BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION, Respondent.	DOCKETS UE-200900, UG-200901, and UE-200984 (*Consolidated*)

INITIAL POST-HEARING BRIEF

OF PUBLIC COUNSEL

August 13, 2021

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I. INTRODUCTION

1. Avista Corporation ("Avista" or "the Company") requests substantial rate increases for both its electric and natural gas services. If the Commission grants Avista's request, electric customers will see a rate increase of $28.5 million, and natural gas customers will see a rate increase of $10.7 million.[1] The Public Counsel Unit of the Washington Attorney General's Office ("Public Counsel") submits a response case that illustrates the excess of Avista's request.

2. Avista's case includes a recommendation to offset its proposed rate case with deferred amounts resulting from a tax accounting change. While this may mitigate the impact of rate increases upon ratepayers, the availability of the offset does not lessen the Commission's obligation to ensure the underlying rates are fair, just, reasonable, and sufficient. Public Counsel's case removes unnecessarily generous adjustments and establishes a reasonable rate of return. Public Counsel's case addresses imprudent electric distribution investments as well as unsupported expenditures within Avista's Wildfire Resiliency Plan that the Company has not proven to reduce wildfire risks. With respect to AMI, Public Counsel asserts that Avista has not met its burden to show its AMI investment will result in proven customer benefits, and recommends that the Commission defer recovery of the return on AMI investment until the Company can demonstrate that customers are, in fact, accruing those benefits. Public Counsel also addresses Avista's cost of service study, rate spread, and rate design, and presents public comments received in the case.

[1] Avista Updated Joint Issues List at 7 and 16 (Aug. 11, 2021). Avista's original request was for an increase of $44.2 million for electric service and $12.8 million for natural gas service.

II. THE COMMISSION SHOULD MAINTAIN AVISTA'S CURRENTLY AUTHORIZED CAPITAL STRUCTURE AND REDUCE AVISTA'S RETURN ON EQUITY TO 9.0 PERCENT

A. Avista's Proposed Capital Structure is Unreasonable

3. Avista requests a capital structure with a 50 percent equity layer and a 50 percent debt layer.[2] This departs from the 48.5 percent equity and 51.5 percent debt capital structure the Commission approved in the Company's previous general rate case (GRC).[3] Public Counsel recommends maintaining the 48.5 percent and 51.5 percent equity to debt ratio in its capital structure, since it is consistent with previous Commission orders. Furthermore, Avista's proposal represents a higher equity ratio and lower financial risk than other electric and gas utilities.[4] Avista is the only party recommending a deviation from the current authorized capital structure.

4. The Commission sets a capital structure intended to reflect the financial risks the company faces, which dictates the appropriate ratio of debt and equity.[5] Capital structures with a high reliance on the equity component can result in unfairly burdensome costs being passed to customers, while too much reliance on debt capitalization can threaten financial viability and access to capital markets.[6]

5. The Commission recognizes the material impact of capital structure on customers, but also recognizes the importance of balancing "safety" and "economy" in setting an equity to debt ratio.[7] "Safety" in capital structures refers to higher reliance on equity capitalization, which results in higher customer rates while improving the financial integrity of the utility. "Economy"

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[2] Direct Testimony of Elizabeth M. Andrews, Exh. EMA-1Tr at 16:20.
[3] *Id.* at 33:2–3.
[4] Response Testimony of J. Randall Woolridge, Exh. JRW-1Tr at 61:14–16.
[5] *In re: Zia Nat. Gas Co.,* 128 N.M. 728, 731, 998 P.2d 564, 567 (2000).
[6] *Pioneer Nat. Res. USA, Inc. v. Pub. Util. Comm'n of Tex.*, 303 S.W.3d 363, 373 (Tex. App. 2009).
[7] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Order 08 (May 7, 2012).

refers to higher debt in the capital structure, which may contribute to lower customer rates but carry higher financial risk. The recommendation of Public Counsel, and the other non-company parties, fairly balances safety and economy in a manner consistent with the Commission's previous decisions.

B. Avista's Requested Return on Equity (ROE) is Inflated and Unsupported by Evidence

6. As regulated monopolies, public utilities are not subject to the same conditions and environment as competitive businesses. As a result, it is the job of the regulator to set a rate of return that allows the company an opportunity—not a guarantee—to earn a fair profit. According to the theory of regulation, this induces prudent business management and emulates a competitive market environment.[8] Two landmark Supreme Court decisions set the standard for what constitutes a fair rate of return for regulated utilities. *Hope*[9] and *Bluefield*[10] require regulators to set a rate of return that allow utilities to maintain financial integrity and attract capital at reasonable rates charged to customers.[11] As a result, rates should be set such that they are fair and reasonable for customers yet also allow the company the opportunity to earn a fair return for their investors.[12]

7. In order to set an appropriate ROE, the Commission must determine the market-based cost of capital.[13] The Commission will determine the market-based cost of capital by examining the results of various models intended to provide reasonable estimates. The Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) are among the most rigorously tested and

[8] Response Testimony of Woolridge, Exh. JRW-1Tr, at 24:15–18.
[9] *Fed. Power Comm'n v. Hope Nat. Gas Co.,* 320 U.S. 591, 64 S. Ct. 281 (1944).
[10] *Bluefield Waterworks & Imp. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679, 43 S. Ct. 675 (1923).
[11] Woolridge, Exh. JRW-1Tr at 18:2–5.
[12] *Id.*
[13] *Id*. at 2:14–15 and 3:3–4.

frequently relied upon models to estimate the market-based cost of capital. Public Counsel's expert witness Dr. J. Randall Woolridge relied on these models to make his recommendations. Dr. Woolridge's analysis determined that the market-based equity cost for Avista is between 7.60 and 9.05 percent.[14] This range of reasonableness is well below Avista's requested 9.90 percent.[15]

8. Public Counsel recommends a 9.0 percent ROE. Dr. Woolridge explains that Avista's relative risk level and interest rate increases are why an ROE at the upper end of the range of reasonableness is appropriate.[16] Public Counsel's full cost of capital recommendations, based on Dr. Woolridge's analysis, are as follows:

Table 1: Public Counsel's Rate of Return Recommendation[17]

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate
Long-Term Debt	**51.50%**	**4.97%**	**2.56%**
Common Equity	**48.50%**	**9.00%**	**4.37%**
Total Capital	**100.00%**		**6.92%**

C. Capital Market Conditions Do Not Support Avista's Request

9. Ongoing fluctuations in the economy due to the COVID-19 pandemic have created uncertainty. Since the beginning of the pandemic, however, the stock market has recovered, employment levels are up, and Treasury yields have returned to pre-COVID levels.[18]

[14] Woolridge, Exh. JRW-1Tr at 4:15.
[15] Direct Testimony of Mark T. Thies, Exh. MTT-1T at 17:11.
[16] Woolridge, Exh. JRW-1Tr at 59:9–11.
[17] *Id*. at 5.
[18] *Id*. at 16:9–15.

Furthermore, the market "fear index" has settled down near its historical average after reaching near-record levels at the height of the pandemic.[19] Although the pandemic and economic recovery are still ongoing, critical segments of the financial market have rebounded.

10. Despite economic volatility, market conditions suggest utility ROEs overall are higher than the market-based cost of capital. Dr. Woolridge conducted an analysis of utilities' market-to-book ratios, which describes the relationship between the earned returns on equity and the companies' actual cost of equity.[20] Management consultant James M. McTaggart aptly describes market-to-book ratios:

> A company's ROE over time, relative to its cost of equity, also determines whether it is worth more or less than its book value. If its ROE is consistently greater than the cost of equity capital (the investor's minimum acceptable return), the business is economically profitable and its market value will exceed book value. If, however, the business earns an ROE consistently less than its cost of equity, it is economically unprofitable and its market value will be less than book value.[21]

11. A company earning above its common cost of equity sets its stock value above book value.[22] Dr. Woolridge's analysis showed that among regulated utilities, the market-to-book ratio peaked in 2019 at 2.0X and has declined slightly to 1.75X.[23] (A ratio of 1.0X would indicate a company is selling common stock at book value.) This analysis shows that authorized ROEs for regulated utilities, though they have been declining for the last decade,[24] still are set too high.

12. Current interest rates also indicate that Avista's recommended ROE is too high. Though interest rates increased slightly after reaching a record low in 2020,[25] the Commission still should

[19] Woolridge, Exh. JRW-1Tr at 16:16–18.
[20] *Id.* at 26:1–2.
[21] *Id*. at 26:5 (quoting James M. McTaggart, *The Ultimate Poison Pill: Closing the Value Gap*, COMMENTARY (Spring 1986) at 3).
[22] *Id.* at 26:7–8.
[23] *Id.* at 11:4–5.
[24] *Id.* at 17:6–7.
[25] *Id*. at 14:2–3.

decrease the Company's authorized ROE. As interest rates declined to a low point in 2020, authorized ROEs did not decline commensurately.[26] Market conditions suggest that Avista's authorized ROE should decrease, rather than increase as the Company proposes.

D. Avista's Flawed Return on Equity Analysis Produced Inaccurate and Inflated Results

13. Avista witness Adrien McKenzie recommends 9.90 to be Avista's authorized ROE. Although Avista's analysis does include the DCF and CAPM models, McKenzie also includes other flawed models and flawed assumptions. These errors cause Avista's proposed ROE to be inflated, and thus higher than the market-based cost of capital. McKenzie also inappropriately includes firm size adjustments and flotation costs in Avista's ROE recommendation, which causes further inflation. McKenzie uses DCF, CAPM, and Risk Premium models to estimate an appropriate ROE, all of which are the Commission recognizes as acceptable.[27] However, McKenzie's adjustments to each of these models overstate the market-based cost of capital.

14. McKenzie's use of the DCF model is appropriate, but two adjustments to the model produce erroneous results. First, McKenzie asymmetrically eliminates low-end results without similarly eliminating high-end results.[28] This produces an upward bias. The DCF model relies on long-term growth expectations and McKenzie assumes "overly optimistic" growth rates.[29] McKenzie relies exclusively on Wall Street analysts' earnings growth predictions[30] while

[26] Woolridge, Exh. JRW-1Tr at 16:4–7.
[27] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Final Order 08, ¶¶ 81–108 (July 8, 2020).
[28] Woolridge, Exh. JRW-1Tr at 61:20–21.
[29] *Id.* at 62:1–2.
[30] Woolridge, Exh. JRW-1Tr at 66:8–10.

excluding other indicators of growth.[31] An academic study found such an approach upwardly biases results by as much as 3.0 percent.[32]

15. The Commission has found the CAPM approach to estimating market-based ROE acceptable. However, McKenzie uses a non-traditional modified Empirical CAPM approach[33] that, in contrast to the traditional CAPM, has not been validated or supported by scholars.[34] McKenzie's Empirical CAPM adjusts the risk-free rate and market risk premium in a way that leads to upward bias.[35] Furthermore, McKenzie provides no justification for making these adjustments.[36]

16. McKenzie's Empirical CAPM model also includes an "unwarranted size adjustment."[37] This erroneous adjustment is based on historical market returns[38] and the risk associated with smaller firms. This inflates results for regulated utilities.[39] Professor Annie Wong's research has shown that size premiums are inappropriate for utilities, since they are subject to regulators that closely investigate and monitor financial performance.[40] Furthermore, such adjustments for small firms are largely obsolete and have been unnecessary since the 1980s.[41]

17. The Commission accepts the Risk Premium model to estimate market-based ROE.[42] McKenzie modifies this approach in a manner that does not accurately estimate a comparable

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[31] Woolridge, Exh. JRW-1Tr at 66:12–14.
[32] *Id.* at 67:1–3.
[33] *Id.* at 67:12–13.
[34] *Id.* at 68:13–14.
[35] *Id.* at 68:14–16.
[36] *Id.* at 68:14.
[37] *Id*. at 62:13–14.
[38] *Id.* at 82:14.
[39] *Id.* at 83:2–3.
[40] *Id.* at 83:9–12 (referencing Annie Wong, *Utility Stocks and the Size Effect: An Empirical Analysis*, J. OF THE MIDWEST FIN. ASS'N, at 95–101 (1993)).
[41] *Id.* at 84:11–13.
[42] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Final Order 08, ¶¶ 81–108 (July 8, 2020).

market rate for returns. The Utility Risk Premium model, as McKenzie uses it, is based on the relationship between long-term bond yields and authorized utility ROEs.[43] Because McKenzie's approach to the Risk Premium model relies on authorized utility ROEs, it reflects commission behavior rather than market behavior.[44] Commissions have set ROEs with high market-to-book ratios, which indicates that McKenzie's Utility Risk Premium model produces inflated results.[45]

18. The Commission should disregard McKenzie's analysis resulting from the Expected Earnings Model. Dr. Woolridge's analysis points out multiple empirical issues in using this model to estimate the market-based ROE.[46] Its primary flaw is that it does not measure market or investor expectations of returns.[47] Since assessing utility earnings is an accounting measure,[48] it does not incorporate investors' requirements, and accordingly cannot accurately estimate ROE requirements.[49] In addition, Dr. Wooldridge notes that because Expected Earnings are based on commission decisions, they provide circular results not determined by competitive market forces.[50]

