Service Date: September 27, 2021

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION, d/b/a AVISTA UTILITIES, Respondent	DOCKETS UE-200900, UG-200901, and UE-200894 *(Consolidated)* FINAL ORDER 08 / 05
In the Matter of the Petition of AVISTA CORPORATION, d/b/a AVISTA UTILITIES, for an Accounting Order Authorizing Accounting and Ratemaking Treatment of Costs Associated with the Company's Wildfire Resiliency Plan.	REJECTING TARIFF SHEETS; GRANTING PETITION; APPROVING AND ADOPTING PARTIAL MULTIPARTY SETTLEMENT STIPULATION; RESOLVING CONTESTED ISSUES; AUTHORIZING AND REQUIRING COMPLIANCE FILING

Synopsis: *The Washington Utilities and Transportation Commission (Commission) approves and adopts without condition a partial multiparty settlement stipulation (Settlement) that resolves multiple contested issues and is agreed by all Parties except Public Counsel, who neither joins nor opposes the Settlement. The Settlement updated Power Supply on July 29, 2021; includes in rates Avista Corporation's, d/b/a Avista Utilities, (Avista or Company) costs for joining the Energy Imbalance Market (EIM), with a portion subject to refund in Avista's next general rate case (GRC) if Avista fails to show the costs were prudent; approves a special contract (IEP Special Contract) with Inland Empire Paper Company (IEP or Inland Empire Paper) that keeps Inland Empire Paper on Avista's network and thereby preserves benefits over the life of the contract to*

other ratepayers who otherwise would have to absorb the costs of Inland Empire Paper's departure; starts a new design for Avista's pricing pilots with new time of use (TOU) and peak-time rebate pilots with a framework for development and feedback with the public to ensure low-income, marginalized, and vulnerable populations share in the benefits of the programs; authorizes increases in the Low-Income Rate Assistance Program (LIRAP) of at least 7 percent; includes Electric Vehicle (EV) projects and programs dedicated to benefitting low-income customers; and includes Fee Free and Line Extension Allowance Program (LEAP) Deferrals for returning benefits to customers.

The Commission determines that Avista has demonstrated the need for a $13.6 million increase for electric and a $8.1 million increase for natural gas, which the Commission orders to be exactly offset such that no customer class receives any increase for two years – a net zero bill impact –from the date of this Order. In reaching this decision, the Commission resolves all remaining disputed issues in this proceeding.

The Commission resolves the following contested issues to: update Avista's cost of capital to an overall Rate of Return (ROR) of 7.12 percent, maintain Return on Equity (ROE) at 9.40 percent, approve a 4.97 percent Cost of Debt, and maintain capital structure at 48.5 percent Equity and 51.5 percent Total Debt; direct Avista to begin returning new tax benefits to electric ratepayers of $58.1 million and to natural gas ratepayers of $28.2 million (Avista's proposed Tax Customer Credit) over two years in conjunction with deferred Accumulated Funds Used During Construction (AFUDC) amounts to offset exactly any rate increase from this Order for those two years; and approve a new electric and natural gas cost of service study based upon renewable generation as well as spread rates in a way that will assign more of the rate increase and more of the new tax benefits to residential electric and natural gas classes.

The Commission authorizes Avista to begin taking escalating measures to address the increased risk of wildfires to its system. In doing so, the Commission approves Avista's Wildfire Resiliency Plan, a wildfire deferred accounting petition, certain pro forma wildfire capital and expense adjustments, and a Wildfire Balancing Account to track any incremental investments Avista makes to address the growing frequency of extreme and dangerous wildfires in or near Avista's service territory.

The Commission also disallows all recovery for SmartBurn technology, finding that Avista's share was imprudently invested, and does not grant recovery of Dry Ash Waste Removal capital and expense investment in Colstrip in this proceeding, as the amounts are not yet known and measurable. Similarly, the Commission does not include for *recovery in this proceeding expenses for the Colstrip Unit 3 Overhaul that was scheduled for May-June 2021.*

The Commission authorizes Avista to include in rates adjustments related to its Substation Rebuilds & Distribution Grid Modernization, finding that a strategy for infrastructure based on run-to-failure was not shown to be in the best interest of Avista's customers, particularly following the extreme heat event in June 2021 and the forced outages caused in Avista's service territory.

The Commission granted other pro forma adjustments, including Avista's investment in advanced metering infrastructure (AMI), but requires Avista to ensure that it is pursuing and maximizing all benefits that AMI could provide to its customers, and orders Avista to create plans for implementing use cases to increase customer benefits.

The Commission denies recovery of costs beyond 2020 for information services and information technology expense, but allows recovery for insurance expense, Inter-Corporate Cost Allocation, and transmission wheeling revenues.

The Commission denies all requests from Avista to recover in rates any investment that Avista planned would go into service for the benefit of ratepayers between October 1, 2021, and September 30, 2022, finding that these investments are not known and measurable and that the Company failed to justify including these amounts in rates.

The Commission allows Avista to recover from its customers the costs of wage increases for non-executive employees not represented by a union to recover raises the Company had granted twice during the COVID-19 pandemic. The Commission denies Avista's request to recover the costs of an unsigned contract for wage increases that was under negotiation during the pendency of this proceeding because Avista could not sufficiently prove that the contract would actually be signed.

The Commission authorizes Avista to recover in rates major projects such as "Customer at the Center" to improve its customer experience platform. However, the Commission requires Avista in any future case it files to account for <u>all</u> offsetting factors for new projects, including any business savings that may benefit customers.

The Commission determines that approving the Settlement, without condition, in conjunction with the other decisions we make in this Order, establishes rates, terms, and conditions for Avista's electric and natural gas services that are fair, just, reasonable, and sufficient. The Commission, therefore, rejects the tariff sheets filed by Avista on

October 30, 2020. The Commission, considering the full record, authorizes and requires Avista to file tariff sheets that comply with the terms of the Settlement and this Order.

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BACKGROUND

1 This case concerns Avista Corporation's, d/b/a Avista Utilities, (Avista or Company) 2020 electric and natural gas general rate case (GRC) and its wildfire resiliency accounting petition.

A. PROCEDURAL HISTORY

2 On October 30, 2020, Avista filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective electric and natural gas service tariffs, Tariffs WN U-28 and WN U-29, in Dockets UE-200900 and UG-200901 that are designed to effect a general rate increase for its electric and natural gas services.

3 In its initial filing, Avista proposed an overall increase in electric base revenues of $44.2 million, or 8.3 percent, and an overall increase in natural gas base revenues of $12.8 million, or 12.2 percent, effective October 1, 2021. The Company's proposal is based on a common equity ratio of 50.0 percent, a 9.9 percent return on equity (ROE), and an overall rate of return (ROR) of 7.43 percent. Avista proposed a Tax Customer Credit, through its Tax Accounting Petition filed with its GRC, to offset its proposed tariff increases on a billed revenue basis to 0.0 percent for both its electric and natural gas service.

4 Also on October 30, 2020, Avista filed with the Commission in Docket UE-200894 a petition for an accounting order authorizing the accounting and ratemaking treatment of the costs associated with the Company's Wildfire Resiliency Plan (Deferral Petition).

5 The Commission entered Order 01 on November 25, 2020, consolidating Dockets UE-200900 and UG-200901, suspending the tariffs, granting petition for exemption, and setting the matters for hearing.

6 The Commission entered a Protective Order, Order 02, in Dockets UE-200900 and UG-200901 *(Consolidated)* on December 9, 2020.

7 On December 11, 2020, Commission staff (Staff) filed a motion to consolidate Avista's Deferral Petition with its GRC. Avista filed with the Commission a response opposing Staff's Motion on December 18, 2020.

8 On December 14, 2020, the Commission convened a virtual prehearing conference before Administrative Law Judge Andrew J. O'Connell, during which the Parties submitted an agreed procedural schedule.

9 On December 21, 2020, the Commission issued Order 03, Prehearing Conference Order; Notice of Hearing, adopting with minor modifications the agreed procedural schedule and setting a hearing to begin on July 7, 2021, and continuing as needed on July 9, 2021. Order 03 also granted intervention to the Alliance of Western Energy Consumers (AWEC), Inland Empire Paper Company (Inland Empire Paper or IEP), The Energy Project, and Sierra Club.

10 On December 23, 2020, the Commission consolidated Dockets UE-200900, UG-200901, and UE-200894 by Order 04/01.

11 On March 16, 2021, the Commission entered Order 05/02, which granted Avista's unopposed motion for leave to file revised exhibits on Advanced Metering Infrastructure (AMI).

12 On April 21, 2021, Staff, the Public Counsel Unit of the Attorney General's Office (Public Counsel), AWEC, Inland Empire Paper, The Energy Project, and Sierra Club (collectively, the non-Company Parties) filed responsive testimony in these consolidated dockets.

13 On May 27, 2021, Avista filed with the Commission an unopposed motion to modify the procedural schedule to accommodate a partial multiparty settlement agreement (Settlement) reached by all Parties except Public Counsel (Settling Parties) and to allow the Settling Parties' to file both testimony supporting the Settlement and a special contract between Avista and Inland Empire Paper (IEP Special Contract) and related testimony.[1] The Settlement and Attachment A to the Settlement was appended to Avista's motion, both of which are attached to this Order as Appendix A.

14 On May 28, 2021, Avista, Staff, Public Counsel, and AWEC filed with the Commission rebuttal and cross-answering testimony, respectively, to address the remaining contested issues.

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[1] The Settlement is identified in the record as Exhibit JT-2C, but will be referenced henceforth in this Order and footnotes as the "Settlement."

15 On June 2, 2021, the Commission entered Order 06/03, granting Avista's motion to modify the procedural schedule.

16 On June 16, 2021, the Commission held a virtual public comment hearing in these consolidated dockets. Over the course of the proceeding, including the public comment hearing, the Commission and Public Counsel received 16 comments from Washington customers regarding the proposed rate increases; 15 opposed the increases, none supported the increases, and one supported Staff's proposal.[2] Most customers expressed concern about frequent rate requests, executive compensation, difficult economic circumstances, skepticism at the Company's proposal to increase rates but offset to net zero, cost comparisons with other local consumer-owned utilities, and rate design for incumbent versus new customers.

17 On June 25, 2021, the Settling Parties filed joint testimony supporting the Settlement. Although not a party to the Settlement, Public Counsel also submitted testimony recommending that the Commission approve it.[3] On the same date, Avista and Inland Empire Paper filed the IEP Special Contract and joint testimony supporting it.

18 On July 7 and 9, 2021, the Commission convened an evidentiary and settlement hearing in these consolidated matters.

19 On August 13, 2021, the Parties filed post-hearing briefs.[4]

20 David J. Meyer, Vice President and Chief Counsel for Regulatory and Governmental Affairs, Spokane, Washington, represents Avista. Jennifer Cameron-Rulkowski, Jeff Roberson, Nash I. Callaghan, Harry Fukano, Joe M. Dallas, and Daniel J. Teimouri, Assistant Attorneys General, Lacey, Washington, represent Staff.[5] Nina Suetake, Assistant Attorney General, Seattle, Washington, represents Public Counsel. Brent L. Coleman and Corinne O. Milinovich, Davison Van Cleve, P.C., Portland, Oregon, represent AWEC. Tyler Pepple, Davison Van Cleve, P.C., Portland, Oregon, represents

[2] Public Comments, Exh. BR-3.

[3] Dahl, Exh. CJD-1T at 5:9-12.

[4] The Energy Project, after providing notice to Judge O'Connell, did not file a legal brief.

[5] In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

Inland Empire Paper. Simon J. ffitch, Attorney at Law, Bainbridge Island, Washington, represents The Energy Project. Jessica Yarnall Loarie, Attorney at Law, Oakland, California, represents Sierra Club. This Order refers to the parties above, collectively, as "the Parties."

B. ISSUES

21 The Commission is presented with a Partial Multiparty Settlement that proposes to resolve the following contested issues:

- Power supply;
- Energy Imbalance Market (EIM) capital and expenses;
- The IEP Special Contract;
- Allowance for Funds Used During Construction (AFUDC) deferral;
- Time-of-use (TOU) pricing pilots;
- Low-Income Rate Assistance Program (LIRAP) funding;
- Renewable energy programs for low-income customers;
- Low-Income electric vehicle program; and,
- Fee-Free Payment Program (Fee Free) and Line Extension Allowance Program (LEAP) deferrals.

22 The Commission also resolves all contested matters, which include cost of capital; revenue requirement; cost of service, rate spread, rate design; pro forma capital additions, including AMI, major capital additions, Colstrip and SmartBurn, wildfire resiliency plan and wildfire expenses, and substation rebuild and grid modernization expenses; information service and information technology (IS & IT) programs and expenses; insurance expense; transmission wheeling revenue; tax issues; wages; executive compensation; incentive compensation; benefit expense; injuries and damage expense, and inter-corporate cost allocation.

DISCUSSION AND DECISION

23 The Commission's statutory duty is to establish rates, terms, and conditions for electric and natural gas services that are "fair, just, reasonable and sufficient." In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case 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 utility to cover its expenses and attract capital on reasonable terms.

A. UNCONTESTED ISSUES

1. MISCELLANEOUS UNCONTESTED ADJUSTMENTS

24 Avista proposes 32 uncontested restating and pro forma adjustments to its electric revenue requirement and 26 uncontested restating and pro forma adjustments to its natural gas revenue requirement. These include common (for both electric and natural gas revenue requirements) restating adjustment 2.04 (restating regulatory expense), which Avista updated to correct a discovered error in its query of actual 2019 data, and electric pro forma adjustment 3.20 (pro forma normalized Coyote Springs 2 and Colstrip major maintenance expense), which Avista updated with actual 2020 Colstrip major maintenance expenses. These adjustments, while updated on rebuttal, were not originally contested by any party and no party subsequently contested them at hearing or in briefs. These adjustments, including their impact on revenue requirement, are listed in Appendix B to this Order. All of these adjustments are uncontested and adequately supported by the record. Accordingly, we find that these uncontested adjustments should be approved without condition.

2. ADJUSTMENTS RESOLVED ON REBUTTAL

25 On rebuttal, several adjustments originally contested by a non-Company party were resolved by Avista's adoption of other Parties' proposals, or by updates deemed satisfactory by contesting Parties. These include Avista's electric pro forma adjustment 3.01 (updating its pro forma revenue normalization to reflect the loss of load from a Schedule 25 departing customer, which satisfied Staff); and common pro forma adjustments 3.03 (updating its pro forma ARAM DFIT amortization expense for the tax credit impact, which satisfied Staff and Public Counsel), 3.05 (updating its pro forma executive labor expense adjustment to reflect actual 2020 salary levels with additional support, which satisfied Staff), 3.06 (updating its pro forma employee benefits adjustment to reflect 2020 actual benefit amounts, which satisfied Staff and Public Counsel), and 3.09 (updating pro forma property tax adjustment to reflect property tax assessments as of December 2020 (Idaho) and April 2021 (Washington), which satisfied Staff and Public

Counsel). In addition to resolving these issues on rebuttal, no party subsequently contested them at hearing or in briefs. These adjustments, including the impact on revenue requirement, are listed in Appendix B to this Order. Each of these resolved adjustments are therefore uncontested, reasonable, and adequately supported by the record. Accordingly, we find that these uncontested adjustments resolved on rebuttal should be approved.

B. PARTIAL MULTIPARTY SETTLEMENT STIPULATION[6]

26 The Commission approves settlements "when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission."[7] As discussed above, the Settling Parties submitted a Partial Multiparty Settlement to the Commission proposing to resolve multiple contested issues in the proceeding. The Commission may approve the Settlement, with or without conditions, or reject it. We address the issues resolved by the Settlement, below.

1. ISSUES RESOLVED

27 The Settlement is joined by all Parties except Public Counsel, who neither joins nor opposes it. Public Counsel filed testimony with the Commission on June 25, 2021, in which it affirmatively states that nearly all the terms of the Settlement are in the public interest.[8] Public Counsel remarks that it is neutral on the IEP Special Contract.[9] Public Counsel witness Dahl summarizes Public Counsel's general perspective of the Settlement in testimony:

> Public Counsel is not a party to the Partial Settlement. Public Counsel supports certain terms and is neutral on the IEP-Avista

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[6] The Settlement is included as Appendix A to this Order. Appendix A is incorporated into, and made part of, this Order by this reference. In this Order, we briefly summarize the Settlement's proposed commitments. To the extent any arguable inconsistency exists between our summary and the terms of the Settlement, the terms of the Settlement control.

[7] WAC 480-07-750(1).

[8] Dahl, Exh. CJD-1T at 5:13 – 11:13.

[9] *Id.* at 11:15.

special contract. As a result, Public Counsel recommends that the Commission approve the Partial Settlement.[10]

28 Although uncontested and unopposed, our statutory obligation to regulate in the public interest requires us to evaluate whether the Settling Parties' agreed resolution of the included issues complies with applicable legal requirements, is supported by an appropriate record, and is consistent with the public interest based on all information available to the Commission. After reviewing its proposed terms and the testimony submitted by the Parties, we find that the Settlement is lawful, supported by an appropriate record, and consistent with the public interest.

i. Power Supply

29 The Settling Parties agree to incorporate an updated version of Avista's proposed pro forma adjustment 3.00P for power supply into the electric revenue requirement approved by the Commission in this Order.[11]

Commission Determination

30 On July 29, 2021, and in compliance with this term, Avista filed with the Commission the agreed update to its power supply pro forma adjustment.[12] The update refreshed natural gas and electricity market prices, updated non-natural gas fuel prices that are the subject of a contractual change, added all incremental contracts with terms of less than one year that affect the pro forma period, and updated the rate changes to any power and transmission service contracts included in Avista's initial filing.[13] At hearing, Avista witness Ehrbar explained that, at least for purposes of the power supply terms in the Settlement, the Settling Parties understood the "pro forma period" to be from October 1, 2021, through September 30, 2022, and that the power supply update would include "any power supply contract . . . entered into that would be in effect during that period, and so any contracts entered into after August 1st, [2021,] of course, would just flow through

[10] *Id.* at 5:9-12.

[11] Settlement at 3, ¶ 9.

[12] *See id.*

[13] *Id.*; Settling Parties, Exh. JT-1CT at 7:21-8:3.

normal power supply costs and functioning" of the Energy Recovery Mechanism (ERM), the baseline of which would also be updated on October 1, 2021.[14]

31 The agreed update reduces Avista's electric revenue requirement by approximately $11.6 million.[15] We find that the Settling Parties' power supply agreement, allowing and requiring Avista to update its power supply adjustment with current data, is appropriate and determine that the agreed update to power supply should be approved.

ii. Energy Imbalance Market (EIM)

32 The Parties agree to include EIM capital and expenses in base rates as proposed by Avista in adjustment 3.18 "Pro Forma EIM Capital and Expenses."[16] In addition, Avista will include an annualized system EIM benefit of $5.8 million and will participate in a collaborative or Staff investigation to address how the EIM benefits will be modeled. If the collaborative (or Staff investigation) is not complete before Avista files its next GRC, Avista will examine the accuracy of its estimated EIM benefit in its next GRC.[17]

33 Avista's pro forma EIM capital and expenses adjustment reflects pro forma and provisional pro forma increases in capital additions and expenses through March 2022 due to Avista's decision to join the EIM.[18] The agreed adjustment would increase the Company's electric revenue requirement by approximately $4.7 million above test year

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[14] Ehrbar, TR at 71:8-13, 73:6-17.

[15] Avista's power supply update included revised versions of exhibits originally filed by Avista witnesses Elizabeth M. Andrews and Clint G. Kalich: Exhibit EMA-8r and Exhibit CGK-6r, respectively. Andrews's revised exhibit shows an update to Avista's electric revenue requirement as presented in its rebuttal testimony of approximately $28.5 million. Kalich's revised exhibit updates Avista's Energy Recovery Mechanism power supply expense and revenue, transmission expense and revenue, retail sales and retail revenue credit for the rate year October 1, 2021, through September 30, 2022.

[16] Settlement at 4, ¶ 10. Avista presented proposed adjustment 3.18 in its initial filing through witness Andrews in Exhibits EMA-1T at 77:3-78:11 and EMA-2, updates to the adjustment in its Response to Staff's Data Request 107 Supplemental 3 (Staff DR-107 Supp. 3) at 7, h, confirmation of the updates from Staff DR-107 Supp. 3 and some explanation of the apportioning of the adjustment between traditional pro forma and provisional pro forma in its rebuttal filing by witnesses Andrews and Kinney in Exhibits EMA-6T at 43:15-27, 90:1-93:13, EMA-8, and SJK-13T at 8:20-9:6, and greater specificity of how Avista would identify the apportioning of the adjustment between traditional pro forma and provisional pro forma in its Response to BR-1 and Andrews's Exhibit EMA-8r filed along with its power supply update.

[17] *Id.*; *see also* Andrews, Exh. EMA-6T at 91:11-18.

[18] Settling Parties, Exh. JT-1CT at 8:16-18.

levels , based upon the Company's proposed cost of capital.[19] Because we approve a cost of capital different from the Company's proposal, the increase to the Company's electric revenue requirement is less than $4.7 million.[20]

Commission Determination

34 We find that the Settling Parties' agreement as to EIM capital and expenses should be approved and that the review process for the provisional pro forma of Avista's pro forma EIM adjustment should occur in Avista's next GRC.

