20		20			
12	3.04	Pro Forma Labor - Non-Exec			(636)		(1,579)			
13	3.05	Pro Forma Labor - Exec								
14	3.06	Pro Forma Benefits	105		105		104			
15	3.07	Pro Forma Insurance	(1,133)		(3,702)		(1,822)		(1,078)	
16	3.08	Pro Forma IS/IT			(2,105)		(1,000)		(1,028)	
17	3.09	Pro Forma Property Tax	(1,123)		(745)		(745)			
18	3.11	Pro Forma 2020 Customer At Center	301	963	(412)	(1,334)	230	963	(2,724)	(9,316)
19	3.12	Pro Forma 2020 Large & Distinct	(712)	(5,303)	(2,165)	(17,204)	(838)	(5,303)	(2,480)	(23,308)
20	3.13	Pro Forma 2020 Programmatic	(831)	(4,059)	(4,911)	(35,427)	(1,161)	(4,059)	(5,779)	(51,538)
21	3.14	Pro Forma 2020 Mandatory & Compliance	71	1,242	(1,464)	(11,960)	(184)	1,242	(3,802)	(35,584)
22	3.15	Pro Forma 2020 Short Lived	(110)	(706)	(904)	(2,246)	(181)	(706)	(2,992)	(10,886)
23	3.16	Pro Forma AMI Capital	(456)	(4,578)	(475)	(4,578)	(7,024)	(75,069)	(3,619)	(113,898)
24	3.17	Pro Forma WildFire Plan	(174)	(1,941)	(3,998)	(11,634)	(1,304)	(11,485)	(3,784)	(13,126)
25	3.18	Pro Forma EIM Capital & Expenditures	926	3,219	864	3,219	926	3,219	909	3,219
26	3.19	Pro Forma Colstrip Cap & Amort	(837)	(4,886)	(2,730)	(9,593)	(803)	(5,581)	(1,420)	11,340
27	3.20	Pro Forma Normalize CS2/Colstrip Major Maint	51							
28	PC1	SmartBurn					(329)	(2,377)		
29	PC2	Substation Rebuild					(1,255)	(11,840)		
30	PC3	Grid Modernization					(1,310)	(11,274)		
31	AWEC 7.01	2020 AMA Capital							9,220	12,732
32	AWEC 7.02	O&M Expense							-	
33	AWEC 7.03	Inter-Corporate Cost Allocation							(56)	
34	AWEC 7.04	AFUDC Deferral (1)							0	
35		Unable to reconcile			(132)					
36		Total Adjustments	$ (4,028)	$ (16,951)	$ (33,630)	$ (90,757)	$ (33,535)	$ (123,173)	$ (29,474)	$ (230,365)
37										
38		**Adjusted Amounts**	**$ 40,155**	**$ 1,860,606**	**$ 10,553**	**$ 1,786,800**	**$ 10,648**	**$ 1,754,384**	**$ 14,709**	**$ 1,647,192**

****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.**

REVISED 7-1-21

Exh. EMA-7r

RECONCILIATION TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT [REVISED]**

	Adj.	NATURAL GAS	Avista Rebuttal		UTC Staff (1)		Public Counsel (2)		AWEC (3)	
			Revenue Requirement	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base
		Adjustments:	**(50.0% CE / 9.9% ROE / 4.97% COD)**		**(48.5% CE / 9.3% ROE / 4.97% COD)**		**(48.5% CE / 9.0% ROE / 4.97% COD)**		**(48.5% CE / 9.4% ROE / 4.75% COD)**	
		Amount As Filed Per Company	**$ 12,790**	**$ 448,206**	**$ 12,790**	**$ 448,206**	**$ 12,790**	**$ 448,206**	**$ 12,790**	**$ 448,206**
1		Adjust Cost of Capital *			(2,055)		(2,542)		(2,418)	
2	2.14	Restate Debt Interest			(90)		(88)		(37)	
	2.04	Regulatory Expense	65							
3	2.13	Restate Incentives					(617)			
4	3.03	Pro Forma ARAM DFIT	(61)		(61)		(61)			
5	3.04	Pro Forma Labor - Non-Exec			(194)		(472)			
6	3.05	Pro Forma Labor - Exec								
7	3.06	Pro Forma Benefits	32		32		32			
8	3.07	Pro Forma Insurance	(837)		(1,128)		(555)		(821)	
9	3.08	Pro Forma IS/IT			(653)		(305)		(356)	
10	3.09	Pro Forma Property Tax	(353)		(215)		(216)			
11	3.11	Pro Forma 2020 Customer At Center	18	71	(206)	(650)	(3)	71	(855)	(2,923)
12	3.12	Pro Forma 2020 Large & Distinct	(66)	60	(212)	(992)	(117)	60	(813)	(7,191)
13	3.13	Pro Forma 2020 Programmatic	(140)	(564)	(876)	(6,274)	(186)	(564)	(858)	(7,194)
14	3.14	Pro Forma 2020 Mandatory & Compliance	(322)	(2,654)	(503)	(4,147)	(395)	(2,654)	(1,417)	(13,123)
15	3.15	Pro Forma 2020 Short Lived	(129)	(442)	(285)	(925)	(150)	(442)	(964)	(3,408)
16	3.16	Pro Forma AMI Capital	(282)	(2,348)	(289)	(2,348)	(2,720)	(28,479)	(1,263)	(39,833)
17	3.17	Pro Forma LEAP Deferral Amortization								
18	AWEC 7.01	2020 AMA Capital							2,104	5,713
19	AWEC 7.02	O&M Expense								
20	AWEC 7.03	Inter-Corporate Cost Allocation							(16)	
21	AWEC 7.04	AFUDC Deferral								
22	4.00T	Tax Accounting Change								
23										
24		Total Adjustments	$ (2,076)	$ (5,877)	$ (6,735)	$ (15,336)	$ (8,395)	$ (32,008)	$ (7,714)	$ (67,959)
25										
26		**Adjusted Amounts**	**$ 10,714**	**$ 442,329**	**$ 6,055**	**$ 432,870**	**$ 4,395**	**$ 416,198**	**$ 5,076**	**$ 380,247**

****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.**

APPENDIX B

Table of Contested Adjustments

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