19. McKenzie's final estimate using the DCF model with non-utility companies is inappropriate, and the Commission should ignore the results. Although the companies included in McKenzie's non-utility DCF model may be successful businesses, they are not comparable to Avista or regulated utilities.[51] Unlike Avista, these companies do not operate in a highly

[43] Woolridge, Exh. JRW-1Tr at 62:17–19.
[44] *Id.* at 86:19–20.
[45] *Id.* at 87:12–15.
[46] *Id.* at 63:4–6.
[47] *Id*. at 88:14–15.
[48] *Id.* at 89-5–6.
[49] *Id.* at 88:20–89:3.
[50] *Id.* at 89:17–19.
[51] *Id*. at 90:14–19.

regulated market.[52] Additionally, analysts' growth forecasts for these companies have long been documented as too high, producing inflated ROE results in the model.[53]

20. Finally, McKenzie's ROE recommendation includes flotation costs, which unnecessarily adds 10 basis points.[54] McKenzie argues without evidence that this adjustment is necessary to prevent "dilution" of the Company's value.[55] Flotation costs typically are offered only to companies that are at or below book value, yet utilities consistently offer returns above book value.[56] Furthermore, flotation costs amount to underwriting fees for financial transactions, but it is investors who typically account for these costs.[57] Therefore, it is unnecessary to add a floatation adjustment to the Company's authorized ROE.[58]

E. Staff's Return on Equity Analysis is Directionally Similar to Public Counsel's Recommendation but Its Errors Produce Inflated Results

21. Staff witness David Parcell recommends a capital structure similar to Public Counsel's. Setting the capital structure at 48.5 percent equity and 51.5 percent debt[59] is in line with Public Counsel's recommendation. Parcell also differentiates between long- and short-term debt in the capital structure, which Public Counsel does not. Fundamentally, Public Counsel supports Staff's analysis that Avista requests an inflated common equity ratio.[60]

22. Parcell also recommends 9.30 percent ROE.[61] This is less than Avista's currently authorized and requested ROE. It is directionally similar to Public Counsel's recommendation,

[52] Woolridge, Exh. JRW-1Tr at 90:19–21.
[53] *Id.* at 90:21–91:3.
[54] *Id.* at 63:17–18.
[55] *Id.* at 91:7–13.
[56] *Id.* at 92:5–10.
[57] *Id.* at 92:12–19.
[58] *Id.* at 92:21–22.
[59] Testimony of David C. Parcell, Exh. DCP-1T at 23:9–4.
[60] Woolridge, JRW-13T at 3:9–10.
[61] Parcell, Exh. DCP-1T at 2:17–22.

which is a principle Public Counsel agrees with: the Commission should reduce the Company's ROE. However, Parcell's analysis contains errors that result in an inflated ROE.

23. In analyzing model results, Parcell distorted the outcome by arbitrarily excluding lower-end results that would have ultimately lowered the ROE recommendation.[62] Reporting the results of his DCF model, Parcell provides a range of ROEs using non-traditional statistical measures, yet ignores mean and median results.[63] The range provided from these results, 8.9 to 9.3 percent, is inflated because it ignores the mean and median.[64] Parcell's own analysis acknowledges that the individual range of ROE results should be ignored.[65]

24. Parcell provides a CAPM analysis, but does not include its results in the recommendation. As noted, this approach is recognized by the Commission, and since the 1970s it has been widely employed to compute the cost of equity.[66] Including the results from the CAPM analysis would have lowered Staff's recommendation, since the results were accurate based on lower interest rates and risk premiums.[67] Parcell provides no justification for excluding the CAPM results from the recommendation.[68]

25. Parcell incorporates a Comparable Earnings (CE) model in the recommendation, but this model is not accepted widely as valid.[69] Neither the academic world nor the financial world routinely uses the CE model to estimate equity costs.[70] Because Parcell developed this model

[62] Woolridge, Exh. JRW-13T at 3:11–14.
[63] *Id.* at 10:3–9.
[64] *Id.* at 10:7–9.
[65] *Id.* at 10:10–15.
[66] *Id*. at 11:11–15.
[67] *Id.* at 12:1–3.
[68] *Id.* at 11:16.
[69] *Id.* at 13:3–4.
[70] Woolridge, Exh. JRW-13T at 13:3–4.

independently, interpretation of its results is entirely subjective.[71] Additionally, the CE approach does not reflect market costs, because it offers "no way to assess whether earnings are greater than or less than the earnings investors require."[72] The Federal Energy Regulatory Commission (FERC) has rejected use of the CE or Expected Earnings model, stating that it "does not reflect a utility's cost of equity."[73] Critically, FERC found that the CE model does not consider market price or projected growth rates to calculate a reasonable cost of equity.[74] FERC recognizes the simplicity of the model, but also notes that the simplicity renders the model incapable of estimating an appropriate rate of return.[75] The Commission should also reject the results from Parcell's CE model.

26. Parcell uses the Risk Premium approach to calculate cost of equity, but modifications to the model produce unjustified results. In examining actual bond yield data, Parcell modifies actual bond yield ranges of 4.99 percent to 5.31 percent upward to 5.0 to 6.0 percent.[76] Parcell acknowledges this is the "high-end" range, but offers no justification for altering the data input in the model.[77] Parcell does not use actual data to achieve a result with this model; rather, Parcell uses subjective judgment to modify data inputs.[78] In turn, the model produces upwardly biased results.[79]

[71] Woolridge, Exh. JRW-13T at 13:5–7.
[72] *Id.* at 15:4–5.
[73] *Id*. at 16:6.
[74] *Id.*
[75] *Id.*
[76] *Id*. at 18:8–16.
[77] *Id.* at 18:16–19:2.
[78] *Id*. at 19:12–15.
[79] *Id*. at 19:15–16.

III. REVENUE REQUIREMENT

27. The analysis by Public Counsel's witness Andrea Crane demonstrates the excessiveness of Avista's requested revenue requirement increases for electric and natural gas services. Public Counsel recommends the Commission limit Avista's electric base revenue increase to $12.28 million[80] and the natural gas base revenue increase to $3.98 million.[81] Public Counsel's recommended revenue requirement includes the following adjustments.

A. Injuries and Damages Expense (Adjustment No. 2.05)

28. Avista calculates its injuries and damages expense based on a six-year rolling average of injuries and damages expenses not covered by insurance,[82] which, in this rate case, encompassed expenses from 2014 through 2019.[83] In general, applying a normalizing adjustment to injuries and damages expenses is reasonable given the variability of the expenses from year to year. Averaging the expenses smooths out these fluctuations so that a "normal" level of injuries and damages expenses can be reflected in prospective rates. However, this approach is reasonable only when the yearly data represents normal year-to-year fluctuations in these expenses.

29. Crane's analysis of the data shows that the 2014 electric expense does not represent normal annual fluctuations; rather, it appears to represent an abnormal or extraordinary year. The 2014 electric expense is almost double the six-year average, and is 46 percent higher than the second highest year out of the past six years.[84] Abnormal or extraordinary costs should be excluded from a normalizing mechanism. To account for the outlier, Public Counsel

[80] Andrea C. Crane, Exh. ACC-5r2, Summary of Recommended Washington Electric Revenue Requirement Adjustments.
[81] Crane, Exh. ACC-8r2, Summary of Recommended Washington Gas Revenue Requirement Adjustments.
[82] Response Testimony of Andrea C. Crane, Exh. ACC-1T at 14:5–7.
[83] *Id*. at 15, Table 6.
[84] *Id*. at 15, Table 6.

recommends that the injuries and damages expense be based on a five-year average, excluding 2014 expenses. The adjustment reduces the electric expense from $158,568 to $131,184.[85] Public Counsel makes no corresponding gas adjustment because the difference between the six and five year average for gas expenses was immaterial.[86]

B. Incentive Compensation Expense (Adjustment No. 2.13)

30. Avista includes costs for Short Term Incentive Compensation Plans ("STIP") for executive officers and non-executives in its requested revenue increase. Avista appropriately excluded the 60 percent of executive officer STIP that is explicitly based on an earnings-per-share criteria.[87] Public Counsel, however, recommends the Commission disallow 100 percent of the costs of the STIP for executive officers and 50 percent of the costs for non-executive officers.

31. As a general matter, the Commission allows incentive payment plans to be included in rates only if they benefit ratepayers. This maxim, however, becomes more difficult to maintain with the use of benchmarking to influence compensation levels. Avista uses a compensation consulting firm to benchmark its compensation relative to other companies with similar business profiles, revenue size, and market capitalization.[88] Companies state that they must benchmark their compensation in order to be competitive and, thus, generally target their compensation to the 50th percentile of companies in the proxy group selected for benchmarking. Since most companies do not want to find themselves in the lower half of the benchmarking group, companies that typically fall below the average raise their compensation, thereby increasing the

[85] Crane, Exh. ACC-1T at 15, Table 6.
[86] *Id*. at 15:10–12. The difference was $401.
[87] In this case, Avista did not include the costs for its Long Term Incentive Compensation Plan, in accordance with the Final Order in Dockets UE-150204 and UG-15205. *See* Andrews, Exh. EMA-1T at 47:2–5. In line with this decision, Avista similarly removed costs for the 60 percent of executive officer STIP that is based on an earnings-per-share criteria.
[88] Crane, Exh. ACC-1T at 19:1–7.

average of the group of companies. This sets off a chain of ever-increasing compensation levels as companies continue to try to avoid falling below the 50th percentile mark.[89] If all companies within a proxy group engage in this positive feedback loop, the benchmark average can only go up, and it becomes more difficult to discern whether any one company's incentive package is excessive and unreasonable. To the extent components of a compensation package are recovered from ratepayers, utility companies have no incentive to avoid this feedback loop.

32. Companies offer incentive compensation plans in addition to annual salaries, salaries which for Avista's officers range from $200,000 to $750,000.[90] In addition to these generous salaries, Avista's officers receive both long- and short-term incentives. Public Counsel is not recommending any adjustment to these officers' base salary levels, but recommends disallowing 100 percent of the Avista executive officer STIP awards.[91]

33. For non-executives, Avista bases STIP awards 50 percent on O&M costs per customer, 20 percent on customer satisfaction, 20 percent on a reliability index, and 10 percent on response time.[92] Public Counsel recommends the Commission disallow the 50 percent of the incentive compensation costs that reflects the O&M component of the STIP. Although the O&M per customer can provide a benefit to ratepayers, shareholders benefit from O&M per customer between rate cases, while ratepayers benefit only if a rate case resets operating costs lower. Incentives to control O&M costs have not reduced the frequency of rate case filings, nor limited the rate increases that ratepayers have continually borne over the past decade. This STIP component therefore provides more benefit to shareholders than ratepayers.

[89] Crane, Exh. ACC-1T at 19:8–20:3.
[90] *Id*. at 17:12–15.
[91] *See* Crane, Exh. ACC-4r2 at 3 and Exh. ACC-7r2 at 2.
[92] Crane, Exh. ACC-1T at 19:8–20:3.

34. The Commission previously disallowed costs for Avista's Long Term Incentive Plan specifically because the characteristics of the plan "reflect more interest in providing benefit to shareholders than to serve customer or ratepayer interests."[93] The Commission should apply its same rationale to the non-executive STIP awards to disallow 50 percent of the costs to reflect the O&M component. Public Counsel therefore recommends the Commission reduce the revenue requirement for this category by $1.335 million for electric and $0.388 million for gas.[94]

C. Non-Executive Salary and Wage Expense (Adjustment No. 3.04)

35. Avista requests an increase of $3.27 million in non-executive salary and wage expenses for electric services and $0.98 million for gas services.[95] As part of this request, the Company included a three percent increase from March 2019, as well as a three percent increase effective on March 2020. The Company also included an estimated 2021 increase of three percent. Public Counsel accepts the salary and wage adjustments through 2020, but recommends that the 2021 payroll increase be eliminated from the requested revenue requirement. The test period for this case ended on December 2019. Extending into 2021 is too far out from the test period and would violate the test year matching principle. Public Counsel therefore recommends the Commission limit the revenue requirement increase for this category to $1.838 million for electric and $0.55 million for gas.[96]

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[93] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-150204 and UG-150205, Order 05, ¶ 213 (Jan. 6, 2016) ("We agree the LTIP is based on the value of the Company's stock and focuses executives' attention on the value of the stock. For this reason, it only serves as a retention tool in order to ensure continued access to stock and dividend equivalents. These characteristics reflect more interest in providing benefit to shareholders than to serve customer or ratepayer interests. Thus, we agree with the other parties that it is inappropriate for the Company to recover any LTIP expenses, including the retention incentive, from ratepayers.").
[94] *See* Crane, Exh. ACC-4r2 at 3 and Exh. ACC-7r2 at 2.
[95] Andrews, Exh. EMA-1T, 57:13–14.
[96] *See* Crane, Exh. ACC-4r2 at 4 and Exh. ACC-7r2 at 3.