35 As compared to the traditional portion of a pro forma adjustment, the provisional portion of a pro forma adjustment describes any estimated amount of a pro forma adjustment that is anticipated to be incurred or placed in service after the rate effective date, but is nevertheless included in rates and subject to a retrospective review process after the effective date to ensure that customers receive the benefit associated with the expenditures. We explained in our Policy Statement on Property that becomes Used and Useful after the Rate Effective Date (Used and Useful Policy Statement) that the Commission *may* allow provisional portions of pro forma adjustments to be included in rates.[21] Any provisional portion allowed in rates must be identified *by the company* and must have a process for retrospective review.[22]

36 Avista witness Andrews testifies in these consolidated proceedings that a portion of adjustment 3.18 is provisional and related to projects that are estimated to be placed in

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[19] *Id.* at 9:19-10:2. Adjustment 3.18 includes increases in EIM capital and expenses from 2020 through March 2022, which the Company updated in response to Staff Data Request No. 107 to include actual transfers to plant through December 2020, updated 2021 additions, and updated labor expenses through September 2022 (the rate effective period). *Id.* at 8:16-9:3. In addition, the adjustment increases overall net electric rate base by approximately $12.6 million and EIM expenses by $3.4 million, and decreases net operating income by approximately $2.6 million. *Id.* at 9:19-10:2.

[20] The calculation of $4.7 million is based upon the Company's proposed cost of capital. Settling Parties, Exh. JT-1CT at 10, n. 4.

[21] *In re Commission Inquiry Into the Valuation of Public Service Company 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, 12, ¶¶ 35-36 (Jan. 31, 2020) [hereinafter Used and Useful Policy Statement].

[22] *Id.* at 12, ¶ 37.

service after the rate effective date.[23] Adjustment 3.18 regards capital additions, expenditures that are eligible to be included in rates on a provisional basis consistent with the Commission's Used and Useful Policy Statement. In response to the Commission's Bench Request 1 (BR-1) and in its July 29, 2021, power supply update, Avista filed updated electric revenue requirement models identifying $1.2 million in EIM capital investment anticipated to be incurred after the rate effective date of October 1, 2021.[24] In its Response to Bench Request 11 (BR-11), Avista stated its preference for a post-effective date process for review of the provisional portion in its next GRC, which it expects to file with the Commission in early 2022.[25]

37 Staff's response to BR-11 revealed that the Settling Parties did not identify the provisional portion of adjustment 3.18 or, for that matter, which review process should apply.[26] Staff prefers that any provisional portion be reviewed in Avista's next GRC.[27] AWEC agrees with Staff.[28]

38 We find it reasonable and appropriate under these circumstances to review the provisional portion of pro forma adjustment 3.18 in Avista's next GRC, as preferred by Avista, Staff, and AWEC. The provisional expenditures will be incurred by March of 2022. Because the entirety of adjustment 3.18 is agreed by the Settling Parties to be included in rates beginning October 1, 2021, including the provisional pro forma portion, we find it unnecessary that the Settling Parties agree what portion is provisional at this time. All our Used and Useful Policy Statement requires is that it be identified *ex ante* by the utility.[29] Avista committed to "communicating with the other Parties through periodic 'expenditure reports' filed on a quarterly basis, commencing October 15, 2021," for the

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[23] Andrews, Exh. EMA-1T at 28:14-16; Andrews, Exh. EMA-6T at 15:1-14; Andrews, Exh. EMA-2; Andrews, Exh. EMA-8.

[24] Avista's Response to BR-1

[25] Avista's Response to BR-11 at 2-4, (b)(i), (b)(iii).

[26] Staff's Response to BR-11 at 2, (a)-(b)(ii).

[27] *Id.* at 2, (b)(i)-(ii).

[28] AWEC's Response to BR-11 at 2, (a)-(b)(ii).

[29] Regarding the identification of the provisional portion of a pro forma adjustment, it is unnecessary albeit unfortunate that the Settling Parties did not agree to the provisional portion. The Settling Parties have demonstrated that they all agree to the total pro forma adjustment inclusive of the provisional portion. This is sufficient to proceed with the Settlement as the final provisional portion will be decided *ex post. See* Used and Useful Policy Statement at 15, ¶ 44.

provisional portion of the EIM pro forma adjustment.[30] We consider this agreement implicit in the Settling Parties' agreement because, as we stated in our Used and Useful Policy Statement, such reporting is a necessary condition of allowing any provisional portion of a pro forma adjustment in rates.[31]

39 The Settling Parties agree to allow Avista to recover the capital and expenses incurred since 2020 to participate in the EIM as shown in Avista's proposed pro forma adjustment 3.18. We are aware of the Parties' original dispute on this topic and note their compromise. Avista will be allowed to include the capital and expenses in rates and the other Parties will see the $5.8 million annualized system EIM benefit also included in rates. Parties will also be invited to participate in a collaborative, or Staff investigation, to consider the proper modeling of EIM benefits. If that collaborative or investigation is not complete by the time Avista files its next GRC, Avista agrees to examine the accuracy of the estimated EIM benefits in that GRC.

40 To support the Settlement, Avista witness Ehrbar testifies that the Settling Parties' resolution of the costs Avista incurred to join the EIM provides cost recovery certainty for the Company and benefits for its customers.[32] Staff witness Ball testifies that the Settling Parties' agreement avoids the near certainty of litigating this "highly complex issue" of properly and accurately modeling the EIM benefits and costs that will be enjoyed and borne by Avista and its customers.[33] Ball testifies: "By incorporating these estimates into rates now along with providing a mechanism for review and improvement going forward, the . . . Settlement ensures ratepayers will receive the benefit, and burden, of Avista's decision to join the EIM."[34]

41 We agree. Accordingly, we determine that the Settlement's proposals for resolving pro forma EIM capital and expenses and the collaborative to address EIM benefits and cost modeling presented in these consolidated proceedings is in the public interest and should be approved. Additionally, we determine that the review process for the provisional portion of adjustment 3.18 should occur in Avista's next GRC.

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[30] Avista's Brief at 14, ¶ 31.

[31] *See* Used and Useful Policy Statement at ¶¶ 32, 42.

[32] Settling Parties, Exh. JT-1CT at 16:5-8.

[33] *Id.* at 19:18-23.

[34] *Id.* at 20:1-4.

iii. IEP Special Contract

42 The Settling Parties agree to support and incorporate into rates the IEP Special Contract between Avista and Inland Empire Paper subject to certain conditions.[35] Those conditions include an agreement that Avista meet with interested parties to discuss how the IEP Special Contract will be treated in future cost of service studies, Avista file a report with the Commission a within 180 days of this Order indicating whether the interested parties have reached an agreement.[36]

43 Avista agrees to retain records of curtailment events resulting from the IEP Special Contract, which may occur if Inland Empire Paper is called upon to reduce its load on Avista's system during an extreme event that requires power to be assigned to other Avista customers.[37] Avista agrees that in future GRC filings it will provide these curtailment event records in summary form for events encompassing the test period, including such records as the time and duration of the event, how much power Inland Empire Paper curtailed during the event, and Inland Empire Paper's total load during the event.[38] Avista also agrees to provide these curtailment event records to Staff or Public Counsel upon request, even if the request is not made as part of a GRC.[39]

44 The Settling Parties agree that the IEP Special Contract must "maintain support for contributions and mechanisms related to public purposes," including low-income and energy efficiency.[40] The IEP Special Contract must also maintain Inland Empire Paper's level and methodology for contribution to these mechanisms. The Settling Parties agree that Avista's filing in compliance with this Order will incorporate the final rates of the IEP Special Contract.[41] Lastly, the Settling Parties agree that the revenue adjustment for

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[35] Settlement at 4, ¶ 11. The Settling Parties support a special contract based on the terms provided in the confidential non-binding term sheet included with the Settlement as Attachment A. *Id.*

[36] *Id.*

[37] *See id.* at 4-5, ¶ 11.

[38] *Id.*

[39] *Id.*

[40] *Id.* at 5, ¶ 11.

[41] *Id.*

the IEP Special Contract "will be recovered from all other electric customers based on the spread of the return of the AFUDC deferral balance."[42]

Commission Determination

45 In Final Order 09 of Avista's 2019 GRC, we approved a partial multiparty settlement that addressed the opportunity for Avista and Inland Empire Paper to negotiate the IEP Special Contract.[43] In that case, the agreement permitted negotiations of a special contract with Staff's participation and without any allowance for objection to the IEP Special Contract based upon eligibility. Regardless, the Parties reserved the right to address issues arising from the IEP Special Contract, including lost margins, in a future proceeding. The agreement also indicated that the effective date of an approved IEP Special Contract would coincide with the effective date of the current GRC and consolidated proceedings.[44] We are now presented with the IEP Special Contract as part of the unopposed Settlement in this GRC.[45]

46 For the Commission to approve the IEP Special Contract, Avista and Inland Empire Paper must:

1. Show that the contract meets statutory requirements prohibiting unreasonable preference and rate discrimination;
2. Demonstrate that the contract charges recover all costs resulting from providing the service during its term and contribute to the utility's fixed costs;
3. Summarize the basis of the contract charges and explain their derivation, including all cost computations; and
4. Indicate the basis for using a contract rather than a filed tariff to govern the service.[46]

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[42] *Id.* at 4, ¶ 11.

[43] *Wash. Utils. & Transp. Comm'n v. Avista Corp., d/b/a Avista Utils.,* Dockets UE-190334, UG-190335, and UE-190222 (*Consolidated*), Final Order 09, 23-24, ¶¶ 64-65, (Mar. 25, 2020) [hereinafter 2019 Avista GRC Final Order]; *see id.* at Appendix A at 12, ¶ 14(i).

[44] 2019 Avista GRC Final Order, Appendix A at 12, ¶ 14(i).

[45] Bonfield & Rasler, Exh. SJB-KR-2C.

[46] WAC 480-80-143(5); WAC 480-80-143(6); RCW 80.28.090; RCW 80.28.100.

47 For the following reasons, we find that Avista and Inland Empire Paper have met the requirements for approval of the IEP Special Contract, and that it should be approved as part of the Settlement.

48 Statute prohibits Avista from giving to any customer an undue or unreasonable preference or advantage and from charging a different rate "for doing a like or contemporaneous service with respect thereto under the same or substantially similar circumstances or conditions."[47] Under the circumstances presented here, no unreasonable preference is provided and no rate discrimination exists because Inland Empire Paper is unique. The evidence shows that no other customer has the same or substantially similar circumstances or conditions.

49 Inland Empire Paper is Avista's largest customer, and so large that, if Inland Empire Paper were to leave Avista's system by constructing and operating its own cogeneration system, it "would cause a substantial cost shift to all other customers."[48] Inland Empire Paper has also demonstrated through evidence presented in these proceedings the willingness and economic feasibility for constructing and operating its own cogeneration facility to bypass the majority of the energy with which it is served by Avista.[49] No party has raised any opposition to this evidence and several Parties have agreed or acknowledged the potential for Inland Empire Paper to bypass Avista's energy service because it has already bypassed its natural gas service.[50] Therefore, Inland Empire Paper's load requirements, technical expertise and capability, economic incentive, and access to "substantial natural gas supplies," as testified by the Settling Parties, makes its situation unique when compared with any other Avista customer.[51]

50 In addition, Inland Empire Paper "is the only Avista customer large enough to provide more than 10 MW of demand response," which means its inclusion presents Avista an opportunity to acquire a demand response resource that "is larger than the combined size

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[47] RCW 80.28.090; RCW 80.28.100.

[48] Bonfield & Rasler, Exh. SJB-KR-1CT at 5:20-23; Kaufman, Exh. LDK-1CT at 3:3.

[49] *See, e.g.,* Kaufman, Exh. LDK-3C, which provides a third-party feasibility study supporting the economics of bypassing Avista's system.

[50] Bonfield & Rasler, Exh. SJB-KR-1CT at 8:3-10; Settling Parties, Exh. JT-1CT at 18:1-9, 20:12-14, 21:10-12; Settling Parties, Exh. JT-1CT at 17:11-13, stating "Avista, through almost two years of discussions and negotiations with IEP, was persuaded that IEP could construct a cogeneration system adjacent to its mill to serve nearly all of its electric load."

[51] Settling Parties, Exh. JT-1CT at 17:20-22.

of all other demand response programs Avista expects to acquire in Washington over the 20-year [Integrated Resource Plan (IRP)] planning horizon."[52]

51 Avista and Inland Empire Paper testify at length to the benefit of including contractual terms creating a demand response program with the capability to provide more than 10 MW of demand response.[53] This demand response program should contribute to the transition to carbon-free generation by reducing the need for additional, potentially carbon-intensive, generation with a resource that is dispatchable to help meet peak load unconstrained by the dispatch limitations of wind and solar.[54]

52 Considering Inland Empire Paper's demonstration in these proceedings of its willingness and ability to leave Avista's system, we consider the substantial costs that would befall Avista's other customers if Inland Empire Paper left the system and the benefit of keeping Inland Empire Paper on Avista's system with this special contract.[55] In light of these factors and considering the other benefits retained by Avista's customers if Inland Empire Paper remains on Avista's system, the revenue adjustment resulting from the IEP Special Contract that will be recovered from all other electric customers according to the method of rate spread selected by the Commission in this Order is fair, just, and reasonable.[56]

53 Avista and Inland Empire Paper have summarized and demonstrated the basis of the charges, and calculations thereof, in the IEP Special Contract. While Inland Empire Paper will not take service any longer as a customer under Schedule 25, the contract price will be tied to the schedule through a "rate factor," which will be used to determine increases or decreases mirroring any future changes to Schedule 25 rates.[57] Tying the contract price to Schedule 25 will ensure that Inland Empire Paper continues contributing to Avista's fixed costs.[58] Inland Empire Paper also showed how it would continue to contribute to

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[52] Bonfield & Rasler, Exh. SJB-KR-1CT at 26:16-21; Kaufman, Exh. LDK-1CT at 27:4-7, citing Avista's 2021 Electric IRP at 1-1.

[53] Bonfield & Rasler, Exh. SJB-KR-1CT at 14:1-6; Kaufman, Exh. LDK-1CT at 26:14-27:17.

[54] Bonfield & Rasler, Exh. SJB-KR-1CT at 14:1-15:2; Kaufman, Exh. LDK-1CT at 26:5-13; Settling Parties, Exh. JT-1CT at 24:13-16.

[55] Settling Parties, Exh. JT-1CT at 17:11-17; Dahl, Exh. CJD-1T at 11:19-12:1.

[56] *See* Bonfield & Rasler, Exh. SJB-KR-1CT at 13:13-22.

[57] *Id.* at 12:13-13:12, 20:1-6.

[58] *Id.* at 9:3-8.

Avista's fixed costs through use of an economic bypass rate, and how its economic bypass revenue requirement was negotiated and will be calculated based on Avista's electric revenue requirement authorized by this Order.[59] Further, the IEP Special Contract terms indicate that Inland Empire Paper will be subject to the rates, terms, and conditions for all current and new tariff riders applicable to Schedule 25.[60] Thus, we expect, that Inland Empire Paper will continue to contribute to costs attributed to Washington customers that Avista incurs and will incur related to the Colstrip power plant.

54 The Settling Parties could not have known when negotiating the Settlement supporting the IEP Special Contract that an unprecedented and historic extreme heat event would occur mere weeks before the evidentiary hearing, presenting an opportunity to test Inland Empire Paper's demand response capability.[61] Inland Empire Paper witness Rasler recounted the cooperation between Avista and Inland Empire Paper during the June 2021 heat event, testifying:

> We had an opportunity Monday [June 28, 2021,] of last week . . . to test this out. And a little bit of subtle irony. Avista and IEP signed the contract before you Thursday morning [June 24, 2021], and Thursday afternoon Avista's power group called and said, "Hey, would you guys be interested in giving us a hand?" And we said, you know, "This is fortuitous timing." You know, "We'd like to do that." And so, as things worked out, we did shut our TMP system down on Monday afternoon [June 28, 2021,] to provide some capacity relief for Avista . . . . [I]t was just a fantastic opportunity to really get a real-time understanding of how we need to be prepared to work out the fundamental challenges of operating our business and being able to respond to Avista, especially in the post-commitment period, when it is a requirement and is going to be even more import to Avista's overall customer base.[62]

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[59] *Id.* at 9:9-12:12.

[60] *Id.* at 19:16-22.

[61] *See* Proclamation 21-10 at 1 (Jul. 6, 2021).

[62] Rasler, TR at 94:9-95:8.

This event demonstrated how the IEP Special Contract can benefit Avista and its customers, and that it is consistent with the public interest, especially during periods of emergency.

55 We also consider how the IEP Special Contract is consistent with the public interest considering Washington's Clean Energy Transformation Act (CETA). The state's policy and intent, as stated in CETA, is to transition away from carbon-based electricity generation and ensure that all customers, including low-income customers, vulnerable populations, and highly impacted communities, benefit from the transition to clean energy.[63]

56 Washington's goal is that all electricity supplied to retail customers is carbon free by 2045.[64] To achieve this goal, CETA states that to avoid "significant threats to our economy, health, safety, and national security," the transition to carbon-free electricity must happen faster and now is a "critical juncture" for doing so.[65] Refraining, when possible, from constructing new carbon-based generating resources will aid the transition to carbon free electricity. The IEP Special Contract prohibits Inland Empire Paper from developing a cogeneration resource to serve its load.[66] Sierra Club witness Piedfort highlights this term, testifying that approving the IEP Special Contract would mean that an "additional gas co-generation will not be constructed in Washington, at least during the term of the special contract. . . . Adding gas generation is not in line with the state's climate goal to have carbon-free electricity by 2045."[67] We find that this term is consistent with Washington's stated policy of transitioning to a clean electricity supply and weighs in favor of approving the IEP Special Contract.

57 The Energy Project witness Collins supports of the IEP Special Contract "because it specifically preserves and protects for the future [Inland Empire's] level of contribution towards low-income assistance and energy efficiency as if no Special Contract were in place."[68] Collins notes The Energy Project's belief in the importance of protecting the contributions by large customers who enter into special contracts with Washington

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[63] Chapter 19.405 RCW; RCW 19.405.010.

[64] RCW 19.405.010(2); RCW 19.405.050(1).

[65] RCW 19.405.010(3); RCW 19.405.010(2).

[66] Bonfield & Rasler, Exh. SJB-KR-1CT at 20:15-16.

[67] Settling Parties, Exh. JT-1CT at 29:18-23; *see* RCW 19.405.010(2).

[68] Settling Parties, Exh. JT-1CT at 27:18-20.

utilities to the system benefits and support programs, noting our decision in 2017 regarding the special contract between Puget Sound Energy (PSE) and Microsoft.[69] In that case, we agreed that the terms of the settlement served the public interest because it ensured that Microsoft's historically substantial contributions to energy conservation and low-income assistance programs, as the utility's largest customer, would continue and its special contract would not harm customers who relied on those programs "to reduce or afford their energy consumption."[70] Here, as with Microsoft, we observe that Inland Empire Paper has, as Avista's largest customer, contributed substantially to Avista's low-income and energy efficiency programs, and we find that the IEP Special Contract, in light of its relevant terms, serves the public interest because it will ensure that Inland Empire Paper's historically substantial contributions continue.[71]

58 Overall, Staff believes that the IEP Special Contract conforms to the requirements in rule and statute and recommends that it be approved by the Commission.[72] Staff witness Ball testifies that "[a]s a whole, the [IEP Special Contract] represents a negotiated agreement that results in fair, just, reasonable, and sufficient rates for all customers."[73] We agree.

59 The IEP Special Contract will provide a significant demand response resource to Avista and avoid Inland Empire Paper constructing a new gas-fired generation facility. It also fairly assesses an economic bypass rate to Inland Empire Paper that will mirror the rate design of Schedule 25 going forward by tying the contract rate to Schedule 25. Doing so will ensure that Inland Empire Paper continues to contribute fairly to current and future costs, including those that are and may become related to the Colstrip power plant. Finally, Avista and Inland Empire Paper have shown that the contract's charges recover all costs resulting from providing the service during its term, and that the contract contributes to the utility's fixed costs. Avista and Inland Empire Paper have summarized the basis of the contract charges and explained their derivation, and also indicated the basis for using a contract rather than a filed tariff to govern the service. Thus, we find that the IEP Special Contract meets all requirements in statute and rule. In addition, we find

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[69] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-161123, Order 06, Order Approving Settlement Agreement (Jul. 13, 2017).

[70] *Id.* at 24-25, ¶¶ 61-63.

[71] Settlement at 5, ¶ 11; Bonfield & Rasler, Exh. SJB-KR-1CT at 18:10-14, 19:16-22, 25:19-21; Settling Parties, Exh. JT-1CT at 27:10-20; *see Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-161123, Order 06 at 25, ¶ 63.

[72] Settling Parties, Exh. JT-1CT at 20:6-18.

[73] *Id.* at 21:13-16.

that the additional terms agreed by the Settling Parties and included in the Settlement are reasonable. Accordingly, we determine that the Settlement's terms regarding the IEP Special Contract should be approved without condition.

iv. AFUDC Deferral

60 The Settling Parties agree that Avista must return AFUDC deferral balances of $1.8 million to its electric customers and $0.5 million to its natural gas customers over the next year through Schedules 76 (electric) and 176 (natural gas).[74] The Settling Parties agree to spread the refund – or distribute the benefit from returning these amounts – to each customer class based on allocated rate base. However, the Settlement allows the Commission to select a different rate spread method, at the Commission's discretion, without disturbing the Settlement.[75]

Commission Determination

61 We find that the Settling Parties' agreement for how to return the AFUDC deferral balances is appropriate. By returning the balances over the upcoming year through Schedules 76 and 176, the Settling Parties ensure a quick return to customers of these funds. Doing so also contributes to reducing the burden of the increase in rates we authorize in this Order. In addition, we find that the Settling Parties' agreement to distribute the deferral balance amount to customer classes based on allocated rate base needs no modification. Accordingly, we determine that the Settlement's resolution of how to return the AFUDC deferral balances to customers is in the public interest and should be approved.

v. Pricing Pilots

62 The Settling Parties agree that Avista must design time of use (TOU) pricing pilots and peak-time rebate pilots, to which its electric residential customers and general service schedules may opt-in.[76] Avista may engage a third party to design and evaluate the programs, but will also convene stakeholder meetings to gather feedback on its planned design and the monitoring, reporting, and evaluation of the programs.[77] Avista agrees to

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[74] Settlement at 5, ¶ 12.