D. Directors and Officers (D&O) Insurance Expense (Adjustment No. 3.07)

36. Public Counsel accepts the updated premium costs for D&O insurance Avista included in its rebuttal testimony, but maintains that 50 percent, rather than 10 percent, of these costs should be excluded from the revenue requirement. This is consistent with the 50 percent exclusion from utility rates of Directors' fees and other related Directors' costs. D&O insurance provides significant benefit to the Company's shareholders, so this benefit should be recognized by a reasonable allocation of these costs to shareholders. Public Counsel therefore recommends the Commission limit the revenue requirement increase for this category to $2.353 million for electric and $0.227 million for gas.[97]

E. Information Systems/Information Technology (IS/IT) Expense (Adjustment No. 3.08)

37. Avista's requested increase for IS/IT expenses includes costs that are well beyond the 2019 test period.[98] Public Counsel accepts certain post-test period adjustments to IS/IT costs, but limits the costs to 2020. Public Counsel recommends disallowing 2021 costs because they are too far outside of the test period, resulting in a revenue requirement increase of only $1.105 million for electric and $0.384 million for gas for this category.[99]

F. Capital Additions

38. Avista's rate case includes extensive capital additions that were expected to go into service after the test period in this case. The Company included projects expected to go into service during 2020 as well as plant additions for projects that were not expected to be completed

[97] *See* Crane, Exh. ACC-4r2 at 5 and Exh. ACC-7r2 at 4.
[98] Crane, Exh. ACC-1T at 19:8–20:3.
[99] *See* Crane, Exh. ACC-4r2 at 5 and Exh. ACC-7r2 at 4.

by December 30, 2020. Avista's rationale for including significant post-test period plant in rate base is that it is important,

> for this new investment to be reflected in retail rates in a timely manner, or this new investment, causing significant regulatory lag, will have a negative impact on Avista's earnings, particularly because the new plant is typically far more costly to install than the cost of similar plant that was embedded in rates decades earlier.[100]

39. Regulatory lag is not a new concept, and Avista's arguments do not change the basic principle that ratemaking is based on a regulatory triad that attempts to match revenues, expenses, and rate base investment during a test period. If any one of these components is modified substantially, then the relationship that existed during the test period is not being properly incorporated into prospective rates. Regulatory lag, which can be both positive and negative for a utility, is less of an issue when a utility files more frequent rate cases, and Avista has filed rate cases almost annually over the past decade. While the Commission has the discretion and authority to consider pro-forma adjustments up to 48 months after the rate effective date,[101] the Commission is not required to reflect such adjustments in utility rates. In its policy statement regarding recent changes to the used and useful standard, the Commission reiterated that the changes must be exercised consistently with its primary obligation to regulate in the public interest and that the Commission must set rates that are fair, just, reasonable, and sufficient.[102]

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[100] Andrews, Exh. EMA-1T at 23:6–10.

[101] *In re: Comm'n Inquiry into the Valuation of Pub. Serv. Co. Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, ¶ 43 (Jan. 31, 2020).

[102] *Id.* ¶ 43 ("The Commission is obligated by statute to set rates that are fair, just, reasonable, and sufficient by balancing the public's need for safe, reliable, and appropriately priced service with a regulated company's financial ability to provide that service. The recent changes to RCW 80.04.250 must be exercised consistently with our primary obligation to regulate in the public interest. Thus, the resulting rates must be fair to both customers and the public service company; just, in that the rates are based solely on the record following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the company to cover its expenses and attract capital on reasonable terms.").

40. The Commission should therefore balance the Company's stated objective to reduce regulatory lag against the right of ratepayers to have utility rates that are just and reasonable, and against the Commission's obligation to regulate in the public interest. Taking all these factors into account, Public Counsel recommends that the Commission include Avista's actual 2020 plant additions for the following categories:[103]

- Pro Forma 2020 Customer At Center (Adjustment No. 3.11)
- Pro Forma Large and Distinct (Adjustment No. 3.12)
- Pro Forma 2020 Programmatic Projects (Adjustment No. 3.13)
- Pro Forma 2020 Mandatory and Compliance Projects (Adjustment No. 3.14)
- Pro Forma 2020 Short-Lived Projects (Adjustment No. 3.15)

41. In Adjustments 3.16 through 3.19 below, Public Counsel recommends specific adjustments for 2021–2022 plant additions that Avista proposes.

1. Advanced Metering Infrastructure (Adjustment No. 3.16)

Avista seeks ratemaking treatment for new Advanced Metering Infrastructure (AMI) meters, as well as authorization to begin amortizing the regulatory asset associated with the deferral of the depreciation expense on the new meters plus deferral of the unrecovered net investment related to the retired meters. Public Counsel adjusted this category[104] to reflect Avista's update using actual additions for 2020 and updated projections for 2021[105] as well as the exclusion of the return on new AMI meters at this time, as described in Section V below.

2. Wildfire Resiliency Plan (Adjustment No. 3.17E)

42. Avista proposes to implement a 10-year Wildfire Resiliency Plan in this case and has included 2020 and 2021 capital additions associated with the plan, as well as transmission and

[103] *See* Andrews, EMA-1T at 27:1–28:3 for a description of the categories.
[104] *See* Crane, Exh. ACC-4r2 at 6 and Exh. ACC-7r2 at 5. Crane eliminated only the plant-in-service associated with the new AMI meters and the related accumulated depreciation. Crane, Exh. ACC-1T at 36:1–4.
[105] Andrews, Exh. EMA-6T at 87:4–11.

distribution operating expenses. In addition, Avista seeks authorization to defer certain operating expenses associated with the plan. Public Counsel makes no adjustment to operating costs associated with the plan, but proposes a significant disallowance of capital costs, as described in Section VII below. Public Counsel incorporates the proposed capital adjustments and related adjustments to depreciation expense and interest on debt in Adjustment 3.17.[106]

3. Energy Imbalance Market (Adjustment No. 3.18E)

43. Parties to the Partial Multiparty Settlement Stipulation ("Partial Settlement") filed with the Commission on May 27, 2021, agreed to include in rates the costs and benefits of Avista joining the Western Energy Imbalance Market (EIM).[107] Public Counsel agrees with the Partial Settlement's treatment of the EIM costs and benefits[108] and adjusted this category to reflect those changes.[109]

G. Additional Electric Rate Base Adjustment

44. Public Counsel recommends additional rate base adjustments related to proposed disallowances for imprudent substation and Grid Modernization costs,[110] described further in Sections VI and VII below. Public Counsel also recommends that 2022 Colstrip plant additions, as well as costs associated with the installation of SmartBurn at Colstrip Units 3 and 4, be excluded from rates.

45. In this rate case, Avista included Colstrip plant additions to reflect actual 2020 additions and revised projections for 2021 and 2022, as updated in its rebuttal testimony.[111] However,

[106] Crane, Exh. ACC-1T at 37:8–16; Crane, Exh. ACC-4r2 at 6.
[107] Partial Multiparty Settlement Stipulation, ¶ 10 (May 27, 2021).
[108] Testimony of Corey J. Dahl Addressing the Partial Multiparty Settlement Stipulation, Exh. CJD-1T at 7:11–8:12.
[109] Crane, Exh. ACC-4r2 at 6.
[110] Crane, Exh. ACC-4r2 at 7.
[111] Crane, Exh. ACC-1T at 40:2–11.

Avista indicated that the 2022 addition was "one large project that Avista anticipates the owners will approve in 2021."[112] Public Counsel accepts the Colstrip adjustments to reflect the actual 2020 plant additions and 2021 projects, but recommends that the Commission deny Avista's request to recover the 2022 Colstrip capital additions. This investment is not expected to be in service until July 2022, approximately 30 months past the end of the test period, and as of the filing of response testimony, the Colstrip owners had not yet approved the investment.[113] Accordingly, at this time the investment is too speculative and would be unreasonable to include.

46. Avista also requests the recovery of costs associated with the installation of SmartBurn technology on Colstrip Units 3 and 4.[114] Public Counsel recommends the Commission reject Avista's request to recover SmartBurn costs, consistent with its treatment of these costs in Puget Sound Energy's 2019 rate case.[115] Although Avista attempts to distinguish its decision to implement SmartBurn from Puget Sound Energy's case,[116] Avista's circumstances are substantially similar. Avista has not demonstrated that SmartBurn was necessary, nor provided sufficient documentation addressing the Company's decision to install SmartBurn.[117] The Commission therefore should remove these costs from Avista's revenue requirement.[118]

[112] Crane, Exh. ACC-13, Avista Third Supplemental Response to Commission Staff Data Request No. 107.
[113] Crane, Exh. ACC-13, Avista Third Supplemental Response to Commission Staff Data Request No. 107.
[114] Andrews, Exh. EMA-1T at 79:18–25.
[115] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Order 08: Final Order, ¶¶ 197–199 (July 8, 2020).
[116] Direct Testimony of Jason R. Thackston, Exh. JRT-1T at 55:5–68:2; Thackston, Exh. JRT-12T at 4:5–28:14.
[117] Crane, Exh. ACC-1T at 42:9–44:6; *see also* Testimony of David C. Gomez, Exh. DCG-1CT at 34:10–51:15.
[118] Crane, Exh. ACC-1T at 44:7–12. The removal of SmartBurn costs results in a revenue requirement reduction of $329,000.

H. Tax Flow-Through Proposal, Accumulated Deferred Federal Income Tax (ADFIT) Amortization Period

47. The Commission approved Avista's Tax Accounting Petition in Dockets UE-200895 and UG-200896, authorizing the Company to change its accounting for federal income expense from a normalization method to a flow through method for the specified plant basis adjustments.[119] As of April 2021, Avista recorded a deferral amount of $58.1 million for Washington electric service and approximately $28.2 million for natural gas service.[120] Public Counsel recommends that the Commission adopt an amortization period for the initial ADFIT balance that will eliminate any electric or gas increases in this case.[121] For ADFIT balances, Public Counsel does not specifically oppose the Company's proposal to return future balances over 10 years, but recommends the Commission review the issue of the appropriate amortization period in Avista's next rate case once parties have more experience with flow-through accounting, and have a better idea of the potential impact on rates.[122] Finally, Public Counsel recommends that the flow-through treatment be limited to ADFIT associated with meters and IDD No. 5.[123]

IV. THE COMMISSION SHOULD DISREGARD AVISTA'S COST OF SERVICE STUDY AND ADOPT AN EQUAL PERCENTAGE RATE SPREAD TREATMENT

48. Rate spread determines how much of the resulting change in revenue requirement is allocated to each of Avista's customer classes. One consideration in evaluating the rate spread is a cost of service study. A cost of service study, however, is merely one factor among many the

[119] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-200895 and UG-200896, Order 01 (Mar. 11, 2020).
[120] Andrews, Exh. EMA-1T at 113:16–17.
[121] Crane, Exh. ACC-1T at 46:16–19. Based on Public Counsel's recommended revenue increases of $12.28 million for the electric utility and $3.98 million for the gas utility, this would result in an amortization period of between four and five years for electric and approximately seven years for gas.
[122] Crane, Exh. ACC-1T at 47:2–11.
[123] *Id*. at 47:12–48:8.

Commission considers when determining rate spread and rate design.[124] Other factors the Commission considers are fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability.[125]

49. In this instance, Avista's rote application of the minimum filing requirements of the Commission's rules results in an electric cost of service study that does not reasonably reflect the costs to serve customers today or at any time in the near future. The study is based on assumptions for various hypothetical generation resources that the Company has no plans to build and place into rate base through 2045. Additionally, the cost of service study does not reflect all costs and benefits from the Company's AMI investment. It therefore is inappropriate and unreasonable to rely upon Avista's cost of service study as any basis for determining cost allocation and rate spread for its customers today.

A. Avista's Cost of Service Study Relies on Unrealistic Assumptions and Does Not Reflect Current or Future Generation Asset Planning

50. As a general matter, costs that can be specifically attributed to a particular customer or group of customers is allocated directly to that customer or group of customers.[126] However, most of a utility's plant investment and expenses are incurred to serve all customers, so cannot be allocated to specific customers. These joint costs are allocated to the customer classes based on cost causation to the extent possible[127] based on analyses that measure the causes of the incurrence of costs to the utility.[128] Public Counsel's witness Glenn Watkins analyzed Avista's

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[124] WAC 480-85-010(2).
[125] WAC 480-85-010(2); s*ee also Colo. Interstate Gas Co. v. Fed. Power Comm'n*, 324 U.S. 581, 65 S. Ct. 829, 89 L. Ed. 1206 (1945) (The United States Supreme Court has acknowledged the judgment exercised in cost allocation, noting that cost allocation is not a "matter for the slide-rule. It involves judgment on a myriad of facts. It has no claim to an exact science." *Id*. at 589).
[126] Response Testimony of Glenn A. Watkins, Exh. GAW-1Tr, 3:19–21.
[127] Watkins, Exh. GAW-1Tr at 4:3–4.
[128] *Id*. at 4:5–6.

cost of service study and examined the reasonableness of the underlying assumptions used to develop the Renewable Future Peak Credit value for classifying generation assets.[129]

1. The assumptions underlying Avista's Renewable Peak Credit Method are unreasonable

51. Avista's witness Tara Knox developed the Company's class cost of service study based on data contained in Avista's 2020 Integrated Resource Plan (IRP).[130] Knox attempted to use a Renewable Future Peak Credit methodology to determine the proportion of fixed generation costs that are classified as demand-related versus energy-related,[131] in accordance with the Commission's minimum filing requirements[132] for cost of service studies.[133] The Peak Credit method, generally, is based on the ratio of the levelized cost of an incremental peaker unit to the levelized cost of an incremental base load unit plus peaker unit.[134] In this case, Knox assumed that the incremental peaker plant will be a 25 MW eight-hour lithium-ion battery storage facility with an 8 MWh capability,[135] and that the incremental base load will be provided from a wind purchased power agreement (PPA) with a variable energy cost of $38.15 per MWh.[136] Using these inputs, Knox ultimately classified generation plant as 67 percent demand-related and 33 percent energy-related.[137] Neither of these underlying assumptions, however, is a reasonable proxy for Avista's current or future (forward-looking) generation costs, and therefore cannot be relied upon for the Renewable Future Peak Credit analysis in the cost of service study.

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[129] Watkins, Exh. GAW-1Tr at 10:4–19:12.
[130] Direct Testimony of Tara L. Knox, Exh. TLK-1T at 16:18–20.
[131] Knox, Exh. TLK-1T at 16:10–14.
[132] WAC 480-85-010(1) ("The purpose of these rules is to establish minimum filing requirements for any cost of service study filed with the commission.").
[133] WAC 480-85-060(3), Table 3.
[134] Watkins, Exh. GAW-1Tr at 14:11–13.
[135] Watkins, Exh. GAW-6.
[136] *Id*.
[137] Knox, Exh. TLK-1T at 16:20–21.

a. Avista's cost of service study relies on a hypothetical incremental peaker unit that is not included in Avista's preferred resource acquisition strategy through 2045.

52. Avista's 2020 IRP outlines the Company's forward-looking, preferred resource acquisition strategy through 2045. Public Counsel's witness Watkins reviewed Avista's IRP and determined that the Company does not include a true renewable peaker generation resource in its planning strategy until at least 2036,[138] after which the Company anticipates relying upon liquid air energy storage resources though 2040.[139] Avista typically does not forecast resource additions beyond 20 years, but given the requirements of the Clean Energy Transformation Act to be 100 percent non-emitting by 2045, Avista included in its IRP various scenarios for possible resources to 2045.[140] In that long range forecast, Avista included both four-hour and eight-hour lithium-ion battery storage peaker units as potential candidates well out into the future, beyond 2045.

53. At no point in its preferred resource plan for the next 25 years, however, does Avista state that it plans on relying upon an eight-hour lithium-ion battery storage facility as a peaker generation resource.[141] Knox's Renewable Future Peak Credit analysis based on this resource does not, in any way, reflect the actual cost causation of Avista's generation plant in rate base, nor does the analysis reflect the reality of any incremental peaker plant investments that Avista will be making in the foreseeable future.

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[138] Watkins, Exh. GAW-1Tr at 12:5–6. While the near term plan includes pumped hydro storage, it cannot be considered a true peaker unit because the facilities are used to pump water uphill during the low-cost evening hours and used to generate electricity during the higher cost morning and daylight hours throughout the year. The units are not designed nor utilized to meet short-term, peak load requirements. *Id.* at 11:1–8.
[139] Elaine L. Jordan, Exh. ELJ-12X at 6–8; Watkins, Exh. GAW-1Tr at 13:1–6.
[140] Jordan, Exh. ELJ-12X at 9; Watkins, Exh. GAW-1Tr at 12:7–9.
[141] Watkins, Exh. GAW-1Tr at 12:7–9. The costs and assumptions for the eight-hour lithium-ion battery storage facility were included in a list of resource options in Appendix H to the IRP.

b. Avista's choice of a wind PPA to reflect the base load resource in the Renewable Future Peak Credit is unreasonable and inappropriate.

54. As mentioned above, the Peak Credit method is based on the ratio of the levelized cost of an incremental peaker unit to the levelized cost of an incremental base load plus peaker unit.[142] For Avista's Renewable Future Peak Credit analysis, Knox chose a wind PPA as the hypothetical incremental base load unit.[143] There are several flaws with this approach. First, the purpose of the Peak Credit method is to develop a classification methodology used to classify Avista's currently owned generation plant in service that is included in the rate base for this proceeding.[144] Avista does not plan to construct, own, or operate wind generation for at least several years, and will meet additional wind generation with PPAs.[145] Power purchase agreements are by definition contractual agreements and are not plant in service, i.e., are not included in rate base. By using a PPA as its basis for the analysis, Knox's Peak Credit analysis did not actually reflect the cost of owning an incremental base load unit.[146] Second, power produced under a PPA is recovered as expenses and not reflected in rate base.[147] Third, wind resources are not dispatchable and cannot be relied upon for each and every hour of the year as with a typical base load resource.[148] In order to treat the PPA as an incremental base load unit in the Peak Credit calculation, Knox used an assumed contractual variable energy PPA cost of $38.15 per MWh[149] and then converted the contractual energy price per KWh into a surrogate cost per KW, adjusting to account for the fact

[142] Watkins, Exh. GAW-1Tr at 14:11–13.
[143] Watkins, Exh. GAW-6.
[144] Watkins, Exh. GAW-1Tr at 18:3–5.
[145] *Id*. at 13:16–18.
[146] *Id*. at 18:5–6.
[147] *Id*. at 18:7–9.
[148] *Id*. at 18:14–15.
[149] Watkins, Exh. GAW-6.

that wind generation is not dispatchable and only operates at a 37 percent capacity factor.[150] Ultimately, the calculation resulted in a fixed cost of $191.29 per KW.[151] Regardless of these hypothetical surrogate cost calculations, however, the chosen wind resource PPA is not a base load resource, and Avista has no near term plans to use it as a base load resource. No amount of mathematical permutations will change the fact that the cost does not reflect the actual levelized cost of an incremental base load unit. It therefore is inappropriate to use calculated cost per KW from a wind PPA for the Renewable Future Peak Credit analysis.

2. Neither Avista nor Staff refutes Public Counsel's assessment of Avista's Renewable Future Peak Credit approach.

55. Both Avista and Staff raise objections to Public Counsel witness Watkins' testimony on Avista's cost of service study. However, neither responds directly to his assessment that because Avista's inputs to the Renewable Future Peak Credit do not reflect its near or long term preferred resource strategy, they should not be relied upon. Knox, for example, mischaracterizes Watkins' concerns as merely an objection to the fact that the Renewable Future Peak Credit shifts the proportion of generation costs that are considered demand-related, thereby side-stepping having to address the actual issue Watkins raises of the unreasonableness of Avista's underlying data.

56. Staff witness Elaine Jordan opines that the Commission expected utilities would be planning to add renewable resources and so deliberately adopted the Renewable Future Peak Credit methodology.[152] Jordan argues that Public Counsel's testimony is "a backdoor challenge" to the Commission's cost of service rules rather than a critique of how Avista conducted its cost

[150] Watkins, Exh. GAW-1Tr at 18:9–19:2.
[151] *Id*. at 19:1–2.
[152] Jordan, Exh. ELJ-10T at 3:20–4:2.

of service study.[153] Watkins, however, does not challenge the underlying assumptions leading to the Commission's inclusion of the methodology in its rules for cost of service studies, and in fact acknowledges Washington's legislative mandate to reduce and eventually eliminate carbon emissions from electric generation.[154] Watkins critiques how Avista conducted its cost of service study by directly comparing its inputs to the Renewable Future Peak Credit analysis to the Company's actual preferred resource strategy for the next 25 years. Watkins' point is that Avista is *not* planning to add any renewable peaker resources for the next 15 years,[155] and that the peaker resource Avista chose for its Peak Credit calculation does not appear anywhere in the Company's near or long term preferred resource strategy.[156]

57. Staff witness Jordan also mischaracterizes Watkins's analysis as a critique of the results of the Avista's 2020 IRP and therefore as beyond the scope of this proceeding.[157] Watkins, however, did not criticize Avista's preferred resource strategies within its IRP, but rather relied upon the IRP results to evaluate the reasonableness of the Company's selected inputs to its Renewable Future Peak Credit analysis.

58. Finally, Jordan asserts that any challenge to an input to a cost of service study must be accompanied by a full, alternative cost of service study,[158] and that because Public Counsel did not offer an alternative study, Watkins' testimony is nothing more than a challenge to the Commission's rules.[159] However, nothing in the Commission rules requires a party to file an alternative cost of service study to evaluate the reasonableness of another party's cost of service

[153] Jordan, Exh. ELJ-10T at 4:2–3.
[154] Watkins, Exh. GAW-1Tr at 7:1–8.
[155] *Id*. at 13:9.
[156] *Id*. at 13:1–3.
[157] Jordan, Exh. ELJ-10T at 4:12–13.
[158] Jordan, TR. 335:18–24.
[159] Jordan, TR. 332:7–20.

study.[160] The cost of service study rules outline the minimum filing requirements for any such study filed at the Commission, but say nothing about how any party may or should go about evaluating a filed study. Such a requirement would be unreasonable in any event, and make it impossible for some parties, especially those constrained by slim budgets, to ever evaluate the reasonableness of a filed cost of service study. Finally, and absurdly, such a rule could result in multiple, unnecessary cost of service studies filling rate case dockets with no purpose other than to gain each filing party the ability to evaluate or challenge some aspect of a previous study.

59. The ultimate objective of allocating a utility's generation plant investment included in rate base is to assign these embedded costs fairly and equitably based on how the various customer classes utilize and require output from a utility's portfolio of generation resources. Avista's approach to the Renewable Future Peak Credit method does not reflect in any way how Avista plans and utilizes its current portfolio of generation assets, nor relate to how the Company will configure its future generation portfolio in the near or long term. Neither Avista nor Staff refuted this assessment. No method that is based on speculative assumptions, or that does not reflect current assets or near term procurement plans, can be deemed reliable or reasonable, and no such method should be considered when assigning cost responsibility across classes.

3. Avista's cost of service study does not fully reflect all AMI benefits

60. Avista's cost allocation study should include all costs and benefits associated with the AMI program. Avista properly included all proposed AMI-related costs in its cost of service study, allocating $24.89 million in AMI-related revenue requirement across the customer

[160] *See* WAC 480-85-010 through WAC 480-85-070.

classes.[161] However, while Knox allocated the anticipated AMI benefits across customer classes for informational purposes in exhibits,[162] the class cost allocations did not specifically account for these benefits.[163] Additionally, Knox did not reflect all of the expected AMI benefits reported by Avista's AMI witness Joshua DiLuciano, in the October 2020 updated report.[164] Using DiLuciano's calculated AMI savings, the total company (electric and gas) rate period AMI savings are expected to be $15.246 million with electric residential savings of $7.198 million.[165] This compares to Knox's calculated rate period electric residential AMI benefits of $4.295 million.

61. Knox argues that all estimated AMI benefits "identified as part of the revenue requirement are included in both the electric and natural gas cost of service studies," but states that $2.4 million in savings were reflected in the revenue requirement as expected re-deployment of resources,[166] meaning the AMI savings were subsumed by other costs. While this re-deployment of revenue requirement may reduce total revenue requirement, the reduction of revenue requirement alone does not necessarily reflect how AMI benefits would accrue to the customer classes. In order to account for all AMI costs and benefits accurately in a cost of service study, Avista should have allocated its estimated benefits to specified classes rather than absorb them into other cost categories via "re-deployment."

[161] Watkins, Exh. GAW-1Tr at 21:9–22:5.
[162] Knox, Exh. TLK-3; *see also* Watkins, Exh. GAW-1Tr at 23:3–10. In this informational exercise, Knox allocated an estimated $7.092 million in AMI O&M benefits to classes based on a "4-Factor allocator" that Knox devised. The 4-Factor allocator was comprised of the average class allocators for total production, transmission, and distribution plant in service; O&M expenses, labor, and number of customers.
[163] Watkins, Exh. GAW-1Tr at 22:6–23:2.
[164] *Id*. at 24:1–10.
[165] *Id*. at 24:11–20.
[166] Knox, Exh. TLK-4T at 8:2–14.

62. The majority of AMI benefits should accrue to the residential class relative to all other classes, thereby reducing the actual cost to serve residential electric customers. The mismatch of AMI costs and benefits in Avista's cost of service study leads it to overstate calculated costs to serve the residential class relative to other classes, which distorts the class parity ratios.[167]

B. It is Reasonable to Allocate Electric Rate Changes in Equal Percentages Across Avista's Customer Classes and Apply the Tax Customer Credit to Offset Any Rate Increase

63. Avista recommends that if the Commission authorizes the total requested revenue requirement, it spread the increase across individual rate classes on an equal percentage of base rate revenues currently in effect.[168] In addition, Avista recommends that the Tax Customer Credit Offset, resulting from the shifting from normalization to flow-through accounting, fully offset individual class billing rate increases such that the net effect on all classes would be no change in revenue responsibility.