[75] *Id.* at 5-6, ¶ 12.

[76] *Id.* at 6, ¶ 13.

[77] *Id.* at 6-7, ¶ 13.

include language in its monitoring and reporting plans "to measure and evaluate the impact to low-income and vulnerable populations" as well as equity measures in these plans for the residential and general service schedules.[78] Last, Avista agrees to file with the Commission its final pilot program proposals and monitoring and reporting plans within six months of convening the first stakeholder meeting on its proposals, but must file these proposals and plans no later than April 1, 2023, with effective dates of June 1, 2023.[79]

Commission Determination

63 We find that the Settling Parties' agreement related to the TOU and peak-time rebate pilots are appropriate. We have recently approved other electric TOU pilots, specifically in the PacifiCorp d/b/a Pacific Power (PacifiCorp) 2019 GRC.[80] In that case, because the settlement lacked a sufficient framework or plan, we conditioned our approval on certain reporting requirements and stated our expectation that the Commission would receive a filing within 90 days regarding further collaborative agreements to establish the monitoring, reporting, and evaluating of the pilot programs.[81] Here, the Settling Parties have created a schedule and framework for Avista and its stakeholders to follow while designing the programs with stakeholder feedback, as well as plans for monitoring, reporting, and evaluating the pilot programs. It is apparent that this structure was intentional. Avista witness Ehrbar testifies that Avista has been interested for some time in "pricing pilots and having firm deliverables and timing for the creation of such pilots was of interest, especially in light of just completing our [AMI] deployment."[82] Staff witness Ball adds that the terms providing structure for the pilots' design with defined opportunities for stakeholders to provide feedback on monitoring and reporting brings "Avista's proposed pilots into alignment with the pricing pilot programs approved for

[78] *Id.* at 6, ¶ 13.

[79] *Id.* at 6-7, ¶ 13.

[80] *Wash. Utils. & Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778 *(Consolidated)*, Final Order 09/07/12 Rejecting Tariff Sheets, Approving and Adopting Settlement Stipulation, Approving and Adopting Settlement Stipulation Subject to Conditions, Authorizing and Requiring Compliance Filing (Dec. 14, 2020).

[81] *See id.* at 48, ¶¶ 120-121.

[82] Settling Parties, Exh. JT-1CT at 18:12-15.

PacifiCorp, which reduces the complexity of any evaluations for any interested stakeholders and the Commission."[83] We agree.

64 Throughout the Settling Parties' proposal, language describing measures of equity and inclusion in these pilot programs included reference to "low-income and vulnerable populations" and "low-income, vulnerable, and marginalized populations."[84] CETA states that it is in the public interest to equitably distribute energy benefits and reduce the burden on vulnerable populations – as mentioned in the Settlement by the Settling Parties – and also of "highly impacted communities."[85]

65 At hearing, witnesses testifying on behalf of the Settling Parties indicated that the absence of a reference to "highly impacted communities" was a simple oversight, and that highly impacted communities were intended to be included and considered when developing both the language for monitoring and reporting plans and the feedback for the design and implementation of the pilots.[86] From context, it appears that the Settling Parties intend for these terms in the Settlement to include highly impacted communities. The Energy Project witness Collins testifies on behalf of Avista's low-income customers in favor of these pilot programs, in particular the peak time rebate option, and the Settling Parties' agreed equity measures and structure to monitor, report, and evaluate the impacts on low-income customers and vulnerable populations.[87] Collins, along with the other Settling Parties, agreed at hearing to add "highly impacted communities" in the Settlement, which will align the language of the Settlement with CETA.[88]

66 We find, therefore, that the Settlement's proposal for pilot programs must be and can only be understood to include, either explicitly or implicitly according to the testimony offered by the Settling Parties at hearing, highly impacted communities in addition to and in all places where low-income and vulnerable populations are referenced in the Settlement. With this understanding of the Settling Parties' agreement on these pilot

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[83] *Id.* at 21:19-22:2.

[84] Settlement at 6, ¶ 13.

[85] RCW 19.405.010(6).

[86] *See* Ball, TR at 67:6-14; Ehrbar, TR at 67:15-20.

[87] Settling Parties, Exh. JT-1CT at 26:23-27:9. The Energy Project is an intervenor in this proceeding and represents Avista's low-income customers and the Washington State Community Action Partnership organizations that provide low-income energy efficiency and bill payment assistance for customers in Avista's service territory. Collins, Exh. SMC-1T at 1:15-18.

[88] Settling Parties, TR at 67:6-24.

programs, we determine that the Settling Parties' agreement regarding TOU and peak-time rebate pilot programs is in the public interest and should be approved.

vi. Low-Income

67 The Settling Parties propose several items related to low-income customers in the Settlement. The Settling Parties agree to increase Avista's LIRAP funding by 7 percent, or double the percentage increase in the residential base rate approved in this GRC, whichever is greater.[89] Avista also commits to discuss renewable programs for its low-income customers, collaborate on these programs with its Energy Assistance Advisory Group (EAAG), and propose any viable project to the Commission for approval.[90] Last, the Settlement requires Avista to establish, by working with its EEAG, an electric vehicle (EV) project or program dedicated to benefitting low-income customers by 2022. Avista will do so "in alignment with its Transportation Electrification Plan and goal of dedicating thirty percent (30%) of transportation electrification program funds to the benefit of low-income customers."[91]

Commission Determination

68 We find appropriate the Settling Parties' agreements to (1) increase LIRAP funding by the greater of 7percent or double the percentage increase in the residential base rate approved in this GRC, (2) discuss and collaborate with Avista's EEAG on new programs and propose viable renewable programs for low-income customers, and (3) implement an EV project or program benefitting low-income customers. The terms agreed to will help more Avista customers afford their energy use and begin the development of renewable projects and programs developed with low-income customers in mind, to ensure that Avista's low-income customers will also be included in Washington's transition to clean energy. Accordingly, we determine that the low-income terms agreed by the Settling Parties are fair, just, and reasonable, and should be approved.

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[89] Settlement at 7, ¶ 14.

[90] *Id.*

[91] *Id.* at 7-8, ¶ 14.

vii. Fee Free and LEAP Deferrals

69 The Settling Parties agree to the amortization of the Fee Free and LEAP deferrals proposed by Avista in its initial filing.[92]

Commission Determination

70 We find the Settlement's resolution of the amortization of the Fee Free and LEAP deferrals appropriate. The Commission has addressed both in previous Avista GRCs. Most recently, we approved a partial multiparty settlement in the 2019 Avista GRC, Dockets UE-190334, UG-190335, and UE-190222 *(Consolidated)*, that included agreements to amortize the Fee Free deferral over two years beginning April 1, 2020, resulting in an annual amortization expense of $775,000 for electric and $497,000 for natural gas and to amortize the LEAP deferral presented in that case over five years beginning April 1, 2020, resulting in an annual amortization expense of $1.745 million.[93] The LEAP deferral amortization presented in the 2019 Avista GRC was separate from another LEAP deferral amortization that the Commission approved in the 2017 Avista GRC, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 *(Consolidated)*, over five years beginning in May 2019.[94] From our review, Avista's proposals, which the Settling Parties adopt as part of the Settlement, are consistent with previous Commission decisions. Accordingly, we determine that the amortizations agreed to by the Settling Parties for the Fee Free and LEAP deferrals should be approved.

2. SETTLEMENT DETERMINATION

71 Having reviewed the Settlement, its supporting evidence, and all evidence in the record we conclude that the resulting rates, terms, and conditions are fair, just, reasonable, and sufficient. The Settlement terms are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission. We therefore approve the Settlement without condition.

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[92] *Id.* at 8, ¶ 15.

[93] 2019 Avista GRC Final Order at 22, ¶ 60.

[94] *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-170485, UG-170486, UE-171221, & UG-171222 *(Consolidated)*, Order 07/02/02, Final Order Rejecting Tariff Sheets, Approving Partial Settlement, and Directing Company to File Tariff Sheets in Compliance with this Order (Apr. 26, 2018) [hereinafter 2017 Avista GRC Final Order].

C. CONTESTED ISSUES

72 While the Settlement resolved a number of significant issues in this proceeding, several issues remain contested. These issues present questions related to Avista's appropriate cost of capital, revenue requirements, and method for allocating recovery of those revenue requirements from Avista's customers. We address and resolve each contested issue in turn, below.

1. COST OF CAPITAL

73 Avista's proposed hypothetical capital structure, its proposed cost of debt, and its proposed ROE are contested by Staff, Public Counsel, and AWEC. Each offers its own recommendations. The Company proposes a 50:50 equity-to-debt capital ratio and an ROE of 9.9 percent, up from the 9.4 percent ROE established in Avista's most recent rate case. Staff proposes an ROE of 9.3 percent and Public Counsel proposes an ROE of 9.00 percent. AWEC proposes holding the Company's ROE at 9.4 percent and setting the capital structure at a 51.5:48.5 debt-to-equity ratio.

74 The witnesses appearing on behalf of each party are highly qualified and well-respected experts and we rely upon their analyses in determining a range of reasonable returns within which we can identify a point value for use in determining rates. Mark T. Thies and Adrien M. McKenzie appear on behalf of Avista. David C. Parcell appears on behalf of Staff. Dr. J. Randall Woolridge appears on behalf of Public Counsel. Bradley G. Mullins appears on behalf of AWEC and although he does not include an analysis and studies to support a recommendation for Avista's ROE, offers testimony explaining why Avista's proposed capital structure and cost of debt should be modified.

75 Avista's currently authorized cost of capital is shown in Table 1, below.

Table 1. Currently Authorized Cost of Capital

	Capital Structure	Cost	Weighted Cost
Equity	48.5%	9.40%	4.56%
Debt	51.5%	5.15%	2.65%
Overall Rate of Return			7.21%

76 All components of Avista's cost of capital are contested: capital structure, ROE, cost of debt, and ROR. Table 2, below, illustrates the Parties' positions.

Table 2. Cost of Capital Positions

Component	Current	Avista	Staff	Public Counsel	AWEC
Equity	48.5%	50.0%	48.5%	48.5%	48.5%
ROE	9.4%	9.9%	9.3%	9.0%	9.4%
Weighted Cost	4.56%	4.95%	4.46%	4.37%	4.56%
Total Debt	51.5%	50.0%	-	51.5%	51.5%
Cost	5.15%	4.97%	-	4.97%	4.75%
Weighted Cost	2.65%	2.84%	-	2.56%	2.45%
Long-Term Debt	-	-	49.02%	-	-
Cost	-	-	5.05%	-	-
Weighted Cost	-	-	2.48%	-	-
Short-Term Debt	-	-	2.48%	-	-
Cost	-	-	3.26%	-	-
Weighted Cost	-	-	0.08%	-	-
ROR	7.21%	7.43%	7.07%	6.92%	7.01%

77 **Avista.** Avista witness Thies proposes a hypothetical capital structure with 50 percent equity and 50 percent debt (50:50 equity to debt ratio, or 50:50 capital structure). To support this proposal, Thies testifies that adopting a 50:50 equity to debt ratio would lead to better credit ratings because it would demonstrate Avista's improved regulatory

relationship, which was a factor in Moody's Investor Service's downgrade of Avista's credit rating in December 2018.[95] Thies also supports Avista's exclusion of short-term debt, reasoning that adjusting Avista's capital structure is a ratemaking tool the Commission should employ in this case to arrive at an end result that provides the Company with sufficient revenues, and noting that both Idaho and Oregon recently used this same ratemaking tool to authorize Avista's proposed 50:50 capital structure.[96] Thies also reasons that excluding short term debt and adopting a 50:50 capital structure will be beneficial to customers because it will help Avista's credit rating, thereby increasing stability for the Company.[97]

78 Thies proposes a cost of debt of 4.97 percent, a reduction to Avista's currently-authorized 5.15 percent cost of debt. Thies testifies that Avista's authorized cost of debt has trended downwards over the past decade due to declining interest rates and Avista's issuance of new debt to replace higher cost debt, taking advantage of historically low rates.[98] Thies testifies to the Company's Interest Rate Risk Management Plan and Avista's interest rate hedging practices, and asserts that the current interest rate environment "supports increased reliance on longer-term debt" with a 30-year term instead of a shorter 10-year term.[99]

79 Thies testifies regarding Avista's proposed ROE of 9.9 percent, which is supported by Avista witness McKenzie's analysis.[100] Thies testifies to the importance of Avista's credit ratings and its ability to access capital markets and attract capital on reasonable terms.[101] Ultimately, Thies states that Avista's current S&P corporate credit rating of BBB will enable the Company to continue attracting investors, but that Avista targets an improved credit rating of BBB+, which Thies argues would result from "conservative financing

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[95] *Id.* at 19:6-21:18.

[96] Thies, Exh. MTT-1T at 18:1-12. Thies's rationale arises from the testimonies of other Avista witnesses, which indicate that Avista's pro forma studies, alone, will not provide the rate relief Avista believes is needed to earn its proposed ROR. *See* Andrews, Exh. EMA-1T; Vermillion, Exh. DPV-1T.

[97] Thies, Exh. MTT-1T at 18:13-19:5.

[98] *Id.* at 24:21-25:22.

[99] *Id.* at 26:1-29:20, 26:17-20.

[100] *Id.* at 29:1-6.

[101] *Id.* at 30:8-34:17.

strategies and a supportive regulatory environment," attract additional investors, and lower debt for Avista's future financings.[102]

80 Avista witness McKenzie provides analytical support for Avista's requested ROE and capital structure. McKenzie's recommendations rely upon information of capital market conditions, including investor perceptions and expectations,[103] and analyses of comparable utility companies using the discounted cash flow (DCF) model,[104] the Capital Asset Pricing Model (CAPM),[105] the empirical form of the CAPM (ECAPM),[106] an equity risk premium approach,[107] an Expected Earnings Approach,[108] and a DCF model with a proxy group of non-utility companies, with whom McKenzie explains Avista must compete to attract investment.[109]

81 McKenzie's analyses each produce a range of ROE, which then informs McKenzie's final range of ROE recommendation. With the addition of a 10-basis point adjustment accounting for common equity flotation costs, McKenzie's final recommendation for a range of ROE is 9.4 to 10.8 percent.[110] McKenzie therefore concludes that Avista's proposed 9.9 percent ROE is reasonable.

82 **Staff.** Staff witness Parcell recommends the Commission maintain Avista's 48.5 percent equity ratio, and update Avista's 51.5 percent total debt ratio to specify 49.02 percent long-term debt and 2.48 percent short-term debt.[111] Parcell argues that including short-

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[102] *Id.* at 33:12-34:17, 34:11-13.

[103] McKenzie, Exh. AMM-1T at 11:22-36:2. The risks that McKenzie raises include operating risks, including Avista's resource mix and related capital investment, environmental risks, and size; earnings shortfalls due to lack of opportunity to earn a reasonable return; credit ratings and regulatory relationship; current economic and capital market conditions, including the COVID-19 pandemic, actions taken by the Federal Reserve, and the potential for recession; and Avista's authorized capital structure.

[104] *Id.* at 37:3-38:11; McKenzie, Exh. AMM-3; McKenzie, Exh. AMM-6.

[105] McKenzie, Exh. AMM-1T at 38:12-39:7; McKenzie, Exh. AMM-8.

[106] McKenzie, Exh. AMM-1T at 39:8-17; McKenzie, Exh. AMM-9.

[107] McKenzie, Exh. AMM-1T at 39:18-40:11; McKenzie, Exh. AMM-10.

[108] McKenzie, Exh. AMM-1T at 40:12-41:6; McKenzie, Exh. AMM-11.

[109] McKenzie, Exh. AMM-1T at 9:19-25, 41:7-43:6; McKenzie, Exh. AMM-3; McKenzie, Exh. AMM-12.

[110] McKenzie, Exh. AMM-1T at 6:2; *see id.* at 43:8-47:16.

[111] Parcell, Exh. DCP-1T at 3:18-4:15, 22:18-25:5; Parcell, Exh. DCP-3; Parcell, Exh. DCP-6.

term and long-term debt is appropriate because each is derived from Avista's actual relative amounts of short-term debt and long-term debt as of December 31, 2020, as presented in these consolidated proceedings by Avista witness Theis.[112] Further, Parcell testifies that a 48.5 percent equity ratio is supported by Avista's actual equity ratio as of December 31, 2020, its historic actual capital structure ratios over the most recent five full years that show no increase, and its similarity to the average equity ratios cited in state regulatory electric proceedings over the most recent six full years.[113] Parcell proposes using a 3.26 percent cost of short-term debt, as presented in these consolidated proceedings by Avista witness Theis, and a 5.05 cost of long-term debt that Parcell derives from the same applications Avista uses.[114]

83 Parcell conducts DCF, CAPM, Comparable Earnings (CE), and risk premium (RP) analyses to support his recommendation that the Commission authorize an ROE of 9.3 percent, with a range of ROE from 9.1 percent to 9.5 percent based upon the upper end of DCF results, the mid-point of CE results, and the range of results from the RP analysis.[115] Parcell does not give weight to the CAPM results because they are so low, but argues that the low results should still be considered as one factor that shows a "new normal" due to "a ten-year period of low and declining interest rates."[116] Therefore, Parcell recommends that the Commission not set Avista's ROE higher than the mid-point of his range of ROE.[117]

84 **Public Counsel.** Public Counsel witness Dr. Woolridge recommends the Commission maintain Avista's capital structure of 48.5 percent equity and 51.5 percent debt, and accept Avista's cost of debt of 4.97 percent.[118] Dr. Wooldridge argues that a 48.5 percent equity is justified because a 50:50 equity to debt ratio is a greater equity share than the three proxy groups used by McKenzie, closer to the 47.2 percent average of McKenzie's

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[112] Parcell, Exh. DCP-1T at 23:8-14; Parcell, Exh. DCP-3; *see* Theis, Exh. MTT-2.

[113] Parcell, Exh. DCP-1T at 20:5-17, 21:12-22:4, 23:15-24:10; Parcell, Exh. DCP-6; Parcell, Exh. DCP-7.

[114] Parcell, Exh. DCP-1T at 25:7-12; Parcell, Exh. DCP-3; *see* Theis, Exh. MTT-2.

[115] Parcell, Exh. DCP-1T at 27:17-31:18, 34:3-37:12, 44:6-48:15, 52:10-55:20.

[116] *Id.* at 56:1-21.

[117] *Id.* at 56:21-22.

[118] Woolridge, Exh. JRW-1T at 23:19-24:5.

proxy group, consistent with Avista's actual capitalization in recent years, and consistent with that authorized for utilities in Washington, including Avista in its last GRC.[119]

85 Dr. Woolridge conducts DCF and CAPM analyses to support his recommendation that the Commission authorize an ROE of 9.0 percent, with a range of ROE from 7.60 percent to 9.05 percent.[120] Dr. Woolridge bases the low-end of the range upon the highest of his CAPM results, and the high-end of the range upon the highest of his DCF results.[121] Dr. Woolridge explains his belief that CAPM modeling provides a less reliable measure of a utility's equity cost rate because it requires an estimate of the market risk premium, which varies widely.[122]

86 **AWEC.** AWEC witness Mullins does not provide any ROE modeling analysis, instead arguing against making dramatic changes when such a short time has passed since Avista's current rates became effective.[123] Thus, Mullins recommends the Commission maintain Avista's ROE of 9.4 percent and capital structure of 48.5 percent equity and 51.5 percent debt.[124]

87 AWEC contests Avista's proposed cost of debt and its restating debt adjustment, arguing that the cost of debt should be set at 4.75 percent based upon AWEC witness Mullins's analysis of Avista's two debt issuances. The first of those debt issuances occurred on September 30, 2020, less than a month after Avista filed its GRC. The second debt issuance occurred on August 31, 2021, one month from the rate effective date and almost two months after our evidentiary hearing in this case.[125] This issue is duplicated elsewhere in the case because Avista has included an adjustment to restate its debt expense, adjustment 2.14. Our decision here will resolve both issues.

88 **The Energy Project.** The Energy Project witness Collins also supports maintaining Avista's current ROE, arguing that doing so would be consistent with recent Commission decisions, and that it would also be unfair to provide a more generous return to Avista's

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[119] *Id.* at 4:5-10, 7:12-16, 21:16-19, 22:18-20; Woolridge, Exh. JRW-5 at 1.

[120] Woolridge, Exh. JRW-1T at 59:1-13.

[121] *See id.*

[122] *Id.* at 30:11.

[123] Mullins, Exh. BGM-1T at 6:13-7:6.

[124] *Id.* at 6:8-10; 10:10-17.

[125] *Id.* at 7:17-8:15; Mullins, Exh. BGM-6.

shareholders considering the "current economic environment resulting from the COVID-19 pandemic, when so many customers are finding it difficult to even meet basic daily living expenses for food, rent, and utility costs."[126]

Commission Determination

89 **Capital Structure.** Each year, electric and natural gas utilities file with the Commission a Commission Basis Report (CBR) pursuant to WAC 480-100-257 and WAC 480-90-257, respectively. The intent of a CBR is to depict the utility's operations under normal temperature and power supply conditions and includes a summary of a utility's actual cost of capital.

90 On April 23, 2021, Avista filed its 2020 electric and natural gas CBRs in Dockets UE-210266 and UG-210267, respectively, indicating the Company's actual cost of capital as of December 31, 2020. Table 3, below, presents Avista's actual cost of capital as reported in its 2020 CBRs.

Table 3. Avista's Actual Cost of Capital, December 31, 2020

	Capital Structure	**Cost**	**Weighted Cost**
Equity	47.37%	9.40%	4.56%
Debt	52.63%	4.93%	2.65%
Total	100.00%		7.21%

91 In addition, Avista witness McKenzie's proxy groups would support a capital structure of 47.2 percent equity and 52.8 percent debt.[127] Both Avista's most recently reported capital structure and the capital structure supported by McKenzie, if selected, would provide a lower authorized share of equity. No party has argued, however, that Avista's equity ratio should be decreased below 48.5 percent based on these facts. In brief, and throughout its case, Avista requests that the Commission implement special regulatory tools to combat regulatory lag. Avista correctly notes that one of the Commission's tools is using a hypothetical capital structure. We find, here, that Avista has not sufficiently demonstrated

[126] Collins, Exh. SMC-1T at 17:6-18:9.

[127] Woolridge, Exh. JRW-1T at 22:18-20; Mullins, Exh. BGM-1T at 10:13-17.

that any change to its capital structure is warranted. We note that the Company's capital structure could be correctly characterized as "hypothetical" based upon Avista's most recent CBR and the testimony of its expert witness. Accordingly, we determine that authorizing a capital structure of 48.5 percent equity and 51.5 percent debt, with no change from the most recent case, is appropriate.

92 **Cost of Debt.**[128] AWEC is the only party that contests Avista's cost of debt. No party otherwise contests Avista's calculation method.

93 We find that updating Avista's cost of debt based on its August 2021 debt issuance is inappropriate. That debt issuance occurred nearly two months after our evidentiary hearing, five months after responsive testimony, and only a month before the rate effective date. While it is within our discretion to order such an update, we are unwilling to do so here because we deny several adjustments with similar timing later in this Order.

94 Based upon our review of the testimony and evidence in the record, we disagree with AWEC's assertion that the September 2020 debt issuance lowered Avista's cost of debt. On rebuttal, Avista witness Thies explains that the basis for AWEC's decrement was an inadvertent inclusion by the Company in a discovery response that erroneously placed a $100 million COVID-related loan in short-term debt. With this correction, we agree with Avista that it has properly calculated its cost of debt.

95 Accordingly, we determine that a cost of debt of 4.97 percent is appropriate, and order Avista to recalculate the revised level of tax-deductible interest expense in its restating adjustment using the same methodology and the updated weighted cost of debt using our decision on capital structure. With this modification, we determine that the restating debt interest adjustment should be approved.

96 **ROE.** As an initial matter, we reject McKenzie's proposed 10 basis point adjustment for flotation costs as a component to be included in Avista's authorized ROE. We reasoned in the 2017 Avista GRC that, while these costs may be legitimate adjustments made during the underwriting process, the Company had failed to demonstrate the level of

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[128] Debt Interest (Restating Adjustment 2.14). The calculation method of Avista's restating debt interest adjustment is uncontested. However, AWEC's opposition to Avista's Cost of Debt (not the Debt Interest *calculation*) creates uncertainty. To the extent it remains contested, we find that resolving the Cost of Debt issue and ordering Avista to recalculate its debt interest based upon our determined Cost of Debt also is sufficient to resolve Avista's restating debt interest adjustment.

flotation costs it had actually incurred during the test year.[129] We remain unpersuaded in this case that we should include any flotation adjustment without a compelling showing. With this in mind, we receive McKenzie's recommendation without the flotation adder of a range of ROE between 9.3 and 10.7 percent and adjust Avista's requested ROE down by the 10 basis-point flotation adjustment to 9.8 percent.

97 The Commission has explained at length previously, and with respect to expert witnesses who appear before us, that we must exercise our own informed judgment when reviewing the subjective and judgment-based models relied upon by the cost of capital experts and when weighing their diverse and wide-ranging testimonies and recommendations.[130] We must evaluate all cost of capital evidence offered and consider other relevant principles and factors such as the general state of the economy, investment cycles in the industry, and the principle of gradualism to determine, consistent with the public interest, a reasonable range of returns and what specific ROE within that range is appropriate for determining Avista's revenue requirements.[131]

98 Here, the expert witnesses rely on familiar analytical tools such as DCF and CAPM models and use a variety of data sources for these and other models to calculate and support their recommendations. The models' results range widely from a high-end of 11.8 percent produced by McKenzie's ECAPM to a low-end of 7.30 percent by Public Counsel witness Dr. Woolridge's CAPM, a difference of 450 basis points. The wide-ranging results are directly attributable to the experts' selection of proxy groups and reliance on different sources for growth rates, discount rates, and market risk premiums. While the expert witnesses' analyses produce a 450-basis point range of possible returns, the zone of reasonable returns is much narrower.

99 We assign little weight to McKenzie's ECAPM due to its replacement of actual betas from electric utilities with calculated, hypothetical betas that are biased, and also due to its inclusion of a size adjustment that would be appropriate for determining the ROE for an unregulated company. In addition, we afford little or no weight to McKenzie's risk premium model due to its inclusion of ROE data dating back to 1974 under market and

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[129] 2017 Avista GRC Final Order at 30, ¶ 76.

[130] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-121697 & UG-121705 *(Consolidated),* Order 15, Dockets UE-130137 & UG-130138 *(Consolidated),* Order 14, Final Order on Remand, 13-16, ¶¶ 23-32 (Jun. 29, 2015) [hereinafter PSE Remand Final Order].

[131] *Id.* at 16, ¶ 32.

regulatory circumstances that have little comparability and use of prospective bond yields as risk-free because actually realizing those future yields with higher rates has greater risk.

100 We give little weight to the witnesses' CAPM models for the same reasons explained by Dr. Woolridge and Staff witness Parcell. Parcell strikes his own CAPM model from consideration, other than qualitatively, due to its exceptionally low results. Dr. Woolridge remarks how CAPM models produce less reliable results, and nearly strikes the influence from his analysis. We see similar just cause to assign little weight to McKenzie's CAPM model which, if we were to heavily weigh each of the CAPM models, would provide a high-end counterweight to the low-end models offered by Parcel and Dr. Woolridge. Instead, we agree with rationale in the expert testimonies offered that the CAPM models presented suffer from high variability due to the individual selections of variables.

101 Having assigned little weight to the higher ranges proposed by McKenzie and the lower ranges propose by Dr. Woolridge, we note that the witnesses made considerations similar to those we make here in order to moderate their own analyses. Dr. Woolridge's recommendation is higher than a midpoint between his lower and higher ranges (7.6-9.05), and McKenzie's recommendation is also lower than the midpoint between his higher and lower ranges (8.8-11.8). We find that their conclusions and ultimate ROE recommendations are appropriate to consider in determining a reasonable range of ROE, unlike in other cases when we have excluded witnesses' final recommendations from our recognized reasonable range.[132]

102 Staff's witness Parcell most accurately identifies a reasonable range between 9.1 percent and 9.5 percent, but Staff's recommended range, if adopted, would exclude Public Counsel's recommended 9.0 percent and Avista's recommended 9.8 percent, neither of which we find unreasonable. Considering the testimonies and analyses supporting the experts' models and analytical results, as well as our informed judgment of the recent state of the economy and industry trends, we determine that a reasonable range of returns exists between 9.0 and 9.8 percent as demonstrated by the evidence presented in this case.

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[132] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, & UG-190992 *(Consolidated)*, Final Order 08/05/03 Rejecting Tariff Sheets, Authorizing and Requiring Compliance Filing, 34, ¶ 102 (Jul. 8, 2020) [hereinafter 2019 PSE GRC Final Order].

103 In arriving at a specific point value, we first find it appropriate to assign greater weight to the witnesses' DCF results relative to the considerations we give to the other models. All three witnesses use the DCF approach. Since at least 1988, "the DCF method has become the most popular technique of estimating the cost of equity, and it is generally accepted by most commissions. Virtually all cost of capital witnesses use this method, and most of them consider it their primary technique."[133]

104 Additionally, we disfavor an unbalanced or overreliance on forecasts and projections that lack appropriate historical data. Striking a balance between past, observable evidence and predictive, future results is always a matter of judgment in cost of capital analyses. All three witnesses spend considerable energy in testimony explaining the use of projections versus historical data as the source of input for the models they use. We find McKenzie's heavy reliance on projections across his analyses lacks a sufficient showing of balance. In particular, McKenzie overly relies on higher risk projections as being more indicative of future results considering market perspectives of the utility industry, but fails to exclude higher outdated historical data from the 1970s and 1980s, a time with significant regulatory distinctions justifying a higher ROE than current circumstances. In addition, McKenzie's DCF includes three of four sets of growth rates based on earnings per share (EPS) forecasts and relies exclusively on analysts' short-term EPS growth projections. Consequently, our consideration of what specific point value is reasonable leans away from the high end of our range of reasonableness supported by his testimony.

105 We also consider regulatory principles and other factors relevant for determining what ROE is justified and in the public interest. Here, considerations such as including the state of the economy amidst an ongoing 19-month long global pandemic, the advent of considerable changes to our regulatory framework, near-term utility requirements in Washington's future due to transitioning away from fossil-fuel power generation towards a clean energy economy, as well as the principle of gradualism, weigh against moving Avista's ROE from the middle of the range of reasonableness.

106 Thus, we agree with McKenzie that the future of our complex global economy is uncertain. We disagree, however, that such uncertainty requires a negative outlook of the future or justifies greater investment risk than is objectively warranted. The witnesses

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[133] James C. Bonbright, *et al.*, Principles of Public Utility Rates, 317-18 (2d ed. 1988); PSE Remand Final Order at 58, ¶ 129.

explain in testimony the increase in betas observed, indicating stock volatility.[134] This contributes to uncertainty, but does not predict the future. If anything, it confirms that the economy going forward in the COVID-19 pandemic, and as the world begins to move past the pandemic, is unknowable. We do not observe, however, any evidence in the record that persuades us there is yet any indication warranting a speculative upward adjustment of ROE based on fear that utility betas or interest rates will change precipitously to the detriment of regulated utilities. As in the case of the western energy crisis in the early 2000s, the Commission will remain prepared to act appropriately and decisively should an economic crisis require it to do so.

107 In addition, the principle of gradualism and the changing regulatory landscape moderate any impulse to adjust ROE away from the middle of the range of reasonableness. We find that any change to Avista's currently authorized ROE is therefore unwarranted due in part to the new regulatory framework that requires multi-year rate plans and new considerations for performance-based regulation. Greater certainty will come with the filing of Avista's next GRC, both in terms of economic conditions and the regulatory framework. We therefore find that it is appropriate to maintain Avista's ROE of 9.4 percent, which slightly favors the lower half of our range of reasonableness for the reasons explained above.

108 Therefore, Avista's authorized overall rate of return is 7.12 percent given the Commission's decisions related to the cost of capital. In summary, we illustrate in Table 4, below, our cost of capital decisions.

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[134] Dr. Woolridge explains in testimony:

> I updated my industry beta study and the average electric, gas, and water utility betas are 0.89, 0.89, and 0.79, respectively. As discussed below, utility stocks were more volatile than the overall market during March and April 2020 when the financial markets were especially volatile. Value Line updates betas for companies on a quarterly basis. As such, this short period when utility stocks were more volatile than the market resulted in a significant increase in utility betas as published by Value Line. In fact, the betas of most of the low beta industries increased in the update. Nonetheless, utilities are still among the lowest risk 2 industries as measured by beta.

Woolridge, Exh. JRW-1Tr at 28:18-29:4; *see also* Woolridge, Exh. JRW-6.

Table 4. Authorized Cost of Capital

	Capital Structure	Cost	Weighted Cost
Equity	48.5%	9.40%	4.56%
Total Debt	51.5%	4.97%	2.56%
Overall Rate of Return			7.12%

2. OVERALL REVENUE REQUIREMENTS

109 Initially, Avista proposed an electric revenue requirement increase of $44.2 million and a natural gas revenue requirement increase of $12.8 million, both of which were based on the Company's proposed cost of capital with a 50 percent equity and 50 percent total debt capital structure, 9.9 ROE, and ROR of 7.43 percent.[135] After the Company's filing on rebuttal and the Settlement's agreed 60-day power supply transmission update, Avista's most updated proposed revenue requirement updates are $28.5 million (5.38 percent) for electric and $10.7 million (10.14 percent) for natural gas.

110 Avista controls the timing of its GRC filings, as well as the test year on which it bases its requested revenue requirement. Avista's proposal is based on a 12-month historical test year ending on December 31, 2019, which we will reference throughout this Order. Avista filed this GRC on October 30, 2020, with rates to become effective on October 1, 2021. The nearly 11-month period between the end of Avista's selected test year and its filing date is unusually long, as is the nearly 23-month period between the end of the 2019 test year and the rate effective date. This is a source of several concerns and inadequacies we find in the Company's case. In particular, use of the 2019 test year affects greatly our evaluation of and decision on pro forma adjustments, which must be based on the restated operating results from the test year and must give effect for the test period to all known and measurable changes not offset by other factors.[136]

111 Avista's request is then further complicated by its introduction of pro forma adjustments that extend to the rate effective date and even some that extend beyond. While certain

[135] Andrews, Exh. EMA-1T at 6:17-20.

[136] WAC 480-07-510(3)(c)(ii).

cost adjustments can appropriately be labeled "pro forma" based on the future rate year (here, the 12-month period beginning October 1, 2021), Avista presents several adjustments that are more accurately described as "provisional" pro forma adjustments, or pro forma adjustments with provisional portions, because the Company estimates that these amounts will be incurred after the rate effective date. These amounts will also be subject to a post-effective date review process to ensure they were actually incurred and that any amount included in rates but not incurred is returned to ratepayers. Up to this time, we have only considered provisional pro forma adjustments for capital expenses for plant that will be used and useful to ratepayers during the rate effective year, consistent with our Used and Useful Policy Statement. Avista makes several requests for the Commission to authorize such treatment in this case.

112 In sum, Avista's stale 2019 test year, restating adjustments bringing that stale test year to the end of period (EOP), updating its stale 2019 test year with 2020 *and* 2021 pro forma adjustments, and, finally, requesting special provisional pro forma treatment extending past the October 1, 2021, rate effective date through September 30, 2022, for four capital adjustments and one expense adjustment nearly effectuate and achieve the results of a multi-year rate plan without Avista having made such a request. We find this request inappropriate. Accordingly, we reject categorically all of Avista's requests for provisional pro forma treatment of capital, with the exception of EIM capital included as part of the Settlement, and all expenses that will be incurred after the rate effective date. Because future GRCs will be required to include proposals for multi-year rate plans, we do not expect to review a GRC in the future with such a problematic test year.

113 Our discontent with the Company's choice of test year permeates this Order and greatly influenced many of our decisions. Utilities generally control the timing of a GRC filing and the test year upon which it is based. The Commission, however, retains authority to determine what weight to assign an inappropriate test year when determining what rates are fair, just, reasonable, and sufficient.

114 Based on the decisions we make in this Order for the purposes of authorizing rates that are fair, just, reasonable, and sufficient, we authorize an increase to Avista's revenue requirement of approximately $13.6 million, or 2.6 percent over base rates, for the Company's electric operations, and an increase of approximately $8.1 million, or 7.7 percent of base rates, for its natural gas operations. Summaries of both the electric and natural gas adjustments to revenue requirements are included in Appendix B attached to this Order.

i. Tax Customer Credit

115 On March 11, 2021, the Commission entered Order 01 in Dockets UE-200895 and UG-200896, which granted Avista's petition requesting the Commission (1) authorize changing the Company's accounting method from normalization to flow-through for regulatory purposes for federal income tax expense associated with Industry Director Directive No. 5 (IDD #5) and meters, and (2) allow Avista to defer for later ratemaking treatment the tax benefits associated with the change. The change in methodology had the effect of re-classifying IDD #5 and meters as non-protected and granted deferred accounting in Washington for the associated tax benefits. As of December 31, 2020, those tax benefits include non-protected accumulated deferred federal income tax (ADFIT) and non-protected excess deferred federal income tax (EDIT) totaling approximately $58.1 million, electric, and $28.2 million, natural gas.[137] The Commission determines in this Order the time frame for returning these tax benefits to customers.

116 Avista proposes to return the tax benefits to customers beginning October 1, 2021, through separate Tariff Schedules 76 (electric) and 176 (natural gas), titled "Tax Customer Credit," and to offset the base rate increase authorized by this Order to result in no bill impact to customers.[138] Because the Company's initial revenue request was higher than we authorize in this Order, the Company's original proposal would have returned the tax benefits over 1.25 years to electric ratepayers and 2 years to natural gas ratepayers.[139] The Company requests that the Commission not authorize a return to customers that would result in a rate reduction or authorize a time frame for the return of these benefits longer than two years due to its concerns regarding the potential impact it will have on the Company's cash flow and weakening credit metrics.[140] Lastly, Avista proposes that any remaining balance after the end of the time frame, plus the ongoing, incremental, annual deferred tax benefit balance, be returned to customers over a 10-year period.[141]

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[137] Krasselt, Exh. RLK-2 at 1-2; Andrews, Exh. EMA-1T at 94:22-95:3. The (smaller) non-protected EDIT portion of these total tax benefits is approximately $10.3 million (electric) and $4.8 million (natural gas). *See* Krasselt, Exh. RLK-2.

[138] Andrews, Exh. EMA-1T at 96:22-97:8.

[139] *Id.* at 97:1-2.

[140] *Id.* at 97:9-14. Avista confirmed this same proposal on Rebuttal, regardless of what revenue requirement the Commission authorizes by this Order. Andrews, Exh. EMA-6T at 115:25-29.

[141] Andrews, Exh. EMA-1T at 97:14-17.

117 Staff, Public Counsel, and AWEC all propose different ways to return this amount to customers. Staff proposes to treat the return of benefits differently, passing the EDIT back to customers over one year, and ADFIT over the remaining lives of the underlying assets, which is approximately 15 years for the tax benefits attributable to meters and 34 years for the tax benefits attributable to IDD #5.[142] In addition, Staff proposes spreading the return based on the customer class allocated rate base.[143] Public Counsel proposes (1) to return the tax benefits over seven to eight years, based on an initial annual amount to eliminate any electric or natural gas rate increases; (2) that the Commission reexamine this issue in Avista's next GRC; (3) that the return should be based on revenue to offset exactly any rate increase for each customer class.[144] AWEC proposes to return the tax benefits over a five-year period.[145]

Commission Determination

118 We agree, at least in part, with both Avista and Public Counsel.

119 No Party objects to Avista's proposal to return the tax benefits through the separate Tariff Schedules 76 (electric) and 176 (natural gas), titled "Tax Customer Credit," and we find the proposal appropriate because it will allow the Commission to best track the return of these benefits to customers. We also find that the return to customers should start on the rate effective date, October 1, 2021, as proposed by Avista.

120 We find that it is reasonable and fair to return the tax benefits over a two-year period according to the rate spread we approve in this Order to exactly offset, in conjunction with the AFUDC Deferral agreed by the Settling Parties in the Settlement, any rate increase for each customer class, net zero, from this Order.[146]

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[142] Erdahl, Exh. BAE-1T at 12:7-17. In brief, Staff resolved that the Commission could remain consistent with the public interest by selecting any one of many methodologies for spreading the return to customers. Staff's Brief at 51, ¶ 117.

[143] *Id.* at 12:20-13:2.

[144] Crane, Exh. ACC-1T at 46:16-47:11; Watkins, Exh. GAW-1T at 26:3-9.

[145] Mullins, Exh. BGM-1T at 70:18-21.

[146] Our intent is to, first, implement Staff's rate spread approved in Sections III.C.3.ii. and III.C.3.v.of this Order, and second, have the AFUDC Deferral work in conjunction with the Tax Customer Credit amount during year one to offset exactly any rate increase. In this way, each customer class will experience a net zero rate increase from this Order in year one. In year two, at the point the AFUDC Deferral has ceased returning to customers, the Tax Customer Credit will

121 We also find it appropriate to reexamine in Avista's next GRC (1) the total of the remaining Tax Customer Credit balance at the end of the two-year amortization period plus the incremental annual deferred tax benefit and (2) the appropriate amortization for returning the Tax Customer Credit to customers going forward. To address Avista's concerns related to cash flow and credit metrics, we temporarily authorize a 10-year amortization for the Tax Customer Credit balance that remains at the conclusion of the two-year amortization period subject to reexamination in Avista's next GRC.

122 Accordingly, we determine that the tax benefits resulting from Dockets UE-200895 and UG-200896 should be returned to customers as detailed above.

ii. Restating Adjustments

123 Restating adjustments adjust the Company's booked operating results for any defects or infirmities in actual recorded results of operations in the test year that can distort test period earnings. Restating adjustments can also adjust results from an as-recorded basis to a basis that the Commission will accept for determining rates. Restating adjustments must be calculated based on the unadjusted actual test year results of operation.[147]

124 When a Company makes its initial GRC filing, it must identify and include a detailed portrayal of each restating adjustment it proposes to its unadjusted actual test year results of operation and the effect of the restating adjustment on the Company's operations and revenue requirement.[148] For all restating adjustments it proposes in support of its position, each party must include a detailed portrayal that specifies all relevant assumptions, provides all evidence on which the party relies, and shows how each input is derived.[149] If a party proposes a restating adjustment using a calculation or method different from that most recently accepted or authorized for the Company by the Commission, the party

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offset exactly any rate increase such that each customer class experiences a net zero rate increase from this Order. Moreover, this ensures the above does not result in a net decrease during either year one or year two to the rate relief we provide Avista in this Order. *See supra* Section III.B.1.iv.; *see infra* Section III.C.; *see* Andrews, Exh. EMA-1T at 97:9-14.

[147] WAC 480-07-510(3)(c)(i). Examples of restating adjustments are those that: remove prior period amounts; eliminate below-the-line items that were recorded as operating expenses in error; adjust from book estimates to actual amounts; annualize ongoing costs that the company began to incur part way through the test year; normalize weather or hydro conditions; or eliminate or normalize extraordinary items recorded during the test period. WAC 480-07-510(3)(c)(i)(A)-(F).