64. While Avista's cost of service study may comply technically with the Commission's minimum filing requirements for such studies, Avista's is based on speculative assumptions and does not reflect current or near term procurement plans. The study also does not reflect all AMI-related costs and benefits. Because Avista has not met its burden of proving the reasonableness of its study, it should not be considered when assigning cost responsibility across classes.

65. The cost of service study is of course merely one factor among many the Commission considers when determining rate spread and rate design.[169] Given the problems inherent in Avista's cost of service study, it is reasonable to adopt a rate spread that does not depend solely upon the results of the flawed study. Public Counsel therefore agrees with Avista's

[167] Watkins, Exh. GAW-1Tr at 25:1–17.
[168] Direct Testimony of Joseph D. Miller, Exh. JDM-1T at 5:1–7.
[169] WAC 480-85-010(2). Other factors the Commission considers are fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability. *Id.*

recommendation of an equal percentage increase in base rate revenues for all classes, as well as Avista's proposal to offset individual class billing rate increases. However, Public Counsel recommends this rate spread approach even if the Commission authorizes a revenue requirement lower than the full amount Avista requests.

C. Avista's Natural Gas Cost of Service Study Reasonably Allocates Pro Forma Costs but Does Not Properly Account for All AMI Costs and Benefits

66. Public Counsel conducted a detailed review of Avista's natural gas cost of service study and determined that the study reasonably reflects cost causation. However, Avista's class cost allocation study shares the faults regarding AMI costs and benefits as the Company's electric cost allocation study. While Avista included all AMI-related costs in the cost of service study, the study does not reflect the AMI-related benefits. Additionally, the natural gas cost of service study does not account for the October updated benefits. As with the electric service, the majority of AMI benefits should accrue to the residential class relative to all other classes, thereby reducing the actual cost to serve residential natural gas customers. The mismatch of AMI costs and benefits in Avista's cost of service study leads it to overstate the calculated costs to serve the residential class relative to other classes, which distorts the class parity ratios.[170] Accordingly, little weight, if any, should be given the parity ratios calculated using the natural gas cost of service study. Given the problems inherent in Avista's natural gas cost of service study, it is reasonable to adopt a rate spread that does not depend solely upon its flawed results.

67. Public Counsel therefore agrees with Avista's recommended equal percentage increase in distribution revenues for all classes, as well Avista's proposal to exactly offset individual class billing rate increases with the Tax Customer Credit Offset. However, Public Counsel

[170] Watkins, Exh. GAW-1Tr at 32:14–33:8.

recommends this rate spread approach even if the Commission authorizes a revenue requirement lower than the full amount requested by Avista.

D. Residential Rate Design

68. Avista proposes to keep residential electric and gas customer charges at $9.00 per month for electric service and $9.50 per month for gas service such that the base revenue increase assigned to the residential class will be collected from energy and volumetric usage charges.[171] For electric rates, Avista proposes equal percentage increases to each of the three energy blocks in the inverted three-block rate structure.[172] Similarly for natural gas rates, Avista proposes equal percentage increases to each of the two volumetric usage blocks.[173] Avista also proposes to offset base rate increases with the Tax Customer Credit Offsets based on energy usage for electric customers and on a commodity usage basis for natural gas customers. Public Counsel agrees with Avista's treatment of customer charges and the Tax Customer Credit Offsets.

V. THE COMMISSION SHOULD REJECT AVISTA'S REQUEST TO RECOVER THE RETURN ON AMI METERS UNTIL THE COMPANY CAN PROVE THE INVESTMENT PROVIDES THE PROMISED BENEFITS

69. Avista identifies a total capital cost of about $117 million and an operating cost of about $44.7 million for a total present value cost of $158.7 million in their AMI business case.[174] In its business case, Avista understates costs to customers by not including carrying charges it will require customers to pay. Additionally, its case overstates benefits by providing estimates not supported by actual data, sometimes for programs not yet fully operational or optimized. As a

[171] Miller, Exh. JDM-1T at 8:5–8 and 18:6–11.
[172] *Id.*
[173] *Id*.
[174] Joshua D. DiLuciano, Exh. JDD-2r at 7–8.

result, customers—particularly residential customers—bear the risk of costs that outweigh the benefits of this system.

70. If the Commission chooses to allow recovery of Avista's AMI costs, it should reject recovery of the return on the investment until Avista proves the meters actually provide the benefits forecast in its business case, supported by data the Company reports to the Commission. This practice is not only recommended by renowned industry research, but is also Commission precedent in Washington.

A. Avista's Business Case Understates Costs to Customers That, When Accounted for, Result in a Dangerous Cost-Benefit Ratio

71. The cost-benefit analysis Avista presents in its business case does not include carrying charges.[175] Carrying charges are comprised of company profits, federal income taxes on company profits, company interest expense, and Washington's utility tax, all of which are real costs to customers. Avista's business case claims benefits will exceed costs by a margin of 1.35 to 1.0,[176] but its assessment both excludes carrying charges and assumes Avista's benefit estimates will be fully achieved to the extent presented. To compare suggested benefits to the actual costs to customers, Public Counsel witness Shay Bauman calculated the cost-benefit ratio of the revenue requirement to the benefits that were not netted out in the revenue requirement (outage management and energy efficiency).[177] This resulted in a cost-benefit ratio of less than 1.1 to 1. Avista points out that this number was, in fact, still a positive number.[178] While this is true, it can remain so only if Avista actually achieves all the benefits they presented, exactly as

[175] Response Testimony of Shay Bauman, SB-1T, 4:17–4; *see also* DiLuciano, Exh. JDD-2r at 32–33, Table 3-1.
[176] DiLuciano, Exh. JDD-2r at 6, Table 1-1, Column "Net Present Value" ($215 million in benefits divided by $158.7 million in costs).
[177] Bauman, Exh. SB-3.
[178] Rebuttal Testimony of Heather L. Rosentrater and Larry D. La Bolle, Exh. HR/LL-1T at 26:7–9.

estimated. However, if Avista should happen to miss its outage management and energy efficiency benefit projections by as little as 10 percent, that number will no longer be positive.[179] *Avista's own sensitivity analyses estimate that they could miss their outage management projection by as much as 13.8 percent and its energy efficiency estimate by as much as 11 percent.*[180] This means even Avista's own calculations, when compared to actual costs customers will pay, estimate that the cost benefit ratio could be negative and that customers could see higher costs to the system than benefits.

72. Avista complains that Bauman did not include the potential benefits from time variant rates in these calculations,[181] but the fact that they should be excluded is Public Counsel's entire point. Time variant rates are certainly a large potential benefit, one cited by the Commission as a critical benefit of AMI,[182] but Avista has not designed its time variant rates yet. Despite Avista's virtual certainty that it will implement such rates "in the next few years,"[183] it would be entirely speculative to include any benefits from them at this time. Bauman, accordingly, has appropriately excluded these benefits from Public Counsel's calculations. Time variant rates have the potential to generate significant benefits; however, the magnitude of benefits, if any, will depend entirely on Avista's eventual design and marketing of these rates, as well as customer response. Were Public Counsel to have included the impact of time varying rates into cost benefit calculations, the net effect could just as easily have been negative, if the costs to implement time varying rates were not offset by sufficient benefits. Public Counsel's

[179] Rosentrater and La Bolle, Exh. HR/LL-1T at 26:7–9.
[180] *See* DiLuciano, Exh. JDD-2r, at 49, Table 4-1, and at 50, Figure 4-1, Outage Management benefits will be $53.7 million with a potential low of $46.3 million (13.8 percent lower), while Energy Efficiency benefits will be $33.7 million with a potential low of $30.0 million (11.0 percent lower). All figures expressed in present value terms.
[181] Rosentrater and La Bolle, Exh. HR/LL-1T at 26:11–14.
[182] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Order 08: Final Order, ¶ 157 (July 8, 2020).
[183] Rosentrater and La Bolle, Exh. HR/LL-1T at 26:13–14.

recommendation incents Avista to diligently design an effective and robust time varying rate program to ensure the AMI system can provide benefits to company shareholders and customers both.

B. Avista Overstates Reliability Benefit Estimates

73. Outage management benefit estimates account for approximately $53.7 million of the $215.0 million total present value benefits.[184] This is approximately 25 percent. Without these estimates, the difference between costs and benefits would be minimal ($2.6 million), and again relies on the assumption that Avista can capture every other benefit exactly as it estimates. The methods used to calculate these estimates are not reliable.[185] Given the importance of this estimate to Avista's business case, this is cause for concern.

74. Avista uses the Interruption Cost Estimator (ICE) tool to estimate reliability benefits.[186] However, the ICE tool was not designed to estimate the economic impact of outages over a defined service territory.[187] The tool therefore exaggerates the economic value of reliability improvement. Avista argued in rebuttal that Bauman did not provide any support for this claim,[188] yet the witness clearly laid out the concept of economic offsets.[189] It is a basic economic concept that when trying to estimate any economic impact of an action or program, it is important to account for offsets. In the case of the ICE tool, a family experiencing a power outage may choose to go out to eat or order delivery instead of cook, visit a state park instead of watch TV, and the like. All these alternatives also stimulate the economy, thereby offsetting the

[184] DiLuciano, Exh. JDD-2r at 9, Table 1-4.
[185] Bauman, Exh. SB-1T at 16:10–18.
[186] DiLuciano, Exh. JDD-2r at 59.
[187] Bauman, Exh SB-1T at 16:10–12.
[188] Rosentrater and La Bolle, Exh. HR/LL-1T at 17:11–13.
[189] Response Testimony of Shay Bauman, Exh. SB-1T at 17:4–9.

outage cost to the service territory. Because the ICE tool does not account for such offsets, it exaggerates the economic value of reliability improvements.

75. In response testimony, Bauman also outlined the inadequacies of the survey Avista used to gather data for the ICE tool.[190] Avista pointed out in rebuttal that all population models are based on samples of individuals in the population and the sole purpose is to calculate customer outage costs for populations of customers defined geographically.[191] This statement is entirely true, but Avista fails to acknowledge the level of data integrity necessary to create an adequate population model. This required integrity includes using random or otherwise representative-designed samples, reducing bias in data gathering, and testing for external validity. The ICE model is inadequate in relation to all of these accepted data analysis concepts.[192] Nonetheless, Avista recommended that the Commission "accept the ICE model for what it is, including all its unique capabilities and limitations."[193] Public Counsel disagrees. "It is what it is" is simply not a good enough explanation to justify 25 percent of the benefits of an investment this costly.

C. Avista Claims Benefits for Programs Not Yet Fully Operational or Maximized

76. Avista claims benefits for programs that are not yet fully operational,[194] including behavioral energy efficiency and the grid-interactive efficient buildings program. The Commission cited these two use cases in its recent Puget Sound Energy GRC Order as important for obtaining benefits from AMI systems.[195] In its business case, Avista clearly states, "We

[190] Bauman, Exh. SB-1T at 10–21.
[191] Rosentrater and La Bolle, Exh. HR/LL-1T at 17:7–10.
[192] Bauman, Exh. SB-1T at 17:10–3.
[193] Rosentrater and La Bolle, Exh. HR/LL at 18:3–4.
[194] Bauman, Exh. SB-1T at 21-41.
[195] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Order 08: Final Order, ¶ 157 (July 8, 2020).

expect to launch our first behavioral campaign, titled 'Always On' in late 2021."[196] In rebuttal, Avista claimed that their use of the Analytics Workbench provided by Bidgely was evidence of *currently* operational behavioral energy efficiency.[197] However, this is simply a supporting platform, not a behavioral program in and of itself. Avista contradicts its own rebuttal in response to Public Counsel Data Request 146, stating, "Avista has chosen to partner with the 3rd party vendor Bidgely to deliver our customers personalized energy savings insights based on AMI derived load disaggregation that will be accessible to all AMI customers via myavista.com, *with an estimated delivery date in late 2021.*"[198]Avista may have a data analytics platform that may one day enable behavioral energy efficiency programs, but without applying it to a programmatic structure, behavioral energy efficiency still is not operational.

77. As Bauman pointed out in response testimony, Avista states many objectives for what it hopes to achieve with the grid-interactive efficient building ("GEB") program.[199] The facts remain, however, that Avista did not complete its initial phase of construction until around the time that this rate case was filed, and that the Company expects additional build out over four years.[200] When asked what actual data they possess in relation to some of these benefits, Avista responded at length about benefits the program *will have*—one day—and what future buildings the Company expects to construct will then enable.[201] Avista does point out a select few benefits the eco-district is currently providing, albeit without going into detail about actual data they can

[196] DiLuciano, Exh. JDD-2r at 76.
[197] Rosentrater and La Bolle, Exh. HR/LL-1T at 10:4–6.
[198] Rosentrater and La Bolle, Exh. HR/LL-2 at 39, Avista Response to Public Counsel Data Request No. 146 (emphasis added).
[199] Bauman, Exh. SB-1T at 22:5–8.
[200] DiLuciano, Exh. JDD-2r at 78.
[201] Rosentrater, TR. 174–175.

present.[202] Stakeholders have yet to be presented with robust benefits that result from actual data. This instead is indicative of a new Avista program, which simply does not have that data yet.