[148] WAC 480-07-510(1); WAC 480-07-510(3)(c).

[149] WAC 480-07-510(3)(c).

must explain the reason for the change and also provide the rationale and documents demonstrating the adjustment using the previously accepted calculation or methodology.[150]

a. *Injuries & Damage Expense (Restating Adjustment 2.05)*

125 Avista's common injuries and damages adjustment restates electric and gas accrued injuries and damages expense using a calculated yearly average of actual injuries and damages payments not covered by insurance during the six-year period 2014-2019.[151] The issue presented by Public Counsel is whether Avista should be allowed to include in its restating *electric* adjustment the actual expenses from 2014 when those expenses were extraordinarily greater than the expense from each of the subsequent five years. Public Counsel witness Crane argues that using six years is unreasonable in this instance and recommends the Commission adopt a five-year average, which would eliminate 2014 from the calculation of Avista's restating *electric* adjustment.[152] Table 5, below, illustrates Public Counsel's recommendation.[153]

Table 5. Washington Allocated Injuries and Damage Expense

Year	Washington Allocated Amounts	Percent Difference from 6-Year Average
2014	295,491	86.35%
2015	82,249	-48.13%
2016	143,873	-9.27%
2017	202,277	27.56%
2018	129,573	-18.29%
2019	97,945	-38.23%
6-Year Average	158,568	
5-Year Average	131,183	

[150] WAC 480-07-510(3)(c)(iii).

[151] Andrews, Exh. EMA-1T at 43:18-22.

[152] Crane, Exh. ACC-1T at 14:17-17:7.

[153] *Id.* at 15:9.

126 Avista witness Andrews rebuts Public Counsel's recommendation, disagreeing that 2014 actual expenses are "extraordinary" relative to the six-year average and, as presented in Andrews' direct testimony, observing that the Commission approved the use of the six-year average for injuries and damage expenses in 1988.[154]

Commission Determination

127 In Docket U-88-2380-T, the Commission accepted the Company's proposal to use a six-year rolling average to allow recovery for injuries and damage expense under circumstances where approval moderated either the inclusion or exclusion of a particularly large single year amount of expense in rates.[155] Here, we find Public Counsel's rationale unpersuasive and decline to modify the method historically used by Avista and approved by the Commission.

128 Public Counsel's proposal would eliminate 2014's unusually large actual expense but would retain the two years with the next greatest deviation from the six-year average, 2015 and 2019. These years' expense amounts are significantly less than the six-year average and, with the inclusion of 2014, balance the six-year average. Removal of all three years would result in a new three-year average of $158,574, nearly identical to the original six-year average.

129 Using a multi-year average for injuries and damage expense is appropriate. Its value for injuries and damage expense is best observed when compared with the use of a single year's expense amount, as in the Company's 1988 GRC, which can vary exceptionally. Such exceptional variation, to the detriment of a company or its customers, is appropriately moderated for the injuries and damage expense by including the actual expenses from additional years in a multi-year average. Avista's six-year rolling average for its restating injuries and damage expense adjustment has been used consistently to moderate such variations, avoiding over time the perception of injury from a single high or low year to both the Company and its customers.

130 Public Counsel's argument fails to persuade us that using a five-year rolling average is more fair, just, or reasonable than the six-year rolling average. Accordingly, we agree

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[154] Andrews, Exh. EMA-6T at 48:17-49:4, citing *Wash. Utils. & Transp. Comm'n v. Wash. Water Power Co.*, Docket U-88-2380-T, Tenth Supplemental Order.

[155] *Wash. Utils. & Transp. Comm'n v. Wash. Water Power Co.*, Docket U-88-2380-T, Third Supplemental Order (Oct. 19, 1989).

with Avista and approve its restating injuries and damage expense adjustment using a six-year rolling average.

b. *Incentive Compensation (Restating Adjustment 2.13)*

131 Avista's common incentive compensation expense adjustment restates actual incentive compensation expense to reflect the average of actual payouts calculated from the six-year period 2014-2019.[156] For executive officers, the six-year average excludes incentive compensation related to financial metrics, which are instead borne by shareholders.[157] Public Counsel presents several issues with this adjustment related to Avista's Short Term Incentive Compensation Plan (STIP) and recommends that the Commission disallow all executive officer incentive compensation (all portions that are not already paid by shareholders related to financial metrics) and the half of the non-executive incentive compensation expense related to O&M costs per customer.[158]

132 Public Counsel witness Crane argues that executives are already highly compensated without the addition of incentive pay. Crane further argues that it is difficult for ratepayers to evaluate a utility's compensation program because performance-based compensation lacks the transparency of base salary programs, and asserts that the Company favors performance-based compensation because of more generous tax treatment that is now declining in popularity due to the Tax Cuts and Jobs Act (TCJA).[159] Finally, Crane argues against the use of a benchmarking review to adjust their compensation because such reviews inevitably lead to escalating compensation due to fear that a company will fall behind its peers.[160]

133 Public Counsel summarizes its argument against the 50 percent of non-executive incentive compensation expense related to operational components, specifically O&M costs per customer, as follows:

> 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

[156] Andrews, Exh. EMA-1T at 47:12-48:3.

[157] *Id.* at 47:17-21.

[158] Crane, Exh. ACC-4r2; Crane, Exh. ACC-7r2.

[159] Crane, Exh. ACC-1T at 18:7-20.

[160] *Id.* at 19:12-21.

> 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.[161]

134 Avista witness Andrews responds in rebuttal to the issues raised by Public Counsel. Andrews explains that Avista's compensation plans are more complicated than Public Counsel portrays because Avista must operate in a "very complex, multi-jurisdictional, multi-service territory and compensates [its] employees according to the value of the work they perform … based on competitive market comparisons."[162] Andrews explains that only 40 percent of executive incentive compensation is included in this adjustment, and that 40 percent is strictly related to operational components, including cost per customer, customer satisfaction, reliability, and response time.[163] Andrews also disputes Crane's assertion that the Company's incentive compensation structure is impacted by tax laws. Andrews further disputes Crane's assertions regarding transparency because Avista's incentive pay data is not confidential and is publicly disclosed in annual proxy statements.[164] Lastly, the benchmarking Public Counsel takes issue with is not the sole factor determining incentive compensation, for which Avista also considers performance, job complexity, and experience.[165]

Commission Determination

135 Commission precedent does not support the assertion that a company may recover compensation costs only when they benefit customers and not shareholders. Rather, the Commission permits incentive compensation expense in rates when customers benefit. In the 2015 Avista GRC Final Order, which was subsequently appealed and remanded on unrelated matters, we agreed with Staff, Public Counsel and Industrial Customers of Northwest Utilities (a predecessor to AWEC) that Avista's Long Term Incentive Plan (LTIP) was inappropriate for recovery from customers because it was "based on the value

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[161] Brief of Public Counsel at 14, ¶ 33. Public Counsel follows by quoting support from the Commission's Final Order (Order 05) in the 2015 Avista GRC. *Id.* at 15, ¶ 34.

[162] Andrews, Exh. EMA-6T at 48:15-19.

[163] *Id.* at 48:1-5.

[164] *Id.* at 50:19-51:7.

[165] *Id.* at 53:7-16.

of the Company's stock and focuse[d] executives' attention on the value of the stock" and "it only serve[d] as a retention tool in order to ensure continued access to stock and dividend equivalents."[166] This is not the case here.

136 Avista has demonstrated that the costs for which it seeks recovery through its restating incentive compensation adjustment benefit customers. It seeks recovery of executive compensation only as it regards the 40 percent attributable to operational components, and Public Counsel contests only the 50 percent of non-executive compensation attributable to operational components, the O&M costs per customer. Andrews argues that the contested incentive compensation components – O&M cost per customer, customer satisfaction, reliability, and response time – are metrics related to customers, contribute to appropriately competitive levels of compensation, and control costs and keep employees "motivated and focused on measures which provide long-term customer benefits" and "stated goals that benefit the Company and its customers."[167] We agree. The Commission has excluded from recovery incentive compensation based on performance metrics tied to stock price and earnings per share, which Avista agrees justifies separate treatment from the base salary component of cash compensation.[168] None of the contested metrics are tied to performance metrics such as earnings per share or stock price.

137 In addition, Public Counsel's arguments offer speculation without sufficient evidence. Public Counsel fails to support its blanket assertions regarding transparency in light of Avista's publicly disclosed base salary and incentive compensation for its executives, and the metrics included in the non-executive STIP. In addition, Crane's rationale that benchmarking can influence companies' incentive compensation to spiral fails to consider other factors that may result in steady increases, such as inflation, changing economic circumstances, or increasing demand and dwindling supply of appropriately skilled and talented executive and non-executive employees. Public Counsel's argument is also unsupported by evidence demonstrating how Avista's incentive compensation expense is inappropriately controlled by benchmarking and has led to escalating incentive compensation. To the contrary, Avista has supported its practice, explaining that it uses benchmarking only along with additional internal factors such as "individual

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[166] *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-150204 & UG-150205 *(Consolidated)*, Order 05, 73, ¶ 213 (Jan. 6, 2016).

[167] Andrews, Exh. EMA-6T at 51:12-52:21.

[168] *Id.* at 51:16-18, 52:21-53:1.

performance, succession planning, job complexity, experience, and breadth of knowledge" to determine appropriate levels of wages and incentives.[169] Without persuasive support, we decline to modify Avista's use of benchmarking without evidence of a problem in need of fixing. Accordingly, we determine that Avista's restating incentive compensation expense adjustment is fair, just, and reasonable, and should be approved.

c. *2019 Average of Monthly Averages or End of Period (Restating Adjustments 2.19E, 2.15G)*

138 Avista's electric and natural gas adjustment restates Avista's 2019 test year rate base levels from average-of-monthly-averages (AMA) to end of period (EOP), as of December 31, 2019.[170] Avista addresses its need for EOP treatment throughout its case, in direct testimony and rebuttal. In its brief, Avista reiterates its request that the Commission apply this regulatory tool to remedy regulatory lag.

139 AWEC argues that Avista has only presented a mechanical application of this adjustment as justification, therefore failing to meet the Commission's standards. AWEC explains that it does not take a position on this adjustment unless the Commission does not accept its proposals for Avista's pro forma major capital additions adjustments.[171] AWEC witness Mullins cites the four conditions discussed by the Commission in its order from the 2014 PacifiCorp GRC that justify restating test year rate base from AMA to EOP, as well as our decision in PSE's recent 2019 GRC.[172]

140 Avista explains at length in its direct testimony, rebuttal, and in brief that it has built its case around the need to reduce regulatory lag. In particular, Avista witness Andrews argues that restating 2019 test year results to EOP 2019 net plant will address regulatory lag, relying on the Commission's recent decisions on restating test year rate base from

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[169] *Id.* at 53:7-16.

[170] Andrews, Exh. EMA-1T at 50:10-18.

[171] AWEC's Brief at 7, ¶ 14; Mullins, Exh. BGM-1T at 22:4-11.

[172] Mullins, Exh. BGM-1T at 21:16-22:3, citing *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Dockets UE-140762, UE-140617, UE-131384, & UE-140094 *(Consolidated)*, Order 08, Final Order Rejecting Tariff Sheets, Resolving Contested Issues, Authorizing & Requiring Compliance Filings, Granting, in part, Recovery of Deferred Costs, Denying Petition for Accounting Order, 62, ¶ 145 (Mar. 25, 2015); *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, 2019 PSE GRC Final Order at 160, ¶ 560.

AMA to EOP.[173] Avista's other proposals to the Commission for addressing regulatory lag are offered by its witnesses Schultz, Thies, and Vermillion.

141 In brief, Avista argues that it has "already accepted 'regulatory lag' on approximately $101.7 million of 2020 and 2021 capital investment [rate base] that is or will be used and useful during the rate effective period" of October 1, 2021, through September 30, 2022, but that Staff and Public Counsel in their recommendations in this case have excluded an additional $197.5 million and $246.6 million of rate base, respectively, which contributes to "untenable" regulatory lag on rate base that will be in service of customers, but for which Avista will not be compensated during the rate effective period.[174]

142 The issue presented for our resolution, therefore, is whether Avista should be authorized to restate its 2019 rate base from AMA to EOP.

Commission Determination

143 EOP rate base is one of the Commission's many tools for addressing regulatory lag when doing so is appropriate and a utility has shown that the utility will experience losses absent application of such tools. While AMA rate base has been the Commission's preferred approach for many years, and EOP rate base the exception, we have determined in several recent cases that EOP rate base is justified.[175]

144 As AWEC correctly points out, we have considered EOP rate base treatment under conditions showing abnormal growth in plant, inflation and/or attrition, significant regulatory lag, or a utility's failure to earn its authorized ROR over an historical period.[176] These conditions, established by the Commission in the 1981 case *Wash. Utils. & Transp. Comm'n v. Washington Natural Gas*, remain relevant to this day, but our use

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[173] Andrews, Exh. EMA-1T at 11:3-26, 13:19-16-18.

[174] Avista's Brief at 5-6, ¶¶ 11-12.

[175] *See e.g.* 2019 PSE Final Order; *Wash. Utils. v. Cascade Natural Gas Corp.*, Docket UG-200568, Final Order 05 Rejecting Tariff Sheets, Authorizing and Requiring Compliance Filing (May 18, 2021).

[176] *Wash. Utils. & Transp. Comm'n v. Wash. Nat. Gas Co.*, Cause No. U-80-111, 3d Supp. Order Findings of Fact Conclusions of Law and Commission Order, 44 P.U.R.4th 435, 438 (Sep. 24, 1981).

Pacific Power & Light Co., Docket UE-140762 Order 08 ¶ 145 (citing *WUTC v. Wash. Nat. Gas Co.*, 44 P.U.R. 4th 435, 438 (September 24, 1981).

of EOP rate base as a regulatory tool has evolved in response to changing markets and conditions, including economics and regulation.

145 Pursuant to RCW 80.04.250(2), the Commission has been granted broad authority to determine the fair value of utility property for ratemaking purposes. We employ appropriate ratemaking tools, such as valuing rate base on an EOP basis, when the facts and circumstances in a particular case justify it. Here, we find that our use of EOP rate base is justified for three reasons: demonstrated regulatory lag, market and economic conditions, and significant changes in the utility regulatory framework.

146 Avista has demonstrated throughout the presentation of its case that it is experiencing regulatory lag. Despite Avista's use of a stale test year, this can be seen not only in direct testimony in which it describes the mechanics of its adjustment to restate 2019 rate base from AMA to EOP but also in the Company's demonstration of short-lived assets and necessary capital investments that it will make during the rate effective period, such as plant to meet a rising extraordinary threat from wildfires. In authorizing this adjustment, Avista's rate base will be updated to reflect all plant in service as of December 31, 2019, instead of an average of what was in service throughout 2019. We determine doing so is justified, not to address the Company's stale test year, but to partially remedy Avista's regulatory lag.

147 Second, the traditional conditions of utility regulation are changing. Avista's next GRC must, by statute, include a proposal for a multi-year rate plan, which will compel the Commission and the Parties to consider new methods of regulation. This raises new considerations for addressing rate base in light of Avista's demonstrated regulatory lag. To this point, we caution companies against overstating the rate base for which it believes it will not be compensated during the rate effective period. Despite dramatic changes in our regulatory framework, we will continue to adhere to the regulatory principles that will preserve the balance between utilities and their customers. Customers deserve safe, reliable, and affordable service in equal shares to the utilities fair, just, and sufficient compensation for providing such service.

148 Last, but perhaps foremost for Washingtonians, the COVID-19 pandemic has created serious economic challenges for customers and utilities. On February 29, 2020, the Governor proclaimed a state of emergency in response to the outbreak of COVID-19.[177] On October 2, 2020, the Governor amended and extended the state of emergency to

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[177] Proclamation 20-05 at 1 (Feb. 29, 2020).

prohibit utilities from disconnecting any residential customer for nonpayment, refusing to reconnect any residential customer who had been disconnected for nonpayment, and charging late fees.[178] While testifying to economic conditions as it relates to cost of capital, Avista witness McKenzie summarizes that:

> No one knows the future of our complex global economy. While there is continued hope for a swift economic rebound as COVID 19 containment measures are gradually lifted, residual impacts of the unprecedented economic and health crisis could linger indefinitely. In any event, it would be imprudent to gamble the interests of customers and the economy of Washington in the hope that the harsh economic reality will suddenly be resolved.[179]

149 Accordingly, we determine it is appropriate to authorize Avista's adjustment to restate 2019 rate base from an AMA to an EOP basis. This is not the only portion of its case in which Avista requests implementation of the Commission's exceptional regulatory tools. While we do not agree with Avista that such tools are warranted for each of its requests, we agree that Avista has met its burden here, and that permitting EOP rate base is justified to effect fair, just, reasonable, and sufficient rates based upon the evidence presented.

iii. Pro Forma Adjustments

150 Pro forma adjustments are calculated based on the restated operating results to give effect to the test period for all known and measurable changes that are not offset by other factors.[180]

151 When a company makes its initial GRC filing, it must identify each pro forma adjustment it proposes and the effect of the pro forma adjustment on the company's operations and revenue requirement.[181] For all pro forma adjustments it proposes in support of its position, each party must identify dollar values and underlying reasons and include a detailed portrayal that specifies all relevant assumptions, provides all evidence on which

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[178] Proclamation 20-23.9 at 3 (Oct. 2, 2020).

[179] McKenzie, Exh. AMM-1T at 30:5-12.

[180] WAC 480-07-510(3)(c).

[181] WAC 480-07-510(1); WAC 480-07-510(3)(c)(ii).

the party relies, and shows how each input is derived.[182] If a party proposes a pro forma adjustment using a calculation or method different from that most recently accepted or authorized for the Company by the Commission, the party must explain the reason for the change and also provide the rationale and documents demonstrating the adjustment using the previously accepted calculation or methodology.[183]

152 As compared to traditional pro forma capital adjustments, a *provisional* pro forma capital adjustment describes a company's request to recover, subject to refund, rate-effective period property, which is based on estimated amounts anticipated to be incurred after the rate effective date but is nevertheless included in rates and subject to a post-effective date retrospective review process to ensure that capital additions were prudent, were placed into service by the identified date(s), and were assessed consistent with actual costs that are known and measurable. We have explained in our Used and Useful Policy Statement that the Commission *may* allow provisional portions of pro forma capital adjustments to be included in rates if it will become used and useful within 48 months after the rate effective date.[184] For the Commission's approval, any provisional portion allowed in rates must be identified by the company and must have a process for review.[185] Further, the Used and Useful Policy Statement addresses provisional pro forma capital adjustments, but not provisional pro forma expense adjustments, which Avista introduces in this proceeding.

153 Here, Avista selected 2019 as its test year for its GRC and has proposed several pro forma adjustments to its restated operating results that would extend recovery for a test period covering not only 2020, but also 2021, and in some instances until September 30, 2022. Pro forma adjustments that effectively update 2019 test year levels to amounts in 2022, nearly three years after the end of the test year, stretch the limits of the Commission's current regulatory framework.

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[182] WAC 480-07-510(3)(c); WAC 480-07-510(3)(c)(ii).

[183] WAC 480-07-510(3)(c)(iii).

[184] Used and Useful Policy Statement at 10-11, ¶¶ 29-30.

[185] The Used and Useful Policy Statement provides that rate-effective period investment must first be identified using a provisional pro forma adjustment, must state whether provisional recovery is through base rates or a separate tariff schedule, must include estimated costs and offsetting factors, must describe the investment and related existing documentation, must provide the estimated in-service date, and must identify when the retrospective review will take place. Used and Useful Policy Statement at 11-12, ¶ 34.

a. *Transmission Wheeling Revenue (Pro Forma Adjustment 3.00T)*

154 Avista's proposed adjustment uses a three-year normalization of historic wheeling revenue to calculate a pro forma adjustment for transmission wheeling.[186] In this instance, however, Avista adjusts one of the three years – 2019 – to remove additional revenue resulting from the "loss of a major natural gas transportation pipeline in western British Columbia" – the 2019 Enbridge pipeline rupture – that it believes would cause the three-year average not to be representative of future expectations.[187]

155 AWEC raises the question whether Avista should remove its adjustment to the revenue in 2019 and, instead of using a three-year normalization, use the actual unadjusted transmission revenue from 2019, arguing that such revenue is a better indicator of expected future wheeling revenue.[188]

Commission Determination

156 AWEC's argument that, in general, the most recent year's transmission revenue offers a better predictor of future transmission revenue is supported only by reference to testimony offered by a PacifiCorp witness in an administrative proceeding in Wyoming. When assessing whether Avista's actual 2019 transmission revenue is a better predictor of Avista's future transmission revenue, we hesitate to give substantial weight to testimony offered by a witness for a different company in a different state before a different commission. That witness did not testify before this Commission, was not available for questioning in this proceeding, and offered no opinion on Avista's expected transmission revenue. We, therefore, have no context for understanding or evaluating

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[186] Schlect, Exh. JAS-1T at 6:8-13, 8:21-9:17. Avista provides transmission (wheeling) services to wholesale customers. "Wheeling" services traditionally include four components: (1) transmission service over Avista's transmission facilities operated overate at or above 115kV, (2) transmission associated operations and maintenance charges associated with Company transmission assets which an interconnection customer provided construction contributions, (3) ancillary service, and (4) low-voltage wheeling transmission services over substation and distribution facilities that are operated below 115kV. *Id.* at 8:1-8.

[187] *Id.* at 8:14-16, 9:5-17.

[188] Mullins, Exh. BGM-1T at 32:11-33:6, citing testimony filed by PacifiCorp d/b/a Pacific Power and Light Co. (PacifiCorp) witness Webb in its Wyoming GRC Docket No. 20000-578-ER-20, in which PacifiCorp argued against a two-year normalization in favor of using the most recent single year of costs because it reflects costs it expected to incur.

such testimony.[189] In any event, AWEC fails to establish that any factors applicable to Avista justify applying PacifiCorp's proposal in Wyoming to the issues before us here.

157 Avista's pro forma transmission wheeling revenue adjustment is different in character to other adjustments we approve that use data from multiple years to establish a reasonable expected level. Avista witness Schlecht explains that using three years of data for transmission revenue strikes "a balance in mitigating both long-term and short-term impacts": long enough to balance impacts of non-substantial temporary variations in generation and transmission, but short enough to account for changing conditions in long-term transmission and generation.[190] Schlecht also testifies that "known events or factors" beyond temporary variations occurring during the three-year period that would cause the three-year average to cease being representative of future expectations should be removed or the methodology should otherwise be adjusted. We agree.

158 The Enbridge pipeline rupture was a rare and extraordinary event that significantly impacted utility services and the natural gas supply in Washington. It was so extraordinary that the Commission requested Washington's local distribution companies (PSE, Avista, Cascade Natural Gas Corp., and Northwest Natural Gas Company) and upstream stakeholders Williams Northwest Pipeline, Enbridge, and Fortis BC to attend an informational question-and-answer session on projected impacts to Washington's natural gas supply in light of the event.[191] In the aftermath of the pipeline rupture, we approved tariff revisions with significant rate impacts.[192] The pipeline rupture was a substantial temporary variation in generation and transmission. Due to its impacts, we find that Avista's transmission revenue should not be relied upon as a predictive indicator of future transmission revenue. Avista's proposal to modify its three-year average by adjusting the transmission revenue due to the rare, extraordinary pipeline rupture is

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[189] Hearsay evidence is admissible in our adjudicative proceedings when "in the judgment of the presiding officer it is the kind of evidence on which reasonably prudent persons are accustomed to rely in the conduct of their affairs…. The presiding officer may exclude evidence that is irrelevant…." RCW 34.05.452(1).

[190] Schlecht, Exh. JAS-1T at 8:21-9:5.

[191] *Wash. Utils. & Transp. Comm'n*, Docket P-180879, Special Presentation (Oct. 29, 2018).

[192] *E.g., In re Tariff Revisions of Cascade Natural Gas Corp. for Proposed New Tariff Revisions, Schedule 590, Temporary Gas Cost Amortization*, Docket UG-190145, Order 01, Order Allowing Tariff Revisions to Go into Effect Subject to Condition (Mar. 28, 2019); *In re Tariff Revision of Puget Sound Energy, Inc. To add a Temporary Adjustment to Deferred Gas Cost Rates*, Docket UG-190218, Allowed to become effective per the No Action Agenda (Apr. 25, 2019).

reasonable because doing so will return predictive value to the adjustment's three-year average.

159 We also decline to modify Avista's proposed adjustment to include only unadjusted actual 2019 transmission revenue, as AWEC recommends, or to include only adjusted actual 2019 transmission revenue, as Avista proposes in the alternative should we decide to dispense with the three-year average methodology. While Avista's alternative proposal may be considered in future proceedings, such a proposal must be well-supported by analyses indicating that the then-current circumstances justify use of the most recent year's revenues as the most trustworthy prediction of future transmission revenue. Here, such persuasive evidence, analysis, and argument is lacking.

160 Accordingly, we determine that Avista's pro forma transmission revenue adjustment, using a three-year average of actual transmission revenue with adjustment to the 2019 transmission revenue due to the pipeline rupture, is appropriate and should be approved.

b. *Non-Executive Wages (Pro Forma Adjustment 3.04)*

161 Avista's electric and natural gas adjustments recalculate non-executive labor to reflect changes in base pay for union and non-union employees' wages and salaries. For non-union (non-executive) employees, this adjusts wages and salaries to annualize the impact of a three percent increase effective March 2019, a three percent increase effective March 2020, and a three percent increase effective March 2021.[193] For union employees, the adjusts wages and salaries to annualize the impact of increases, which are made according to the terms of the Collective Bargaining Agreement (CBA) between Avista and the IBEW Union 77 (Washington/Idaho) (Union), of three percent in 2019, of another three percent in 2020, and of an estimated three percent for 2021.[194] At the time of its initial filing, Avista was negotiating the increase for 2021 with the Union – the then-current contract's expiration date was March 25, 2021.[195] As of the time of this

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[193] *Id.* at 57:1-7. In its initial filing, Avista included a preliminary minimum salary increase of three percent in 2021 for non-union employees and subsequently updated the adjustment on rebuttal after the increase had been approved. *See id.*; Andrews, Exh. EMA-6T at 55:17-18.

[194] Andrews, Exh. EMA-1T at 57:7-13.

[195] *Id.* at 57:9-10.

Order, no contract between Avista and the Union has been signed but, as Avista indicated in brief, the increase is expected to be approved in the early fourth quarter of 2021.[196]

162 The issue presented for the Commission's determination is whether any of the adjustments to Avista's pro forma non-executive labor expense annualizing increases for union and non-union employees in 2019, 2020, and 2021, should be authorized. Staff and Public Counsel oppose at least a portion of Avista's adjustment.[197]

Commission Determination

163 Staff proposes excluding the 2021 union increase because the contract between Avista and the Union remains unsigned and the 2021 union wage increase is therefore speculative, unknown, and unmeasurable.[198] Public Counsel proposes excluding the 2021 union increase and the 2021 non-union increase because these increases take effect too long after the end of the test period on December 31, 2019, which violates the matching principal.[199] In brief, Avista requests that we allow the 2021 union increase into rates immediately, subject to review and refund in its next GRC.[200]

164 We find it is inappropriate to allow Avista's 2021 union wage increase into rates effective October 1, 2021. We agree with Staff witness Huang that the 2021 union wage increase expense cannot be known and measurable until after the union contract is signed.[201] The union contract remains unsigned and unapproved, and Avista states that such action is expected in late 2021.[202] It does not, therefore, meet the Commission's known and measurable standard.

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[196] *See* Avista's Brief at 45, ¶ 115.

[197] AWEC's proposal excluding the 2020 and 2021 union increases and also the 2020 and 2021 non-union increases presented in response testimony was subsequently withdrawn via a request filed in the Dockets on June 30, 2021 (revised July 2, 2021), and confirmed at hearing. *See* AWEC's Letter of July 2, 2021, Attachment A, indicating "withdrawn" above adjustment 3.04; TR at 46:8-20.

[198] Huang, Exh. JH-1T at 12:5-18; Staff's Brief at 48, ¶ 107.

[199] Crane, Exh. ACC-1T at 22:8-16; Public Counsel's Brief at 15, ¶ 35.

[200] Avista's Brief at 14, ¶ 32.

[201] *See* Huang, Exh. JH-1T at 11:10-12:8.

[202] Avista's Brief at 45-46, ¶¶ 114-15. We note that a decision approving the 2021 wage increase would not be consistent with Avista's own testimony on this matter, which recommends a threshold showing of a wage increase's approval. *See* Andrews, Exh. EMA-6T at 57:5-16.

165 We also deny Avista's request to afford these *expenses* the discretionary treatment we apply to provisional pro forma capital. The Commission's Used and Useful Policy Statement does not contemplate this treatment for expenses, and the evidence Avista presents is not sufficiently compelling to justify a deviation from our policy guidance. We expect to address such treatment for expenses within the context of a GRC with a multi-year rate plan, but decline to do so in this proceeding as Avista has specifically stated it is not requesting such a plan in this case.

166 Determining whether the 2021 non-union wage increase should be allowed in rates is less clear. Public Counsel's arguments and complaints that the 2021 non-union wage increase is too far removed from the end of the test year are well presented and well taken.

167 In addition to Public Counsel's salient arguments, we are also dissatisfied with the absence of any explanation regarding which offsetting factors were included in Avista's adjustment. Offsetting factors must be considered for every pro forma adjustment. Due to Avista's choice of test year, its adjustment annualizes for wage increases of 3 percent in 2019, 2020, *and* 2021. We have no testimony or evidence in the record explaining whether the multiple 3 percent increases to non-union wages match the proposal to include the accumulated 3 percent increases in Avista's related *expense*. Does the cyclical nature of employee retirement or removal and new hires (who may be hired at a lower wage) create an offsetting factor that should be reviewed, especially considering such a stale test year? We have no evidence in the record – from any party – addressing this concern. We expect offsetting factors in future wage adjustments or explanations in testimony regarding why inclusion is unnecessary.

168 Overall, we are not satisfied with Avista's proposal. Nevertheless, based on the record before us, we agree with Staff and find that the 2021 non-union wage increase meets the known and measurable standard. Each of the non-union wage increases are in effect, including the 2021 non-union wage increase as of March 1, 2021, and, together, represent real, accumulated obligations of the Company for its non-executive labor expense. However, Avista should hold no expectation that using a stale test year in the future will result in a similar conclusion; we are persuaded only by the specific circumstances included in the record of this case.

c. *Insurance Expense (Pro Forma Adjustment 3.07)*

169 Avista's electric and natural gas pro forma insurance expense adjustment increases 2019 levels for general liability, directors and officers (D&O) liability, and property insurance to a system level of $11.9 million expected during the rate year, but then reduces this level by 10 percent of the D&O insurance system amount.[203] Avista subsequently modified its adjustment on rebuttal using updated estimates and pre-paid invoices, indicating a system level of expense for 2021 of $8.69 million (after removal of 10 percent of the D&O insurance) with portions attributable to its Washington ratepayers of $2.46 million for electric and $279,000 for natural gas.[204]

170 Staff, Public Counsel, and AWEC oppose Avista's adjustment. All oppose Avista's use of 2021 expense levels and Public Counsel opposes assigning only 10 percent of the system-level D&O insurance to shareholders. The issues presented for our resolution are what level of insurance expense is known and measurable and should be authorized for this adjustment and whether it is appropriate to assign 10 percent or 50 percent of the system-level D&O insurance to shareholders.

Commission Determination

171 Public Counsel accepts the amounts calculated by Avista using updated estimates and pre-paid invoices, but contests Avista's adjustment arguing that D&O insurance should be reduced by 50 percent consistent with the Company's adjustment excluding 50 percent of Directors fees and other related Directors' costs.[205] Staff opposes Avista's pro forma adjustment in its entirety and recommends the Commission authorize only the 2019 test year levels.[206] Staff bases its opposition on three arguments. First, Staff asserts that Avista has a history of overestimating its level of insurance expenses, providing an accurate history of Avista's estimations in its GRC initial filings since 2014 and its actual expenses discovered during subsequent GRCs, and that the Company does so again in this case.[207] Second, Staff notes that while Avista's 2019 test year levels of $4.6 million (on a system basis prior to removal of 10 percent of D&O insurance) are known and measurable, its 2021 estimations of $8.69 million (on a system basis after removal of 10 percent of D&O insurance) are not.[208] Third, Staff argues that Avista's 2019 test year levels are representative of the actual insurance expense incurred by Avista (on a system

[203] Andrews, Exh. EMA-1T at 63:1-6; Huang, Exh. JH-7 at 5.

[204] Andrews, Exh. EMA-6T at 38:13-30.

[205] Crane, Exh. ACC-1T at 25:7-26:5.

[206] Huang, Exh. JH-1T at 24:5-13.

[207] *Id.* at 20:1-21:18; 22:9-23:3.

[208] *Id.* at 23:5-10; 24:5-13.

basis prior to removal of 10 percent of D&O insurance) for the six-year period 2014-2019, which ranged from $4.59 million to $5.11 million.[209] Staff concludes, therefore, that Avista's request to recover an estimated $8.69 million (on a system basis after removing 10 percent of D&O insurance) should be rejected.

172 We agree with Avista that removing 50 percent of the D&O insurance is inappropriate. In the 2009 Avista GRC, the Commission explained that D&O insurance benefits both customers and shareholders as part of the compensation package necessary to attract and retain qualified directors and officers, finding that allocating 90 percent to customers and 10 percent to shareholders was appropriate.[210] The Commission specifically distinguished the D&O insurance from Directors fees, which were determined to provide services equally beneficial to customers and shareholders.[211] In this case, the considerations in the 2009 Avista GRC remain unchanged and Public Counsel's argument lacks support sufficient to persuade us that this adjustment's methodology should be changed to reflect a 50 percent allocation of D&O insurance.

173 We are not persuaded by Avista, however, that it is appropriate to authorize an adjustment based upon estimates and prepayments that would place in rates an additional $2.46 million (electric) and $279,000 (natural gas). We agree with Staff that the amounts requested by Avista are not known and measurable. The historical overestimations of insurance expenses noted by Staff, highlighted by the large update to Avista's estimated 2021 insurance quotes, or invoices in this case, illustrate the lack of certainty quotes have historically provided.

174 The insurance invoices Avista provided are estimates that change over time as evidenced by the change in 2021 insurance quotes from the time of the Company's initial filing to the time of rebuttal. Neither labeling insurances invoices as "actual" nor prepaying actual insurance invoices is, therefore, sufficient to recharacterize these actual estimates as actual expense.[212] Further, Avista has failed to submit evidence or argument sufficient to justify and persuade us that expense estimates extending nearly two years after its 2019 test year are known and measurable, despite invoices and prepayments.

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[209] *Id.* at 23:12-24:3.

[210] *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-090134, UG-090135 & UG-060518 *(Consolidated)*, Order 10, 55-57, ¶¶ 135-37 (Dec. 22, 2009).

[211] *Id.* at 58-59, ¶¶ 141-42.

[212] *See* Andrews, Exh. EMA-6T at 38:13-21.

175 Avista's failure to establish 2021 insurance expenses as known and measurable is, in part, due to its failure to support the prudency of its prepayments. When Avista makes prepayments, that capital is not available for other uses. We would expect Avista to address the effect of prepayments on cashflow and, in turn, the cashflow effect and other impacts prepayments have on customers. In addition, we would expect Avista to explain whether the capital it uses for prepayments is also included in its investor-supplied working capital (ISWC), where the capital earns a return for the Company. If included, Avista must explain why its ratepayers should be charged for the prepayment expense in addition to the ISWC treatment. Going forward, if Avista seeks to recover pro forma expenses related to prepayments, invoices, or quotes, it must make a showing of prudency as we have detailed, above. Additionally, as we move into a new era of utility regulation that includes multi-year rate plans, Avista should be prepared to show how prepayments of expenses and assets should be considered in rate plans, what performance-based regulatory mechanisms should apply, what their impacts to customers may be, and what review processes are appropriate.

176 We agree with Public Counsel and AWEC that the pro forma insurance expense adjustment should use actual 2020 insurance expenses.[213] Unlike the expense estimated for 2021, Avista has submitted its actual insurance expense for 2020, and this expense is known and measurable. Avista witness Andrews presents Avista's actual insurance expense for 2020 in rebuttal, indicating an expense as of December 31, 2020, of $5.32 million on a system basis after removing 10 percent of the D&O insurance.[214] This amount does not suffer from the same infirmities as Avista's 2021 estimates: it is not based upon insurance invoices, it is not nearly twice as much as actual test year levels, and it is comparable to Avista's historical insurance expense over the six-year period presented by Staff.

177 Accordingly, we find that Avista's 2020 actual insurance expense is known and measurable, and that authorizing Avista's pro forma insurance expense adjustment based on its 2020 actual insurance expense is justified. After removing 10 percent of the D&O insurance, Avista's 2020 actual insurance expense is $5,320,164 on a system basis, with

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[213] Crane, Exh. ACC-1T at 25:8-13; Mullins, BGM-1T at 5:24-25. Public Counsel provided an exhibit with 2020 actual expenses known as of January 2021 and Avista provided the actual 2020 insurance expenses known as of April 2021 in rebuttal. Crane, Exh. ACC-11; Andrews, Exh. EMA-6T at 38:13-21.

[214] Andrews, Exh. EMA-6T at 38:13-21.

the associated revenue requirement portions attributable to its Washington customers of $356,097, electric, and $108,589, natural gas.

d. *IS & IT Programs & Expenses (Pro Forma Adjustment 3.08)*

178 Avista's pro forma IS & IT programs and expenses adjustment increases the 2019 test year level to the level expected during the rate period beginning on the rate effective date of October 1, 2021. Avista witness Andrews explains that

> the adjustment includes the incremental costs primarily associated with contractual agreements in place, pre-paid costs, or are the continuation of costs for products and services that have increased beyond the 2019 historical test period associated with products and services, licensing and maintenance fees, and other costs for a range of information services programs.[215]

179 Staff, Public Counsel, and AWEC oppose Avista's adjustment. Staff recommends the Commission reject Avista's adjustment in its entirety, while Public Counsel and AWEC recommend the Commission only authorize 2020 expenses. In addition, AWEC recommends that the Commission exclude Salesforce expenses, as they appear to have been incurred for a subsidiary. The issues presented for our resolution are whether it is appropriate to use 2021 expenses in Avista's pro forma IS & IT adjustment and whether Avista's Salesforce expenses should be allowed.

Commission Determination

180 As an initial matter, we disagree with AWEC that expenses related to Avista's contract with Salesforce should be excluded. We are satisfied by the testimony and evidence provided by Avista witnesses Andrews and Magalsky that Avista's contract with Salesforce, signed in October 2018, is not related to a subsidiary, but is related to the Company's customer experience platform development and is therefore appropriately included in this adjustment.[216]

181 Staff argues that the 2021 amounts Avista requests for recovery in this case, similar to several prior cases, are overestimations and that the 2019 test year levels are known and

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[215] Andrews, Exh. EMA-1T at 66:6-10.

[216] *See* Andrews, Exh. EMA-6T at 74:3-13; Magalsky, Exh. KEM-1T at 20:12-21:14, 25:20-27:2.

therefore appropriate.[217] Public Counsel argues that Avista's adjustment attempts to recover expenses that extend too far beyond the end of the test year.[218] In place of 2021 expenses, Public Counsel and AWEC propose the Commission authorize this adjustment based only the actual 2020 levels of IS & IT expense.[219] Avista witness Kensok explains that this adjustment accounts for incremental expenses that will be incurred during the rate period beginning on October 1, 2021, include only non-labor items, and are "based on having a contractual agreement in place, are pre-paid costs, or are the continuation of costs for products and services that have increased beyond the 2019 historical test period."[220]

182 This adjustment is another example of the difficulties caused by a stale test year and Avista's attempt to treat this case as a multi-year rate plan. We disagree with Staff that the 2019 test year amounts most accurately represent the expense Avista will incur during the rate year, but we agree with Staff, Public Counsel, and AWEC that Avista's estimates of expenses in 2021 are not known and measurable. We find that the 2020 actual IS & IT expense are known and measurable, are not estimations or prepayments, and are therefore appropriate to use in this adjustment. Similar to our decision regarding Avista's pro forma 2021 insurance expense adjustment, we find that Avista has failed to adequately support its request with evidence justifying and persuading us that its 2021 IS & IT estimates are known and measurable, despite certain prepayments. Accordingly, we determine that Avista's 2021 expenses should be excluded from this adjustment and Avista's pro forma IS & IT expense adjustment with the use of actual 2020 IS & IT expenses should be authorized.

183 Avista's failure to demonstrate that its 2021 IS & IT expenses are known and measurable is due, in part, to its failure to support the prudency of its prepayments according to all the same factors we explain 175above regarding the pro forma insurance expense adjustment. Avista should also consider how its IS & IT expense prepayments should be evaluated in rate plans, what performance-based regulatory mechanisms should apply, what their impacts to customers may be, and what review processes are appropriate.

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[217] Huang, Exh. JH-1T at 25:6-28:15.

[218] Crane, Exh. ACC-1T at 26:14-16.

[219] *Id.* at 26:14-27:2; Mullins, Exh. BGM-1T at 5:26-28.

[220] Kensok, Exh. JMK-1T at 39:19-40:5.

e. *Major Capital Additions (Pro Forma Adjustments 3.11-3.15, 7.01)*

184 Avista's electric and natural gas pro forma major capital additions adjustments (3.11-3.15) increase the 2019 test year levels of capital for major additions to 2020 plant in-service on an EOP basis (including accumulated depreciation, depreciation expense, and ADFIT), remove capital retirements, and include the impact of any offsets.[221] Avista excluded from these adjustments all capital it determined was not material, *i.e.*, investments less than $500,000 for electric and $200,000 for natural gas, resulting in the five grouped major capital additions.[222] Avista updated these adjustments on rebuttal to include only actual 2020 capital.[223]

185 As a result of Avista's update to actual 2020 capital additions, Public Counsel does not contest Avista's adjustments and any apparent difference is due to application of Public Counsel's proposed cost of capital.[224] Both Staff and AWEC oppose Avista's adjustments. Staff raises similar concerns as Public Counsel, but also opposes Avista's adjustments on other grounds.[225] AWEC proposes to replace these five adjustments (and also the pro forma Colstrip adjustment) with a single adjustment to 2020 capital on an AMA basis and include offsetting impacts of accumulated depreciation.

186 Staff raises issues of general applicability to Avista's adjustments. Staff witness Higby argues that Avista should not be authorized to include certain plant additions that fail to meet a reasonable definition of "major," and those for which Avista has failed to account for offsetting factors.[226] While Staff agrees with Avista that a threshold should exist, Higby argues that Avista's is only 10 percent of the level adopted by the Commission in the 2015 and 2017 Avista GRCs and that Avista makes too many exceptions to its own threshold.[227] Instead, Higby proposes a major project threshold half of what the Commission previously adopted for Avista, with exceptions, resulting in the inclusion of

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[221] Schultz, Exh. KJS-1T at 4:4-15. The additions are Customer at the Center (3.11), Large Distinct Projects (3.12), Programmatic (3.13), Mandatory and Compliance (3.14), and Short-Lived Assets (3.15).