D. The Volatility of Avista's Benefit Estimates Provides No Confidence to Their Security or Finality

78. Throughout initial system implementation and this rate case, Avista's benefit estimates have continued to fluctuate.[203] Avista insists that their fluctuating numbers between rate cases represent simply an evolution and refinement.[204] Public Counsel acknowledged that of course benefit estimates are due to change as a system is implemented.[205] However, it remains cause for concern that the majority of benefit adjustments have been adjusted downward, and that even during hearing, Avista made additional changes that would affect the benefit estimates.[206] It is not reasonable to conclude suddenly that *now,* with *this* revision made during the hearing, benefit estimates are accurate, final, and ripe for evaluation, especially without reported data to support the current estimates. It is difficult to evaluate the costs and benefits of a case in which those costs and benefits continue changing with unpredictable frequency. It is fair to conclude that this is because many Avista programs are not yet set in stone, so an accurate estimate of benefits is not possible at this time.

E. Commission Precedent and Industry Trends Regarding AMI Cost Recovery

79. At hearing, Avista emphasized that in its Final Order in the Puget Sound Energy GRC, the Commission included discussion on the need for formal plans and proposals in requests for cost recovery.[207] Avista's emphasis implies that its plans and proposals in this rate case are

[202] Bauman, Exh. SB-1T at 22:5–13.
[203] *Id*. at 25, Table 2: Benefit Volatility.
[204] Bauman, TR. 348:12–14.
[205] Bauman, Exh. SB-1T at 26:7–8.
[206] La Bolle, TR. 108:9–16.
[207] Bauman, TR. 349:7–10.

enough support for the Company's assumed AMI benefits. It is important to note, however, that this is far from the only relevant guidance the Commission provided in that Order. Beginning at Paragraph 156, the Commission describes how it will evaluate AMI investment going forward. Specifically, the Commission states that final prudency will be determined when the AMI installation is complete and all customer benefits can be presented for evaluation, and that prudency determination thus rests on the Company's ability to live up to its promises of multiple customer benefits and to prove that benefits are, in fact, accruing to Avista's customers.[208] The Commission goes on to express their expectation that the Company will maximize those benefits.[209]

80. Allowing Avista recovery of a return on this investment at this time would contradict two of the four guidelines the Commission suggested for AMI prudency evaluation. While Avista speaks at length in its business case about what the Company hopes to accomplish with this system *one day*, the fact remains that the benefits presented cannot yet be evaluated, nor are maximized. Research shows that utilities across the country have struggled to leverage their AMI systems effectively, and industry experts recommend adjusting shareholder compensation based on performance.[210] The Commission should follow its own precedent to ensure that all Avista customers benefit from the potential value of AMI, and continue to set the standard for robust AMI installation in Washington.

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[208] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Order 08: Final Order, ¶ 156 (July 8, 2020).
[209] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 et. al., Order 08: Final Order, ¶ 157 (July 8, 2020).
[210] Bauman, Exh. SB-1T at 38:6–9 (citing Rachel Gold, Corri Waters, and Dan York, LEVERAGING ADVANCED METERING INFRASTRUCTURE TO SAVE ENERGY, 32 (Am. Council for an Energy-Efficient Econ.) (Jan. 2020), available at https://www.aceee.org/sites/default/files/publications/researchreports/u2001.pdf.)

VI. AVISTA HAS NOT DEMONSTRATED THAT ITS APPROACH TO SUBSTATION EQUIPMENT REPLACEMENT AND CAPACITY UPGRADES IS PRUDENT

81. Avista's rate case includes significant costs for its Substation Infrastructure Plan, and over the next five years Avista expects to spend $100 million in substation capital investments.[211] Public Counsel's experts Paul Alvarez and Dennis Stephens extensively reviewed Avista's substation-related investments, and have found Avista has not demonstrated that the incremental benefits of its non-industry-standard approach to substation equipment replacement and capacity upgrades justify the incremental costs it creates.

A. Substation and Substation Equipment Replacement

1. Avista's approach to determining the timing of substation and substation equipment replacement does not conform to industry standard

82. Avista uses an economic end-of-life model to determine when to replace substations and substation equipment.[212] This is not a standard practice in the utility industry.[213] End-of-life modeling is typically used to set statistically valid expectations for how long a piece of newly installed or proposed equipment should last, and thus to determine appropriate asset depreciation periods on a generalized basis.[214] It is not intended to inform decisions to replace individual assets that may be currently operating safely and reliably. Avista's use of an economic end-of-life model to determine optimal asset replacement rates means that some assets that do not need to be retired will be removed prematurely from service.

[211] Rosentrater, Exh. HLR-7 at 13.
[212] DiLuciano and La Bolle, Exh. JD/LL-3X at 1.
[213] Response Testimony of Paul Alvarez and Dennis Stephens, Exh. PADS-1T at 44:1–14.
[214] DiLuciano and La Bolle, Exh. JD/LL-3X at 1.

83. Avista could provide no asset management standard, guideline, or recommendation to indicate that economic end-of-life modeling should be used to replace equipment *performing its intended function safely and reliably*.[215] Upon being asked for any such documentation, Avista provided excerpts from the Institute for Asset Management that indicated end-of-life can be determined in a variety of ways, including technical end-of-life, economic end-of-life, and book life.[216] Nothing in Avista's response or excerpts from the documentation, however, suggested that perfectly functioning equipment should be replaced based on these models.

84. Standard industry practice for substations is to objectively test substation equipment, and replace equipment that fails these routine tests. This is a technical approach to end-of-life determinations.[217] Large substation equipment (transformers, relays, circuit breakers, switches, etc.) should be periodically tested. Equipment that passes tests should remain in place; equipment that fails tests should be replaced. Objective tests are available to identify equipment to be replaced before it fails in service, thereby improving reliability. Using such tests rather than generalized models to determine if a specific asset requires replacement ensures that companies do not replace equipment prematurely.

2. The economic end-of-life model Avista uses to determine when to replace substations and substation equipment artificially shortens "end-of-life" estimates

85. Avista uses a set of asset management applications called the Availability Workbench, comprised of several analytical modules, for its economic-end-of-life analysis. In particular, the Failure Analysis module is used to analyze "the failure characteristics of equipment to accurately

[215] *See* DiLuciano and La Bolle, Exh. JD/LL-3X at 1, Subparts (a) and (b).
[216] *Id*. at 3. Technical end-of-life is where "useful" or functional life refers to the period of asset capability in relation to functional need. Economic end-of-life is where life is derived from an analysis of functional benefits (e.g., revenues) versus the costs and risks of ongoing ownership.
[217] Alvarez and Stephens, Exh. PADS-1T.

predict future performance and reliability."[218] As Avista has explained to Public Counsel, "the foundation of our failure analysis for all assets is actual historic failures of equipment of known age experienced by the Company."[219] Avista uses this information to generate a statistical function or curve called a Weibull Curve that it asserts "reasonably predicts the failure rates in the population over time represented by the actual data."[220]

86. While this does not sound objectionable on its face, Avista includes counts of equipment that fail while in service due to external reasons such as lightning, weather, animals, or third parties.[221] Avista considers assets that are destroyed or otherwise made unable to function by external causes to have "failed in service" and treats the assets the same as equipment that is too old to function.[222] The Company's decision to include these assets in the model, however, distorts the results to show assets failing sooner than they would under typical usage.[223] External causes of failure such as lightning or animals may provide a useful estimate of the likelihood of an outage on Avista's system, but they do not accurately represent the likelihood of a piece of equipment failing at a particular age. Lightning, after all, can hit a two-year-old asset as easily as it can a 50-year-old asset. If the underlying data set is intended to determine the typical age at which a piece of equipment can no longer properly function, these external causes of failure are data outliers, and it is improper to include them in such a statistical analysis. By including these outliers in its underlying data set, Avista predicts an accelerated failure rate, which results in the premature replacement of assets.

[218] DiLuciano and La Bolle, Exh. JD/LL-1T, 6:2–7.
[219] DiLuciano and La Bolle, Exh. JD/LL-6X at 1.
[220] *Id*. at 2.
[221] La Bolle, TR. 118:9–119:3.
[222] DiLuciano and La Bolle, Exh. JD/LL-6X at 2.
[223] DiLuciano, TR. 120:11–19.

87. Avista's model also includes assets deemed "functional failures," which is a designation it applies to assets technically still in service but deemed no longer capable of meeting expected performance requirements after inspection or testing.[224] Avista's model assumes that "functional failures" are missed upon inspection 50 percent of the time.[225] Using this blanket assumption, the model doubles the amount of functional failures it includes in equipment failure rates used to determine economic end-of-life to automatically reflect this assumption.

88. Avista's inclusion of equipment replacements for causes other than genuine failures in service or testing artificially increases the equipment failure rates used to determine the end-of-life ages it uses to justify equipment replacements. Avista incorporates these artificially-accelerated equipment failure rates into the Life Cycle Cost Analysis module of the Availability Workbench the Company uses to forecast future costs and "evaluate alternatives for best optimizing maintenance and replacement strategies to achieve the lowest cost for customers."[226] Modeling, however, is only as good as the quality of the underlying data. By including inappropriate outliers that skew the equipment failure rates, Avista distorts the subsequent optimization analyses. All else being equal, Avista's modeling will result in an optimized strategy that replaces assets sooner than if the outlying data been excluded. Earlier, more frequent equipment asset replacement results in larger capital spending requests and increased rates.

89. Avista claims its approach delivers a better customer internal rate of return than the standard practice.[227] However, the economic model Avista uses to reach this conclusion

[224] DiLuciano and La Bolle, Exh. JD/LL-6X at 2 n.3.
[225] DiLuciano and La Bolle, Exh. JD/LL-7X at 4, subpart (b).
[226] DiLuciano and La Bolle, Exh. JD/LL-1T.
[227] *See, e.g.,* DiLuciano and La Bolle, Exh. JD/LL-1T at 12:13–17.

artificially increases equipment failure rates, thus undermining the credibility of Avista's resulting optimized replacement rates. As such, Avista has not met the burden of proof that basing its decision to replace equipment on an economic model, rather than the standard practice technical approach, is prudent.

B. Substation Capacity Upgrades

90. Avista's approach to determining the timing of substation capacity upgrades is not standard or required for safe and reliable service. Avista begins the process of upgrading substation capacity once the load on a substation reaches 80 percent of rated equipment capacity.[228] This is a unique approach among investor-owned utilities. Public Counsel witness Alvarez, who has reviewed numerous electric distribution plans throughout the country, knows of no other utility which plans capacity increases this way.[229] Avista stated that it knows of only one utility, Portland General Electric, which uses this approach; however, that utility does so only for substation power transformer capacity, not as Avista does for substation capacity in general.[230] Standard industry practice is to begin planning substation capacity upgrades when loads are first forecasted to exceed 100 percent of rated capacity[231] in four to five years.

91. Decades can pass between the time at which a substation's load reaches 80 percent of capacity and the time load forecasts indicate 100 percent capacity will soon be reached, if indeed 100 percent capacity will ever be reached.[232] The majority of Avista's substations also are interconnected with neighboring substations such that a substation can transfer customer loads to

[228] Alvarez and Stephens, Exh. PADS-1T at 52:8–9.
[229] *Id*. at 52:10–11 ("In all the electric distribution plans I have reviewed, I have never observed such an approach."); *see* Alvarez and Stephens, Exh. PADS-2, Curriculum Vitae of Paul Alvarez.
[230] DiLuciano and La Bolle, Exh. JD/LL-8X.
[231] Alvarez and Stephens, Exh. PADS-1T at 52:2–4.
[232] Alvarez and Stephens, Exh. PADS-1T at 52:11–12.

nearby substations with additional capacity.[233] While Public Counsel does not suggest that the Company has full redundancy of all substation capacity, the availability of neighboring substations does provide Avista flexibility such that a blanket policy to upgrade substation capacity upon reaching the 80 percent threshold is unreasonable. Similarly, Public Counsel is not suggesting that Avista cannot upgrade an individual substation with no interconnections that has been shown to need an increased capacity. Instead, our conclusion is that Avista's 80 percent threshold should not be applied universally across its system. Compared to standard practice, Avista's 80 percent approach results in earlier and more frequent substation capacity upgrades, larger rate bases, and higher customer rates than necessary for safe and reliable service. Avista's implementation of substation capacity upgrades once loads have passed 80 percent of capacity is imprudent and results in unjustified cost increases for customers.

C. Substation Recommendations

92. For the reasons stated above, Public Counsel recommends that the Commission disallow cost recovery on $11.84 million in Substation Rebuild capital costs. Additionally, Public Counsel recommends the Commission require Avista to use zero-based budgeting[234] and the NARUC-NASEO task force's recommended approach to distribution planning[235] when establishing distribution investment plans. The Commission should also prohibit Avista's use of economic models to determine equipment replacement in the absence of objective test results, and instruct Avista to review the data inputs to the model to remove exogenous causes of equipment failure from the equipment counts. Public Counsel also recommends the Commission require Avista to wait for load forecasts to indicate 100 percent capacity will be reached in the next four to five

[233] DiLuciano and La Bolle, Exh. JD/LL-9X.
[234] Alvarez and Stephens, Exh. PADS-1T at 29:17–30:2.
[235] *Id*. at 30:8–33:8.

years before planning substation capacity upgrades. Finally, Public Counsel recommends the Commission consider initiating a stakeholder process to develop a transparent distribution planning and capital budgeting process for use in Washington.