[222] Schultz, Exh. KJS-1T at 11:11-17.

[223] Schultz, Exh. KJS-3T at 3:7-12; Higby, Exh. ANH-5.

[224] *See* Crane, Exh. ACC-1T at 34:5-10.

[225] *See* Higby, Exh. ANH-1T at 3:13-4:3, 19:14-17.

[226] Higby, Exh. ANH-1T at 3:23-4:3.

[227] *Id.* at 13:19-14:14; *see id.* at 14:16-15:8.

only 18 electric and 18 natural gas projects across all five of the adjustments identified by Avista.[228] Lastly, Higby proposes removing an additional three projects due to Avista's failure to account properly for direct as well as indirect offsetting factors, a concern also central to AWEC's proposal.[229]

187 **Customer at the Center (Pro Forma Adjustment 3.11).** The Customer at the Center adjustment relates to investments in large and distinct customer-focused projects such as the Customer Facing Technology Program, Customer Experience Platform, and Customer Transactions Systems.[230] Staff proposes to exclude the Strategic Initiatives – Customer Experience Platform expenditure request from Avista's adjustment despite the fact that it meets Staff's materiality threshold because Avista does not reflect in the adjustment stated benefits of increased efficiency, employee productivity, and cost savings as offsetting factors.[231]

188 **Large and Distinct (Pro Forma Adjustment 3.12).** The Large and Distinct adjustment includes seven projects, including Rattlesnake Flat Wind Farm and Labor Day 2020 Storm Damage project (electric), and the Cheney High-Pressure Reinforcement project (natural gas).[232] Staff excludes eight electric and three natural gas expenditure requests for failing to meet Staff's threshold of 0.25 percent of 2019 test year net plant in service.[233] Further, Staff notes that while it fails to meet the materiality threshold, Avista has also failed to include offsets to the Coyote Springs 2 Single Phase Transformer project.[234]

189 **Programmatic (Pro Forma Adjustment 3.13).** The Programmatic adjustment relates to projects associated with ongoing, reoccurring annual projects such as Wood Pole Management, substation rebuilds, and distribution grid modernization.[235] Staff excludes 19 electric and 10 natural gas expenditure requests for failing to meet Staff's threshold.[236]

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[228] *Id.* at 17:9-19:8.

[229] *Id.* at 23:5, 25:16-19, 31:6-7; *see* Mullins, Exh. BGM-1T at 16:5-18, 18:1-19:12.

[230] Schultz, Exh. KJS-1T at 13:21-14:1.

[231] Higby, Exh. ANH-1T at 30:6-8; Magalsky, Exh. KEM-1T at 25:21-27:12.

[232] Schultz, Exh. KJS-1T at 14:22-15:7.

[233] Higby, Exh. ANH-1T at 20, 22; Gomez, Exh. DCG-1CT at 52:6-8.

[234] Gomez, Exh. DCG-1CT at 53:2-5.

[235] Schultz, Exh. KJS-1T at 16:13-18.

[236] Higby, Exh. ANH-1T at 20-22.

In addition, Staff witness Higby argues that only projects meeting the Commission's definition of "programmatic" should be included.[237] Higby therefore proposes to exclude two other projects characterized by Avista as "blanket" programs, but to allow Avista to recover them as pro forma adjustments in a future case.[238]

190 **Mandatory and Compliance (Pro Forma Adjustment 3.14).** The Mandatory and Compliance adjustment relates to projects that are mainly associated with ongoing, reoccurring annual projects required to meet regulatory obligations such as Isolated Steel and Aldyl-A Pipe Replacement.[239] Staff excludes seven electric and five natural gas expenditure requests for failing to meet Staff's threshold.[240]

191 **Short Lived (Pro Forma Adjustment 3.15).** The Short-Lived adjustment relates to various short-lived capital projects including Endpoint Compute and Productivity Systems, Project Atlas, and Enterprise Security Systems.[241] Staff excludes only the Modernization and Operational Efficiency Technology and Enterprise Data Science expenditure requests for failure to include offsetting factors.[242]

192 **AWEC Adjustment 7.01.** AWEC's proposal would use actual 2020 capital on an AMA basis, which would replace these five identified adjustments as well as Avista's proposed pro forma adjustment for Colstrip capital additions. AWEC witness Mullins explains that AWEC's proposal would usually be problematic due to the mismatch between rate base and revenues, but argues that this case is unique due to the stale test year and the uncertainty of revenue growth caused by the COVID-19 pandemic.[243] Mullins identifies several problems with Avista's case, noting that the 2019 test year was stale when the GRC was filed, use of the 2019 test year ignores significant cost reductions in 2020, and that Avista failed to include offsetting impacts for its pro forma major capital additions, such as accumulated depreciation and sale growth.[244]

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[237] *Id.* at 33:15-17.

[238] *Id.* at 35:8-36:4.

[239] Schultz, Exh. KJS-1T at 18:2-8.

[240] Higby, Exh. ANH-1T at 21-22.

[241] Schultz, Exh. KJS-1T at 19:14-17.

[242] Higby, Exh. ANH-1T at 30:4-12, 31.

[243] Mullins, Exh. BGM-1T at 20:12-16.

[244] *Id.* at 12:14, 13:5-14, 20:9-21:2.

193 Mullins also argues that, while Commission policy on post-test period capital loosens the matching principle to address regulatory lag, capital additions should not be allowed to create a mismatch between plant and depreciation reserves.[245] Should the Commission reject AWEC's proposal to base the pro forma adjustment on actual 2020 plant on an AMA basis, Mullins recommends reducing the revenue requirement by reflecting incremental depreciation reserves.[246]

194 On rebuttal, Avista witness Schultz argues that Mullins drew conclusions from erroneous data unrepresentative of actual 2020 capital, and that AWEC's proposal would understate the level of capital in service during the rate effective period beginning October 1, 2021, by $135 million.[247] Schulz also argues that using actual 2020 capital on an AMA basis would approximate plant in service on June 30, 2020, 15 months before the rate effective date of October 1, 2021.[248]

Commission Determination

195 The Commission has considerable discretion to implement any of a wide range of regulatory and ratemaking tools. One of those tools includes allowing pro forma adjustments to extend well beyond the historical test year, up to 48 months, which due to state law is now no longer extraordinary.[249] Aside from the use of EOP valuations to address Avista's concerns related to regulatory lag, pro forma capital requests are typical, and the Commission has evaluated them using traditional standards — *i.e.*, known and measurable, used and useful, and prudency. No party argues that these investments fail to meet these standards. Granting Avista's request to recalculate actual 2020 major capital additions on an EOP basis – to December 31, 2020 – is, therefore, well within the Commission's authority and will result in rates that are fair, just, reasonable, and sufficient.

196 On rebuttal, Avista witness Schultz testifies that Commission approval of Staff's and AWEC's proposal to exclude certain plant from rates, or to base the pro forma adjustment on 2020 major capital additions on an AMA basis, would result in recovery

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[245] *Id.* at 17:9-21.

[246] *Id.* at 17:11-12, 19:5-12.

[247] Schulz, Exh. KJS-3T at 26:21-23, 31:26-33:6.

[248] *Id.* at 32:16-17.

[249] RCW 80.28.250; *see also* Andrews, Exh. EMA-1T at 82:16-24, 84:20-86:3; Andrews, Exh. EMA-6T at 131:2-132:12.

for a level of plant falling well below the amount in service and currently used and useful to ratepayers and would exacerbate Avista's already significant regulatory lag.[250] We agree.

197 Here, updating major capital additions to an EOP basis requires no projections or estimates. The capital additions we approve each meet the used and useful standard because the costs are known and measurable and each is currently in service. We find that authorizing these adjustments on an EOP basis is a reasonable means to address regulatory lag by ensuring more timely recovery of these investments, many of which are short-lived and particularly vulnerable to regulatory lag. As we explain below, Avista has convinced us that it is appropriate to authorize its adjustments, but several of its practices require our attention and further direction. Accordingly, we determine that Avista's pro forma 2020 major capital additions adjustments should be authorized subject to the requirements we outline below.

198 **Materiality Threshold.** Avista argues that it did not set its own "major" project threshold, but "generally" eliminated smaller projects to reduce the burden on the non-Company Parties' review and audit.[251] Avista's argument highlights a distinction without a difference. Neither Avista nor Staff set a bright line materiality threshold; rather, each selected and supported a specified level of investment that it used to generally guide, but not control, its recommendations for inclusion in these adjustments. Both, therefore, are consistent with Commission precedent disfavoring a bright line test for excluding major capital additions. Based on the specific facts and circumstances of this case only, we find it appropriate to accept Avista's method for selecting a particular threshold and capital additions that should be included in the Company's pro forma 2020 major capital additions adjustments. We find this is justified to address Avista's demonstrated regulatory lag in this case, but as we take a case-by-case approach, a similar demonstration in the Company's next GRC, within the context of multi-year rate plans, may not be sufficient to persuade us that such treatment is justified.

199 Several elements of Avista's demonstration must improve. Although Avista provided clarification on rebuttal, neither Staff nor any other party should receive a filing that requires clarification regarding whether a total of 92 projects or 219 projects are included

[250] Schultz, Exh. KJS-3T at 13:2-8.

[251] *Id.* at 17:1-4.

in Avista's major capital adjustments.[252] This should align directly with Avista's stated intent to define its major capital additions adjustments in an effort to ease the burden on auditing Parties. With the inclusion of a multi-year rate plan, Avista's next GRC filing is likely to be more complicated and will require greater efforts and demonstration to reduce the auditing burden of *all* Parties.

200 **Offsetting Factors.** Staff removes projects for which it argues Avista has failed to appropriately identify and include offsetting factors, including the Strategic Initiatives – Customer Experience Platform, a project under the Customer at the Center adjustment, the Coyote Springs 2 Single Phase Transformer project under the Large and Distinct adjustment, and the Modernization and Operational Efficiency Technology and Enterprise Data Science projects under the Short-Lived adjustment. We disagree that these should be removed in light of the testimony offered by Avista on rebuttal. While Avista does not directly address the failure that Staff witness Higby describes, Avista witness Schultz explains that the Company has included other offsetting factors, such as reductions in depreciation expense, by including all plant retirements in 2019 and not including all 2020 replacement plant.[253] Thus, we accept that Avista has included sufficient offsetting factors to prevent exclusion of the plant Staff identified.

201 We nevertheless require Avista's demonstration to improve in future GRC filings. It is evident from the record that Staff tried without success to get Avista to quantify the savings associated with the Customer Experience Platform due to its ability to "produce multiple efficiencies, such as a reduction in time to resolve customer issues, reduction in transfers and the amounts of additional calls, and increased productivity."[254] We are troubled by Avista's willingness to emphasize the benefits of the "cost savings associated with the [Customer Experience Platform]" in testimony when seeking its recovery in rates, but its refusal to quantify such cost savings as offsetting factors.[255]

202 Offsetting factors are required in each pro forma adjustment. In future filings, if Avista seeks to recover any major capital addition through a pro forma adjustment, Avista must demonstrate <u>all</u> offsetting factors, direct and indirect, hard and soft, material and

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[252] Higby, Exh. ANH-1T at 7:10-8:10; *see* Schultz, Exh. KJS-3T at 13:16-15:7.

[253] Schultz, Exh. KJS-3T at 18:9-19:9.

[254] *See* Higby, Exh. ANH-1T at 25:1-31:2; Higby, Exh. ANH-4 at 1-16.

[255] Higby, Exh. ANH-1T at 29:9-18; Magalsky, Exh. KEM-1T at 25:20-27:7; *see* Magalsky, Exh. KEM-1T at 21:23-28:2.

immaterial.[256] If the plant is sufficiently material for the Company to seek recovery, all offsetting factors must be considered material and included in the adjustment. The necessity of these offsetting factors, as we have stated here, will not dissipate in the context of a multi-year rate plan. Avista should not expect recovery in rates without a demonstration of all offsetting factors.

203 In addition, Staff has raised again an issue of ongoing concern regarding the Coyote Springs 2 Single Phase Transformer. Staff witness Gomez argues that this transformer should be excluded because Avista has not matched it with offsetting factors, again, by failing to include or even "mention a $5.2 million insurance claim it made on" a failed transformer and the write-off of "$2.9 million in net book value remaining."[257] In rebuttal, Avista witness Schulz testifies that the Company still awaits a determination of fault and does not know whether there will be proceeds from the transformer's failure.[258] In addition, Schulz explained that the Company had included an associated $3.9 million retirement (not a write-off) for the Coyote Springs 2 transformers.[259]

204 We are satisfied that Avista included appropriate offsets to its pro forma 2020 major capital additions adjustment associated with the failed transformers. We find, however, that submitting an insurance claim for failed distribution infrastructure, such as a failed transformer, should trigger a regulatory process to ensure transparency and tracking. Accordingly, we require Avista to file with the Commission an accounting petition to defer the insurance claim proceeds associated with the Coyote Springs 2 Single Phase Transformer highlighted in Staff witness Gomez's testimony. In addition, we direct Avista to file with the Commission an accounting petition to defer any insurance claim proceeds associated with any material future distribution infrastructure failure, such as a failed transformer, for which the Company submits an insurance claim.

205 **Programmatic.** According to the Commission's definition in the Used and Useful Policy Statement, programmatic investments are, by their very nature, investments made according to a schedule, plan, or method such as the replacement of power poles or other

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[256] If an offsetting factor is believed to be immaterial, it is the utility's burden to *include* a demonstration of immateriality. Identification as "immaterial" absent sufficient demonstration (*i.e.,* justified, detailed explanation with support) is afforded no weight.

[257] Gomez, Exh. DCG-1CT at 53:2-5.

[258] Schulz, Exh. KJS-3T at 22:4-23:13.

[259] *Id.* at 22:18-23:4.

small distribution system investments necessary to provide safe and reliable service to Washington ratepayers.[260]

206 Staff argues that some of Avista's expenditure requests fail to meet the Commission's definition, and recommends the Commission exclude two such requests characterized as "blanket" projects but allow Avista the opportunity to recover them in a future proceeding.[261] In rebuttal, Avista witness Schulz testifies that blanket projects can be programmatic investments because, although there is not a schedule, there is a method of routine service, and its purpose is to provide safe and reliable service.[262] We agree.

207 In the 2020 Cascade GRC, we rejected the utility's request to recover "blanket funding" projects.[263] In that case, the utility asserted that certain projects were programmatic but failed to identify offsetting factors or provide plans or documentation of any kind. While similarities exist, Avista's demonstration carries its burden where Cascade's failed.

208 Avista's blanket funding project, like Cascade's, are small, outside the Company's spending control, occur annually, and are responsive to customer requests and local jurisdictions. However, Avista has also included business cases discussing prudency of the projects and their offsetting factors, and has also shown the projects are being performed pursuant to a method of routine service that is responsive to failed infrastructure, storm restoration, and local jurisdictions. In addition, Avista includes in its pro forma 2020 mandatory and compliance adjustment another blanket project, the Gas Replacement-Street and Highway project. This program contains projects that are unplanned, require spending outside of the Company's control, are required in response to local jurisdictions, and are therefore unpredictable year-to-year costs.[264] Staff raises no objection to the inclusion of this program in Avista's adjustment. Accordingly, we find that Avista has established that the investments identified in the Company's blanket funding projects qualify as programmatic under the Commission's definition.

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[260] Used and Useful Policy Statement at 5, n. 19.

[261] Higby, Exh. ANH-1T at 33:15-20.

[262] Schulz, Exh. KJS-3T at 24:11-17.

[263] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-200568, Final Order 05, Rejecting Tariff Sheets, Authorizing and Requiring Compliance Filing, 95, ¶ 309 (May 18, 2021).

[264] Rosentrater, Exh. HLR-1T at 49:17-50:23.

209 We find, however, that Avista's showing for blanket programmatic projects needs improvement. We accept Avista's demonstration under the specific facts and circumstances of this case. In future filings, however, we expect Avista's demonstration to include a showing that the blanket programmatic projects it seeks to recover in any pro forma adjustment are incremental to the test year and will not result in double-recovery of year-to-year costs in the test year for such projects. In addition, if its blanket programmatic projects lack material variation in year-to-year investment, Avista must show why these investments should not be normalized over an appropriate time period. Accordingly, we require that Avista must demonstrate in its next GRC why normalizing its blanket programmatic investments is inappropriate and, in all subsequent GRC filings, that its pro forma blanket programmatic investments are incremental to the test year.

210 We determine that Avista's pro forma 2020 major capital additions adjustments, including Customer at the Center (Adjustment 3.11), Large Distinct Projects (Adjustment 3.12), Programmatic (Adjustment 3.13), Mandatory and Compliance (Adjustment 3.14), and Short-Lived Assets (Adjustment 3.15), are appropriate and should be approved.

211 **AWEC Adjustment 7.01.** We are not persuaded by Avista's argument that using actual 2020 capital on an AMA basis would exacerbate regulatory lag due to the AMA basis only approximating actual plant in service through June 30, 2020, *15 months* before the rate effective date of October 1, 2021. Avista is solely responsible for the regulatory lag because of its choice of 2019 as the test year.

212 AWEC witness Mullins's grounds for his proposal are well-stated and well-received despite our determination that such mismatched ratemaking treatment is inadequately supported. Avista's selection of 2019 as the test year has created difficulties for all the Parties and the Commission in reviewing the Company's filing. While each utility may choose its test year when filing a GRC, Avista's choice of such a stale test year does not require the Commission to accommodate Avista's numerous requests for special ratemaking treatment.

213 We also agree, in principle, that Avista should do more to identify the offsetting factors included in its case. As we detail above, we order Avista to make additional filings and include in future GRCs more specific and detailed showings of offsetting factors, without which it will be difficult to justify the inclusion of such major additions in the context of multi-year rate plans.

214 Ultimately, we find it inappropriate – based upon the record before us – to adopt AWEC's proposal to modify Avista's pro forma capital (including Colstrip capital additions) based on 2020 AMA balances. We would expect support for such an adjustment, however, to include detailed explanations for resolving the resulting mismatching rate periods and intra-period rate treatment. Here, the support is insufficient to outweigh other considerations in favor of Avista's pro forma major capital additions adjustments. Accordingly, we determine that AWEC's proposal to modify Avista's adjustment to include actual 2020 capital additions on an AMA basis should not be approved.

f. *AMI (Pro Forma Adjustment 3.16)*

215 Avista's seeks a pro forma adjustment to AMI capital additions and regulatory amortization to recover the costs *of* its investment and a return *on* its investment in AMI. Avista witnesses DiLuciano, Knox, and La Bolle testify for Avista, requesting that the Commission determine the investment was prudent, and to include the costs in rates. All Parties support the portion of Avista's adjustment allowing recovery *of* Avista's AMI investment and placing it in rates. While Staff also supports Avista's recovery *on* its AMI investment, Public Counsel, AWEC, and The Energy Project contest it, at least in part.[265]

216 The issue presented for our determination is whether, and what portion, Avista should be allowed to recover the return *on* its AMI investment in rates. Public Counsel and The Energy Project propose that the Commission reject Avista's request to recover the return on its investment on AMI.[266] AWEC proposes that the Commission authorize Avista to recover a return on its investment in rates, but adjust Avista's recovery to the cost of debt, grossed up for taxes.[267]

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[265] Staff supports both adjustments 1.04 and 3.16, but makes clear in its case that the amount of the recovery it supports is different because it believes its proposed cost of capital, not Avista's, should apply to both adjustments. This question is resolved by our cost of capital decision in this Order, *supra* Section III.C.1., which now applies.

[266] Bauman, Exh. SB-1T at 2:19-3:11; Crane, Exh. ACC-1T at 36:1-10; Collins, Exh. SMC-1T at 18:11-20:6.

[267] Mullins, Exh. BGM-1T at 66:15-67:21.

Commission Determination

217 In the 2019 PSE GRC, our Final Order (2019 PSE GRC Final Order) denied PSE's request to recover the return on its AMI capital investment. We stated that

> PSE has not yet satisfactorily demonstrated the benefits of the AMI system as a whole. The Company represented at hearing that it is planning to pursue additional benefits, but it has yet to put forth any formal plan or proposal. . . . As such, PSE has not yet made a showing that would justify authorizing the Company to recover a return on any portion of its AMI investment made thus far. . . .
>
> . . .
>
> [T]he Commission will evaluate the portion of AMI investment for which PSE seeks recovery in rates, but will require the continued deferral of the *recovery of the return on* each portion of the investment until the AMI project is complete. Our decision recognizes that PSE will not be able to demonstrate a significant portion of AMI benefits until the system is fully deployed. In light of these circumstances, we will reserve a final determination of prudency on the project as a whole until the AMI installation is complete and all customer benefits can be presented for evaluation. The final prudency determination thus rests on PSE's ability to live up to its promises of multiple customer benefits.[268]

218 In addition, we provided guidance to PSE and other utilities that each should carefully review whether they are leveraging AMI to maximize its benefits.[269] In particular, we directed PSE to consider and capture data on six use cases – TOU rates, real-time energy use feedback for customers, behavior-based programs, data disaggregation, grid-interactive efficient buildings, and conservation voltage reduction (CVR) or volt/VAR optimization – in addition to further information or metrics that demonstrate AMI's benefits to customers.[270]

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[268] 2019 PSE GRC Final Order at 48-49, ¶¶ 155-56.

[269] *Id.* at 49, ¶ 157.

[270] *Id.*

219 Public Counsel, AWEC, and The Energy Project base their proposals denying at least a portion of Avista's recovery on its AMI investment on our decision and guidance in the 2019 PSE GRC Final Order, arguing that Avista has failed to consider and capture data on the six use cases or failed to demonstrate sufficient benefits of AMI.

220 While we did set clear expectations in 2019 PSE GRC that apply to all AMI proposals presented to the Commission, this case is distinct from the 2019 PSE GRC, and Avista's proposal must be considered on its own merit. It would be inappropriate, therefore, to evaluate Avista's request based *only* upon the insufficiencies we identified in PSE's proposal.