VII. AVISTA HAS NOT DEMONSTRATED THAT ITS GRID MODERNIZATION PROGRAM IS PRUDENT

93. Avista's rate case includes significant costs for its Electric Distribution Plan, and over the next five years Avista expects to spend $463 million for distribution capital investments.[236] A significant portion of the total investment will be spent on Grid Modernization.[237] Public Counsel's experts Alvarez and Stephens reviewed Avista's Grid Modernization investments and have determined that Avista's program is based on the same flawed approach to end-of-life analysis that the Company uses for substation asset replacement. Avista also uses non-industry-standard approaches to selecting feeders for additional attention and improving feeder performance. Avista has not proven that the incremental benefits to these approaches to Grid Modernization are sufficient to justify the use of these approaches over standard industry practices.

A. Avista's Approaches to Selecting Feeders for Additional Attention and Improving Feeder Performance Do Not Conform to Industry Standard

94. Avista's approach to selecting feeders for additional attention is to evaluate each feeder once every 60 years.[238] The standard industry practice is to select feeders for additional attention on the basis of poor reliability performance; a "worst performing feeder" program.[239] Utility engineers examine worst performing feeders to identify frequently-occurring outage causes (i.e.,

[236] Rosentrater, Exh. HLR-2 at 8.
[237] *See* Testimony of Rosentrater, Exh. HLR-1T at15, Table No. 2; *see also* Rosentrater, Exh. HLR-2 at 8, Table 1.
[238] Alvarez and Stephens, Exh. PADS-1T at 58:17–18.
[239] *Id*. at 57:13–58:2.

root cause analysis), and take the steps necessary to rectify root causes. Utilities have adopted such programs because they focus spending where it will deliver the greatest customer benefits: on the feeders with the worst reliability.[240] Public Counsel is not aware of any other utility in the country which evaluates each feeder on a periodic basis, whether every 60 years or on any other interval. When asked if Avista was aware of any other utilities that engage in this practice, the Company failed to respond.[241]

95. Another standard practice is to replace distribution equipment as it fails—called "run to failure"—rather than to replace distribution equipment based on qualitative assessments of equipment investment opportunities. Unlike substation equipment, distribution equipment on a utility's system number in the tens of thousands of individual pieces, and a failure on a single piece of distribution equipment will impact a only a very small number of customers. That fact, combined with the fact that distribution typically lasts many decades before failing, has resulted in a standard industry practice for replacing substation equipment of allowing the equipment to "run to failure."

96. Avista's approach to improving the performance of selected feeders is to identify equipment investments to secure unquantified[242] improvements in feeder energy efficiency, O&M spending, and reliability.[243] This practice does not appear to prioritize poor reliability as the primary driver of feeder selection for review.[244] Utilities analyze the root causes of frequent outages on poor-performing feeders, and take appropriate actions, consisting of capital or O&M spending, to address such causes.

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[240] Alvarez and Stephens, Exh. PADS-1T at 57:18–58:21 (A common threshold in such programs is to select feeders for which outage frequency is greater than 250 percent of the average of all feeders for additional attention).
[241] Alvarez and Stephens, Exh. PADS-10X.
[242] Alvarez and Stephens, Exh. PADS-1T at 60:2–4.
[243] *Id*. at 60:16–17.
[244] *Id*. at 59:13–15.

B. Avista's Economic End-of-Life Modeling Approach Results in the Accelerated Replacement of Distribution Asset and Flawed Cost-Effectiveness Evaluations

97. In Section V above, Public Counsel discussed the flaws of Avista's economic end-of-life analysis, which the Company uses to determine optimal asset replacement rates. Avista uses the same analytical model with artificially-accelerated equipment failure rates for distribution equipment that it does for substation equipment.[245] The resulting replacement rates for distribution assets therefore should not be relied upon.

98. Avista also uses its economic end-of-life model to evaluate different scenarios for work performed during a feeder rebuild; for its Grid Modernization, Wood Pole Management, and Transformer Replacement programs; and under the standard industry practice of "run to failure." However, as explained above, the Failure Analysis module Avista uses as the foundation of its Availability Workbench analysis uses artificially-accelerated equipment failure rates for distribution equipment. Avista's optimization of Grid Modernization with additional programs such as Wood Pole and Transformer Replacements suffers from this same data flaw. Avista's economic end-of-life analysis cannot be relied upon to justify non-standard feeder equipment replacement practices or customer rate of return calculations. Avista has thus not met the burden of proof that the feeder investments made through its Grid Modernization program were prudent.

C. Public Counsel's Grid Modernization Program Recommendations

99. Public Counsel recommends that the Commission disallow cost recovery on $11.27 million in the Grid Modernization program capital spending. Public Counsel also recommends the Commission direct Avista to adopt the "run to failure" approach as its default policy for distribution equipment and replace its Grid Modernization program with a worst-performing

[245] DiLuciano and La Bolle, Exh. JD/LL-1T at 6:2–7:3.

feeder program, using root cause analysis to identify any repeating outage causes. Additionally, Public Counsel recommends Avista use risk-informed decision support to evaluate and select distribution spending options based on the greatest level of reliability risk reduction available per dollar, and apply the NARUC-NASEO task force's recommended approach to distribution planning[246] when establishing distribution investment plans. Finally, and as mentioned above, Public Counsel recommends the Commission consider initiating a stakeholder process to develop a transparent distribution planning and capital budgeting process for use in Washington.

VIII. THE COMMISSION SHOULD DISALLOW THE CAPITAL COSTS FOR THE GRID HARDENING AND DRY LAND MODE COMPENENTS OF AVISTA'S WILDFIRE RESILIENCY PLAN FOR IMPRUDENCE

100. Avista seeks recovery of and ratemaking treatment for O&M and capital costs for an ambitious 10-year Wildfire Resiliency Plan ("Plan" or "Wildfire Plan") with four categories of activities: Enhanced Vegetation Management, Grid Hardening, Situational Awareness, and Operations & Emergency Response.[247] Total costs through 2029 for the Plan reflect a capital investment of $268,965,000 and operating expenses of $59,586,000.[248] The vast majority of the planned investment, approximately $245 million in capital and $5 million in O&M costs, are intended for the Grid Hardening component of the Plan.[249] Avista forecasts annual program costs for the 10-year period as follows:

[246] Alvarez and Stephens, Exh. PADS-1T at 30:8–33:8.
[247] David R. Howell, Exh. DRH-2 at 9.
[248] Andrews, Exh. EMA-1T at 84:9–19.
[249] Howell, Exh. DRH-2 at 13.

Table 2: Wildfire Annual System Capital Investment & Operating Expense [250]

(000s)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	10-YR Ttl
Capital	$5,265	$16,985	$27,055	$31,380	$31,380	$31,380	$31,380	$31,380	$31,380	$31,380	$268,965
O&M	$2,416	$5,371	$6,917	$7,435	$7,354	$6,772	$6,540	$6,059	$5,627	$5,096	$59,586

101. Recent wildfires throughout the west coast and consequent legislative action in Washington State[251] have highlighted the need to address wildfires throughout the region. Utility involvement in wildfires, particularly in California, make it clear that utilities must plan for and reduce wildfire risks on their systems, and Public Counsel acknowledges Avista's proactive engagement on the issue. A wide gulf exists, however, between doing nothing and a blank check for any and all expenditures under the guise of wildfire planning. The stark reality is that no amount of spending will reduce wildfire risk to zero. Regulators may not wish to micromanage utility activities, but the dire consequences of wildfires and the potential magnitude of costs to address their risks require close scrutiny of utility planning in this area. The fact that shareholders directly benefit from increased capital investment adds additional tension to any assessment of utility Wildfire Plan costs. Additionally, and as Staff pointed out in its testimony, shareholders "reap benefits by making the Company's assets less susceptible to loss by wildfire while perhaps lowering the Company's potential liability should a wildfire occur."[252] Regulators must therefore balance the need for wildfire risk reduction against the fairness and equity concerns inherent in recovering hundreds of millions of dollars from ratepayers where shareholders directly profit from and indirectly benefit from those investments.

[250] Andrews, Exh. EMA-1T at 84, Table 8 (shaded areas in the table reflect system balances considered in this case).
[251] Forest Health and Wildfires, 2.S.H.B. 1168, 67th Leg., 2021 Reg. Sess. (Wash. 2021).
[252] Testimony of Amy I. White, Exh. AIW-1T at 23:4–7.

102. Public Counsel's witnesses Alvarez and Stephens reviewed Avista's Wildfire Resiliency Plan and examined the reasonableness of the different components of the Plan.[253] In reviewing the Plan, they applied an understanding of modern risk management practices and risk-informed decision making to determine if Avista's approach and Plan are reasonable.[254] These practices follow this basic approach:

- Identify risks (adverse events);
- Prioritize risk in dollars (likelihood of event multiplied by the consequence of event);
- Identify the drivers of high-priority risks;
- Create a portfolio of solutions to mitigate the drivers;
- Evaluate the potential solutions based on the ability to reduce risk per dollar;
- Select and implement solutions which collectively optimize risk reductions per dollar;
- Establish plans to manage identified adverse events if they occur; and
- Repeat the process on a periodic basis.

103. Public Counsel's witnesses found that, with respect to the Grid Hardening component of the Wildfire Plan, Avista's risk assessment process failed at the most basic level of identifying the drivers of high-priority risks. Avista did not develop the Grid Hardening Plan, or determine risk levels or risk reductions, through the use of relevant, historical data regarding equipment-related causes of ground fires.[255] During the evidentiary hearings, Commissioner Ann Rendahl asked Avista's witness David Howell how the Company used historical data in planning. Howell responded that the historical data the Company has is either fault events or outage events,[256] but that the Company has not tracked fire events associated with a fault.[257] At best, the Company has a future goal to track fire events associated with faults and outages for the transmission and distribution systems.[258]

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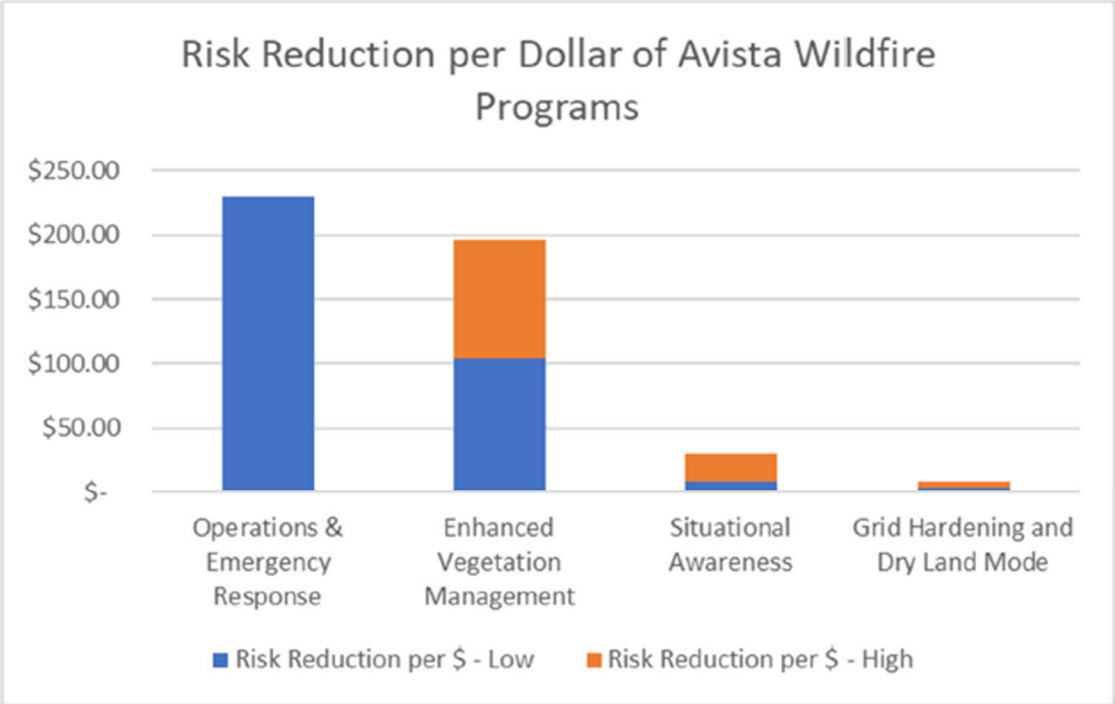
[253] Alvarez and Stephens, Exh. PADS-1T at 6–28.
[254] *Id*. at 9:4–10:12.
[255] *Id*. at 13:4–6; *see also* Alvarez and Stephens, Exh. PADS-5.
[256] Howell, TR. 270:9–17.
[257] Howell, TR. 273:12–14.
[258] Howell, TR. 273:11–14 and TR. 274:14–25.

104. Given the lack of historical data on ground fires related to equipment and outage events, Avista appears to have made an unfounded assumption that data on the causes of outages can be used as a proxy for ground fire data, and to have relied upon informed guesses to estimate the probabilities and potential consequences of existing conditions.[259] Avista also used this flawed assumption to use outage data to estimate the level of risk reductions provided by potential solutions in the Plan.[260] This means that Avista has based the most expensive, capital intensive component of its Wildfire Plan on an unreasonable and unsupported assumption, and that it is highly uncertain whether the proposed investments will result in actual wildfire ignition reductions.

105. Additionally, Avista did not take cost-effectiveness into account when developing its Wildfire Plan and did not optimize their solutions based on risk reductions per dollar. Even if one accepts Avista's supposition that outage data is a reasonable proxy for ground fires, Grid Hardening provides the worst risk reduction value per dollar of Avista's entire Wildfire Plan. Some components, such as the Operations and Emergency Response program, offer excellent risk reduction value per dollar spent ($229.51 in risk reduction value per dollar spent), while Grid Hardening provides an extremely poor value ($5.86 in risk reduction value per dollar spent).[261] Based on Avista's own data, Grid Hardening is both the most costly and least effective component of Avista's Plan.

[259] Alvarez and Stephens, Exh. PADS-1T at 13:7–10; *see also* Howell, Exh. DRH-2 at 31 (table of outage data associated with equipment Avista proposes to replace or install as part of its Grid Hardening program).
[260] *Id.*
[261] Alvarez and Stephens, Exh. PADS-1T at 10:13–11:2.

Figure 1: Risk Reduction Value per Dollar of Avista Wildfire Plan Components[262]



106. In support of its Grid Hardening program, the Company argues that other utilities in different states have filed wildfire mitigation plans with selected elements similar to its own,[263] but that claim does not overcome the underlying deficiencies of Avista's particular program. The California utilities cited by Avista are required to provide extensive data on performance metrics such as ignition risk events, inspection findings, and impacts of utility ignited fires.[264] Avista, in comparison, only has a goal of tracking ground ignition events at this time.[265] If Avista seeks to recover the costs of these program elements similar to California utilities, it stands to reason that

[262] Alvarez and Stephens, Exh. PADS-1T at 21, Figure 2.
[263] Howell, Exh. DRH-8T at 8:22–9:20.
[264] *See* Howell, Exh. DRH-8T at 5, n.7–10; *see also Order Instituting Rulemaking to Implement Electric Utility Wildfire Mitigation Plans Pursuant to Senate Bill 901* (*2018*), Decision 19-05-036, Guidance Decision of 2019 Wildfire Mitigation Plans Submitted Pursuant to Senate Bill 901 at 25 (Cal. Pub. Utils. Comm'n June 3, 2019) available at https://energysafety.ca.gov/wp-content/uploads/docs/misc/docket/296577466.pdf; *see also* Cal. Office of Energy Infrastructure Safety, *Wildfire Mitigation Plans*, *2021 Performance Metrics Data Templates*, https://energysafety.ca.gov/what-we-do/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2021-wmp/ (last visited Aug. 13, 2021).
[265] Howell, TR. 273:11–14 and TR. 274:14–25

the company should also provide the same level of detail regarding its own plan. Moreover, because Avista does not mention whether these other states' regulatory bodies have found those utility expenditures to be prudent at this time, it leaves the Commission with no basis to evaluate Avista's program in comparison to the other utility programs. Finally, it bears noting that, though Avista went through great pains to comment on Alvarez and Stephens' lack of specific familiarity with Avista's service territory during cross examination,[266] the Company simply assumes the conditions for seven other utilities across four states are similar enough to make comparisons regarding wildfire mitigation costs. The Commission should disregard Avista's argument.

107. Avista bases its support for its Grid Hardening program on an unreasonable assumption that undermines all estimates and promises of its program's ability to actually reduce wildfire risk in Avista's territory. The program also provides significantly less value to Avista's customers than any other component of its overall Wildfire Plan. Avista has not met its burden of proving the reasonableness of the Grid Hardening program. Public Counsel therefore recommends the Commission disallow all capital costs related to Grid Hardening incorporated into the requested revenue requirement, and instruct Avista to place all capital components of the Grid Hardening program on hold pending additional data collection to develop a Fire Ignition Tracking System with a subsequent re-evaluation.[267] Public Counsel recommends the Commission approve all other aspects of Avista's Wildfire Plan. Finally, Public Counsel

[266] David Meyer, TR. 360:21–23; TR. 362:6–10; TR. 363:11-13; TR 363:19-24; TR 364:12–16.
[267] *See* Alvarez and Stephens, Exh. PADS-1T at 23:1–24:3. Public Counsel provides recommendations for the type of data Avista should collect to accurately assess the current fire risk associated with various pieces of equipment as well as the risk reduction value associated with the various solutions.

recommends the Commission authorize Avista's deferred cost recovery mechanism, but only for O&M spending, in order to prevent any premature spending on Grid Hardening activities.

IX. PUBLIC COMMENT

108. Avista's customers report that the Company's repeated rate increases continue to create a real and substantial impact on their lives. The strength of this continuing impact must factor into the Commission's deliberations as it considers whether Avista's proposed rate increase is necessary for the Company's electric and natural gas operations. Several customers have submitted written comments in this proceeding and describe the impact of rate increases and the concerns they have with rising energy costs.[268]

109. Several customers expressed concern at a lack of transparency in the language Avista used in its rate increase notice. One called it "unfair" to "advertise to the end customer that we will not see an increase" when "as soon as a tax credit expires we will see this increase," saying an accurate notice would disclose "what the increase looks like in year 2 when the tax credit expires."[269] Another reported that it "reads like the script for a carnival barker" to "convince unwary consumers that the rate increase is a super deal," finding it to be "misleading" to reduce "the perceived financial impact of the rate increase to customers."[270] Another felt Avista including the tax rebate language in its notice showed the Company's filing was "premature rather than proactive," and complained that the chart in Avista's notice showed "nothing about how the increases would impact my bill" once "the tax rebate was gone," and asking of the increase, "[w]ould it not be better to wait until the tax rebate is done?"[271] Another commenter

[268] Public Counsel has filed these comments in Offer of Public Comment Exhibit Bench No. BR-3 and its Public Comment Matrix Attachment "200900-901 BR-3 UTC Cmt Matrix 07-12-2021.pdf."
[269] Exh. BR-3, Public Comment Matrix Attachment at 6 (Comment of Shalena).
[270] *Id*. at 1 (Comment of Robert Flowers).
[271] *Id*. at 4–5 (Comment of Jackie Truelove) (alteration in original).

urged the tax rebate be removed from this increase to avoid what "seems like a shell game with a pre-determined outcome to favor Avista," suggesting instead "a real rate decrease[.] Then, Avista can REFUND the 'tax refund' (which is not theirs anyway) to customers instead of this complicated strategy[.]"[272]

110. With respect to the impact of rate increases, one customer reports they,

> have just been through a terrible year, trying to make ends meet and working as much as we could to pay bills. Why should we have to tighten our belts to get by and good old Avista just applies for increases and they simply appear? [T]he CEO and four other top officers earn a combined total of over FIVE MILLION dollars annually[.]

They conclude, "[w]e are dying out here trying to just survive as it is."[273] Similarly, another wrote, "People are struggling right now. The last thing we need is to pay more on our bills so that stakeholders can earn more money."[274]

111. Customers submitting comments in these dockets did express concerns about the return Avista was seeking for its investors, with one asserting that, "Their ROI is quite enough already."[275] Another customer noted, "there was an article in the paper about Avista record breaking profits. Those profits would be going to investors instead of being shared between investors and customers."[276] Another listed a series of benefits that Avista recently reported gaining for shareholders and asked, "why would you even consider ANOTHER rate increase."[277] One noted their neighbor said Avista's stock was always among their portfolio's highest

[272] Exh. BR-3, Public Comment Matrix Attachment at 6 (Comment of Jon Wagner) (alteration in original).
[273] *Id.* at 2 (Comments of Mark Lidbeck) (alteration in original).
[274] *Id*. at 6 (Comment of Carrie Daniel).
[275] *Id*. at 5 (Comment of Julie Beffa).
[276] *Id*. at 5 (Comment of Truelove).
[277] *Id*. at 3 (Comment of Aca Ceait).

performers; the customer suggested that perhaps "their energy rates can be a little lower and still pay fair dividends to stock holders, just not among the highest dividends."[278]

112. As for the investments themselves, customers urged the Commission to examine the allocation to ratepayers of these costs. One noted Avista's request to cover additional AMI costs, urging that any "increase to cover metering technology must consider the savings Avista has reaped as a result of this technology implementation." This customer also felt it unfair to grant Avista's rate increase to cover costs for upgrades requested by existing customers, likening this to "asking ratepayers to finance Avista's efforts to add new revenue streams." The customer also believed the Company's investors, not ratepayers, should bear costs associated with developing its Wildfire Resiliency Plan: "Avista should have already been working to resolve issues which could result in wildfire and the cost of this work should already be factored into their normal and usual operating expenses."[279] With regard to the recent extreme heat wave in Avista's service area, a customer was angry to have no option but Avista for electricity when it was "shutting people's power off in hour increments multiple days in a row. Some people, have suffered for HOURS at a time in a day." They urged the Commission to "audit them" for any infrastructure improvements.

113. Several customers expressed frustration at the frequency with which they have experienced Avista rate increases, as one wrote, "seemingly every year."[280] A customer noted that,

> a few years back Avista apparently owed Washington consumers $51 million in refunds; which did not come in the form of an actual refund, was not broken down

[278] Exh. BR-3, Public Comment Matrix Attachment at 7 (Comments of Wagner).
[279] *Id*. at 1 (Comments of Flowers).
[280] *Id*. at 2 (Comments of Ceait).

> on the bill so that we could see what adjustments were being made, and since then I have had anywhere from 2-5 rate increases/adjustments.[281]

114. Some customers urged that Avista's practices be subjected to greater scrutiny before a new rate increase is allowed. One asked the Commission to "[p]lease hold this company accountable rather than passing the expense to the public without investigating further. In what other industry can we pass an average of 10% increase a year without major look at how we conduct business."[282] Another wrote,

> Avista, being a natural gas AND electric company[,] has a rate structure that seriously needs to be re-evaluated for the coming 'greening' of the country. As it is right now, Avista rate schedules are archaic and seriously punitive to anyone who would choose to heat their home with a more environmentally responsible heating source than natural gas.[283]

They shared their belief that "we are being PUNISHED for not using gas to heat our home."[284] This customer urged that, because customer investment in electric conversion can be costly and increased electric usage can move customers into a higher rate bracket, rates be adjusted to encourage electric investment and usage, claiming the current tilt leaves it "a 'win win' for Avista and a 'lose lose' for rate payers," in which "Avista gets the gold mine and the rate payers get the shaft."[285] Another customer observed that the improvements Avista listed in its notice were those any business should have planned for long ago, urging, "let's put the budget crunch on their table this time, not the consumer's."[286] Yet another customer urging the Commission to reject the rate increase suggested, perhaps tongue in cheek, that Avista instead "can utilize some of the executive pay to cover these increases."[287]

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[281] Exh. BR-3, Public Comment Matrix Attachment at 4 (Comments of Kathy Catalano).
[282] *Id*. at 6 (Comments of Shalena) (alteration in original).
[283] *Id*. at 6 (Comments of Wagner) (alteration in original).
[284] *Id.* at 7 (Comments of Wagner).
[285] *Id*. at 7 (Comments of Wagner).
[286] *Id*. at 2 (Comments of Gladys Kelfer).
[287] *Id.* at 5 (Comments of Duane Statler).

115. The overall substance of these comments makes clear that customers are relying on the Commission to weigh Avista's rate requests carefully. Together their comments highlight the important role the Commission plays. As rates continue to rise, customers find themselves in difficult situations, making it imperative that the Commission carefully consider the reasonableness of Avista's requested rate increases and require the utility to meet its burden of proof.

X. CONCLUSION

116. Public Counsel respectfully requests that the Commission limit Avista's electric base revenue increase to $12.28 million[288] and natural gas base revenue increase to $3.98 million.[289] In so doing, Public Counsel requests that the Commission adopt its recommendations regarding capital structure, return on equity, debt cost, and rate of return. The Commission should also adopt Public Counsel's revenue requirement adjustments, post-test year capital adjustments, and treatment of ADFIT balances. Public Counsel also recommends that the Commission disregard Avista's cost of service study and spread rates on an equal percentage across all customer classes.

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[288] Andrea C. Crane, Exh. ACC-5r2, Summary of Recommended Washington Electric Revenue Requirement Adjustments.
[289] Crane, Exh. ACC-8r2, Summary of Recommended Washington Gas Revenue Requirement Adjustments.

117. Public Counsel also requests that the Commission disallow Avista's return on AMI investment until Avista proves the meters actually provide the stated benefits. Additionally, Public Counsel recommends the Commission disallow Avista's capital investments for substation replacement and capacity upgrades, Grid Modernization, and Grid Hardening and Dry Land Mode component of Avista's Wildfire Plan for lack of prudence.

DATED this 13th day of August 2021.

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