221 Accordingly, we find that Avista's proposal does not suffer from the same flaws as PSE's, but neither are we completely satisfied. We expect Avista to make ongoing efforts to leverage AMI to maximize benefits, engineering even more benefits than currently anticipated. Thus, while we authorize Avista's pro forma AMI adjustment, we determine it is necessary to impose certain reporting requirements for Avista going forward into its next GRC.

222 No party disputes that Avista's deployment of AMI is complete, or substantively complete. This is a stark difference from the 2019 PSE GRC as well as the 2015 Avista GRC, during which the Commission declined to even consider prudency until after AMI was placed in service and used and useful.[271] At hearing in this proceeding, Avista witnesses testified that only 0.1 percent, approximately 300 meters, of AMI planned for its electric services had yet to be installed, and that 21 percent, approximately 3,900 meters, remained to be installed for natural gas.[272]

223 In the 2019 PSE GRC, we recognized that PSE would not be able to demonstrate a significant portion of AMI benefits until its system was fully deployed.[273] Here, Avista has fully deployed its AMI system and has demonstrated a significant portion of benefits. Avista witness Andrews identifies the financial offsets (reductions to O&M expenses) to Avista's pro forma AMI adjustment, which are mainly "due to elimination of meter reading, remote service connectivity and conservation voltage reduction."[274] These

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[271] 2015 Avista GRC Final Order at 67, ¶ 191.

[272] Rosentrater, TR at 162:21-163:1; DiLuciano, TR at 163:11-14.

[273] PSE 2019 GRC Final Order at 48, ¶ 155.

[274] Andrews, Exh. EMA-1T at 71, n. 50.

benefits are similar to those cited by PSE as support in the 2019 PSE GRC.[275] PSE could not, however, adequately demonstrate or quantify the associated benefits.[276] Here, Avista has quantified and demonstrated these benefits and included their effect in rates. These offsets reflect test period incremental electric savings of $3.0 million and $1.0 million natural gas savings.[277]

224 As we determined in the 2019 PSE GRC Final Order, before recovery on its investment, utilities must have a formal plan or proposal, complete or substantially complete deployment of AMI. The utility must also provide analyses demonstrating the benefits of its AMI system as a whole, which must include consideration of the six use cases we have specifically identified in addition to the others that we expect a utility to identify. In its 2019 GRC, PSE had not submitted any formal plan or proposal for pursuing benefits of its AMI. In this case, Avista has submitted a formal report detailing its AMI project (AMI Project Report) and offers detailed testimony and supporting exhibits discussing these benefits.[278]

225 The AMI Project Report depicts the financial benefits that Avista's AMI system provides, or will provide, to customers, including meter reading operational savings, remote service connectivity, outage management, energy efficiency, reduced energy theft and diversion, billing accuracy, and utility studies like load analysis and meter sampling.[279] We require that utilities seeking recovery on an AMI investment must be able to present all customer benefits for evaluation, not that all customer benefits must have already been realized.[280] We also refrain from such unrealistic expectations that a utility must demonstrate all benefits that might be realized by AMI in the future before recovery on its investment in rates. Avista has met this burden by presenting all customer benefits for our evaluation.

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[275] 2019 PSE GRC Final Order at 48, ¶ 155.

[276] *Id.*

[277] Andrews, Exh. EMA-1T at 71, n. 50; *see id.* at 71:13-72:11.

[278] DiLuciano, Exh. JDD-2r [hereinafter AMI Project Report]; DiLuciano, Exh. JDD-1T; Rosentrater & La Bolle, Exh. HR/LL-1T.

[279] AMI Project Report at 8-9, 48-85.

[280] *See* 2019 PSE GRC Final Order at 49, ¶ 156. Indeed, the Commission has considered a utility's demonstration of anticipated and forecasted benefits in other proceedings.

226 In addition to those that can be quantified, Avista presented in its report many unquantifiable benefits to customers.[281] Avista witness Rosentrater also testified at hearing to certain unquantifiable benefits from AMI that can be seen during extreme weather events, like the extreme heat event in late June 2021. Rosentrater testified that Avista's planning will benefit significantly from AMI's granular information due to greater insight into the load profiles of each circuit and transformer.[282] This information can then be used to go beyond just the ambient temperature to better predict load during extreme weather events.

227 Consistent with our guidance in the 2019 PSE GRC Final Order, Avista included in its AMI Project Report an analysis and the approximate benefits of AMI regarding the six use cases to which we directed utilities' attention. Avista approximates financial benefits attributable to TOU rates of $18.9 million, to real-time energy use feedback for customers of $3.7 million, to behavior-based programs of $8.9 million, to grid-interactive efficient buildings of $2.6 million, and to CVR or volt/VAR optimization of $18.5 million.[283]

228 This analysis is the minimum we expect and accept, considering when the 2019 PSE GRC Final Order was issued and the near complete status of Avista's AMI deployment at that time. In authorizing Avista's AMI adjustment, we order Avista to:

- Develop and report further analyses of the use cases: TOU rates, real-time energy use feedback for customers, behavior-based programs, data disaggregation, grid-interactive efficient buildings, CVR or volt/VAR optimization, *and other additional use cases Avista identifies*;
- Craft and report plans for *achieving* benefits through application of each of the use cases, above; and

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[281] AMI Project Report at 86-94.

[282] Rosentrater, TR at 148:11-20.

[283] AMI Project Report at 4-5. Avista states that data disaggregation is already implicit in the analysis of energy-use feedback and behavior-based programs. *Id.*

- Develop and propose AMI performance-based regulation metrics and measurements that the Commission might apply, and specifically such metrics and measurements relevant for each of the use cases, above.[284]

229 The issue of Avista's investment in AMI systems has been before the Commission in several proceedings. Avista witness DiLuciano recounts in testimony a history of AMI concerns raised at the Commission, directions for its AMI project, and how Avista has responded to each during its planning and deployment. Avista responded to concerns about whether the investment was used and useful; resolved its imprecise estimates of the project's costs; engaged with the Commission and stakeholders regarding disconnection practices, including participating in the Commission's remote disconnection rulemaking; engaged customer and stakeholder feedback, including privacy concerns and options to opt-out of AMI, and addressed concerns of cyber security that included the handling of customer data.[285]

230 Accordingly, with the inclusion of the additional requirements described in Paragraph 228, above, we determine Avista's pro forma AMI adjustment should be approved.

g. *Wildfire*

231 As we address each of the Parties' proposals concerning the wildfire issues presented in this case, we first must ask the most important question: are Avista's current and recent wildfire circumstances extraordinary? The answer is a resounding "yes."

232 In its Deferral Petition, Avista states:

> The risk of large wildfire events is increasing across the western United States. Recent fire events [in] Washington, Oregon, and California, illustrate that utility operating risk is increasing related

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[284] We encourage Avista to engage with its stakeholders, including Public Counsel, for support and feedback. Public Counsel witness Bauman has provided insight in this proceeding for performance reporting requirements. *See* Bauman, Exh. SB-1T at 34:20-36:3. Such insight should be constructive for Avista's development of proposals for AMI performance-based metrics and measurements.

[285] DiLuciano, Exh. JDD-1T at 3:22-9:5.

> to wildfires. Reducing the risk of wildfires is critical for customers, communities, investors, and the regional economy.[286]

We agree. Our state is facing unprecedented challenges from the increased occurrence and severity of wildfires, particularly in eastern Washington near and around Avista's service territory. The corresponding utility challenges are exceptional and extraordinary, justifying similarly exceptional regulatory consideration. There is a need for our state's utilities to increase incrementally efforts beyond traditional, and still necessary, vegetation management practices to withstand the increasingly severe threats from wildfires for the benefit, safety, and security of Washington residents and utility customers.

233 In June 2021, Washington experienced an "unprecedented, extreme, and record-breaking hot weather event" followed closely by the Governor's Proclamation 21-10 declaring a state of emergency in *all* of the state's counties due to "abnormally high temperatures, historic drought, and dangerous fuel fire conditions [that] led to the development of multiple wildfires . . . affecting more than 32,000 acres in Washington. . . ."[287] Washington remains in this state of emergency even at the time of this Order, nearly three months later.[288]

234 In a 2020 proclamation, the Governor stated that

> the threat to life and property from existing wildfires is significant and could cause extensive damage to homes, public facilities, businesses, public utilities, and infrastructure impacting the life and health of people throughout Washington State, all of which affect life, health, property, or the public peace, and is a public disaster demanding immediate action.[289]

235 The state of emergency and conditions described by the Governor arose from "abnormally dry weather conditions with periods of exceptionally high temperatures," "multiple on-going wildfires in Central and Eastern Washington," and, only weeks later, the burning of "approximately 330,000 acres . . . on Labor Day, September 7, 2020," due

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[286] Deferral Petition at 22, ¶ 52.

[287] Proclamation 21-10 at 1 (Jul. 6, 2021); Proclamation 21-10.1 at 1 (Jul. 15, 2021).

[288] *See* Proclamation 21-10.4 at 1 (Sep. 14, 2021).

[289] Proclamation 20-68 at 1 (Aug. 19, 2020).

to "multiple new wildfires throughout Washington State caused by a historic wind event . . . ."[290] That event is described by Staff witness White, along with Staff's assessment of the need for action to mitigate wildfires:

> Staff's research shows that there is certainly a basis for action to mitigate wildfires. North America has been enduring a 20-year megadrought. Huge fire losses have occurred in all three west coast states, often utility-caused. The small eastern Washington town of Malden was burned off the map during [2020's] wildfires. The Legislature is deliberating SSB-1168, a wildfire task force bill. All these items point to the need for action to mitigate wildfires sooner rather than later.[291]

236 As it applies specifically to Avista and in these consolidated proceedings before us, we find Avista's demonstration of the increased wildfire threats, risks, costs, and other circumstances it faces persuasive. This escalating threat is central to Avista's Wildfire Resiliency Plan, issued in May 2020.[292] The goals of that plan are to enhance emergency operation preparedness; promote safety of assets, property, and human lives; and safeguard company assets to mitigate costs and liability exposure associated with large-scale wildfire events.[293] The plan recommends actions for grid hardening, enhanced vegetation management, situational awareness and monitoring, and operations and emergency response.[294] Subsequent to and pursuant to that plan, Avista began to

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[290] Proclamation 21-10.4 at 1 (Sep. 14, 2021).

[291] White, Exh. AIW-1T at 20:13-18, citing A. Park Williams, Edward R. Cook, *et. al.*, *Large contribution from anthropogenic warming to an emerging North American megadrought*, Science (Apr. 17, 2020), *available at* www.science.sciencemag.org/content/368/6488/314. This study was repeated with two minor database errors corrected; none of the results of the study are meaningfully affected. A. Park Williams, Edward R. Cook, *et. al.*, *Erratum for the Report "Large contribution from anthropogenic warming to an emerging North American megadrought"*, Science (Jun. 26, 2021), *available at* www.science.org/doi/10.1126/science.abf3676. The Washington legislature passed 2SHB 1168 into law unanimously and after the Governor's signature it went into effect July 25, 2021.

[292] Howell, Exh. DRH-2 at 2 [hereinafter Wildfire Resiliency Plan].

[293] Howell, DRH-1T at 7:4-17.

[294] *Id.* at 13:13-14:4; Wildfire Resiliency Plan at 25-26.

measurably increase its actions and expenditures to address the increasing threat of wildfires.[295]

237 We are unpersuaded by witness testimony arguing that the wildfire circumstances Avista faced are part of normal mitigation efforts it should already be conducting.[296] Avista has demonstrated that the circumstances are not normal, but extraordinary. We cannot know, at this time, when the relative threat, risk, and cost of wildfires will no longer be extraordinary and will become "normal." But, in time and through utility efforts, Avista must address the challenge, and it appears that any future "normal" level will be at increased levels appropriately matched to counter the increased threat.

238 In this Order, as detailed in the following sections and supported by our explanations above, we find that these extraordinary circumstances warrant an expansive use of the regulatory tools the Commission possesses, including approval of a new wildfire balancing account and of Avista's Deferral Petition. We moderate many of the Company's requests, however, finding that a lesser amount than proposed, or rejection in its entirety, is appropriate due in part to Avista's failure to sufficiently support its request and in part to the test year Avista chose for this case.

1. Wildfire Deferral Petition

239 On October 30, 2020, Avista filed its Deferral Petition with the Commission in Docket UE-200894, which is now consolidated in these proceedings, requesting that the Commission authorize accounting and ratemaking treatment of approximately $2.6 million in incremental wildfire expenses associated with its Wildfire Resiliency Plan for the nine-month period January 1, 2021, through September 30, 2021.[297] Avista will record the monthly deferral as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit), without interest accruing on the unamortized balance.[298] The Commission's determination of prudency

[295] Andrews, Exh. EMA-6T at 124:19-21; Howell, Exh. DRH-1T at 25:2-17.

[296] *See* White, Exh. AIW-1T at Section IV; Mullins, Exh. BGM-1T at Section VIII; Crane, Exh. ACC-1T at Section L; Alvarez & Stephens, Exh. PADS-1T at Section II.

[297] Deferral Petition at 1-2, 20, ¶¶ 1-2, 45; Howell, Exh. DRH-1T at 6:6-9; Andrews, Exh. EMA-1T at 86:12-87:9.

[298] Deferral Petition at 20-21, ¶ 46.

and of what method of recovery to apply to the deferred costs would occur in a future GRC.[299] Staff, Public Counsel, and AWEC oppose the Deferral Petition, at least in part.

240 Staff opposes the Deferral Petition, stating that the Commission has required "a showing of extraordinary circumstances involving material costs before approving a deferral," and arguing that Avista has failed to meet the threshold.[300] Instead of the requested deferral, Staff proposes to include actual 2020 O&M expenses in rates as a pro forma adjustment, which it argues makes it unnecessary to defer and allow the Company the opportunity to request recovery in a later GRC.[301]

241 Similarly, AWEC opposes the Deferral Petition in favor of increasing its pro forma wildfire adjustment, which includes an increase of $1.5 million based on 2020 actual wildfire O&M expense, to reflect an additional $1.8 million O&M adjustment – an amount that AWEC witness Mullins observes is consistent with Avista's proposed 2021 wildfire budget of $3.3 million.[302]

242 Public Counsel supports Avista's Deferral Petition in part, proposing that the deferral should be limited to O&M expenses and exclude capital.[303] Public Counsel reasons that excluding capital from the deferral will shield customers "from bearing the expense of measures that are unlikely to yield significant risk reductions" and, tying in with Public Counsel's argument regarding grid hardening, will prevent Avista "from unduly earning a rate of return on capital" for the small programs that have not been supported as reducing risks relative to costs.[304]

Commission Determination

243 We support Avista's request. The Company has demonstrated in this case that it has been taking incremental wildfire actions above normal activities and that the circumstances it faces are extraordinary. We make no determination of prudency for any amount Avista requests be deferred. We find it appropriate, however, to approve Avista's request that it be allowed to defer the incremental wildfire expenses incurred from January 1, 2021,

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[299] *Id.* at 1, 21, ¶¶ 1, 47.

[300] White, Exh. AIW-1T at 16:7-17:2.

[301] *Id.* at 15:17-22, 17:4-11.

[302] Mullins, Exh. BGM-1T at 42:9-43:16.

[303] Alvarez & Stephens, Exh. PADS-1T at 22:9-11.

[304] *Id.* at 22:12-18.

through September 30, 2021, and that it be permitted the opportunity in a future GRC to request to recover any amounts that it can show were incremental and prudently incurred. Accordingly, we determine Avista's Deferral Petition is appropriate and should be approved.

2. Wildfire Capital & Expense (Pro Forma Adjustment 3.17)

244 Avista's electric pro forma wildfire capital and expense adjustment reflects increases in capital additions (with associated accumulated depreciation, ADFIT, and depreciation expense) through 2021, and increases in expense expected for Avista's Wildfire Resiliency Plan during the rate effective period ending September 30, 2022.[305] In response to Bench Request 01 and consistent with the Used and Useful Policy Statement, Avista updated its electric revenue requirement model to appropriately and separately state the 3.17 Wildfire adjustment between its requested traditional and provisional pro forma adjustments (also referred to as 3.17PF and 3.17PV, respectively). Avista's provisional pro forma adjustment requests recovery of capital or expense that will be incurred or placed in service after the rate effective date of October 1, 2021, subject to refund and retrospective review. The traditional pro forma adjustment — adjusting test year levels up through September 30, 2021 — is a pro forma adjustment subject to the Commission's traditional standards for assessing pro forma adjustments. Staff, Public Counsel, and AWEC oppose Avista's proposed adjustment, at least in part.

245 The issues presented for our resolution are what levels of wildfire capital and of wildfire expense should be allowed in rates as of October 1, 2021.

Commission Determination

246 Staff opposes Avista's proposal to use 2021 estimated levels, recommending instead that the Commission authorize the pro forma adjustment using known and measurable, actual 2020 levels of capital ($1.6 million) and expense ($1.5 million).[306] Public Counsel opposes Avista's proposal to include specific capital additions related to grid hardening, but otherwise recommends that the Commission approve all other capital and expense included in Avista's pro forma wildfire capital and expense adjustment.[307]

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[305] Andrews, Exh. EMA-1T at 82:16-24, 84:20-86:3; Andrews, Exh. EMA-6T at 131:2-132:12.

[306] White, Exh. AIW-1T at 25:7-14.

[307] Alvarez & Stephens, Exh. PADS-1T at 27:13-28:4.

247 AWEC opposes Avista's proposal to include 2021 levels of capital and expense in its adjustment. AWEC instead proposes to include actual 2020 wildfire expense of $1.5 million with an additional $1.8 million O&M adjustment – an amount that AWEC witness Mullins observes is consistent with Avista's proposed 2021 wildfire budget of $3.3 million.[308] AWEC proposes that capital not be recovered as part of this adjustment, but includes recovery of any actual 2020 capital in other adjustments using actual 2020 rate base levels.[309] AWEC witness Mullins excludes Avista's 2021 capital, arguing that due to their in-service dates, review of Avista's 2021 capital additions is not possible in this proceeding.[310]

248 As a threshold matter, we reject Avista's request to include any provisional capital or provisional expense expected to be incurred or placed in service after the rate effective date of October 1, 2021. First, Avista's choice of test year weighs heavily on our decision whether to allow provisional adjustments that are several years away from a stale test year and requested absent a multi-year rate plan. Second, the language of the statute and our Used and Useful Policy Statement provides that the Commission has discretion about whether to allow property into rates following the rate-effective date. Further, the Policy Statement makes clear that the Commission requires such provisional capital subject to review and refund.[311] But authorization for such treatment is discretionary and considered based upon the showing offered by a utility. Here, we find Avista's request is not persuasive, given the Company's choice of a stale test year absent a multi-year rate plan filing.

249 Regarding wildfire expense, we are persuaded by portions of Staff's and AWEC's arguments. First, we agree that Staff has identified correctly that actual 2020 expenses should be authorized for use in this adjustment. The $1.5 million identified by Staff is not, however, a representative amount of a 12-month period because this amount accounts only for six months of actual expense incurred by Avista in 2020.[312] Thus, we disagree with the precision of Staff's proposal only in the sense that the actual 2020 expenses it identifies represent only six months of incremental wildfire expense.

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[308] Mullins, Exh. BGM-1T at 42:9-43:16.

[309] *Id.* at 38:17-20.

[310] *Id.* at 38:12-20.

[311] Used and Useful Policy Statement at 12-13, ¶¶ 35-38.

[312] Andrews, Exh. EMA-6T at 124:15-22; Andrews, TR at 213:2-214:24.

250 We appreciate and adopt, in part, the rationale offered by AWEC to resolve the issue we raise with Staff's proposal. AWEC witness Mullins recognizes the wildfire risk Avista is acting to counter, and reasons that some level of additional increase to Avista's actual 2020 expenses is appropriate.[313] We agree. While Mullins selects a $1.8 million amount in addition to the same actual 2020 expense amounts identified by Staff, we determine that the only reasonable and justifiable increase that is supported by the record is, again, the $1.5 million amount identified by Staff (and Mullins) representing Avista's actual six-month 2020 wildfire expense. Accordingly, we determine that it is appropriate to consider Avista's expenses going forward based upon an annualized level of its actual 2020 expenses. As we explain later, this amount of expense that we authorize in this adjustment will also be used as the base level in the wildfire balancing account to recover wildfire expense going forward until we authorize a change to the base level. To the extent necessary, we clarify here that we do not intend Avista's pro forma wildfire expense adjustment and balancing account to double-recover this annualized amount of actual 2020 expenses. Rather, the balancing account will be the mechanism for recovery of wildfire expense going forward, with a base level recovered in rates beginning October 1, 2021, equal to Avista's annualized actual 2020 expense (approximately $3.1 million).[314]

251 Turning to what level of capital should be authorized in Avista's pro forma capital adjustment, we agree in part with Avista and AWEC. We recognize, as AWEC witness Mullins states, that many of the 2021 capital additions that remain unresolved are not able to be reviewed by the Parties in this proceeding,[315] and that such review must be afforded to the Parties. Under the circumstances Avista faces, which require escalation of its wildfire efforts, we find it appropriate to allow pro forma capital through September 2021 in rates effective October 1, 2021, with a portion of those subject to review and refund in Avista's next GRC.

252 In its brief, Avista proposes that, in placing wildfire capital from April 2021 through September 2021 in rates effective October 1, 2021, the Company supports engaging in a retrospective review — including quarterly expenditure reports commencing October 15, 2021 — in its next GRC for prudency and any offsetting cost savings, and possible

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[313] Mullins, Exh. BGM-1T at 43:10-12.

[314] Staff provided for approximate $1.533 million (or 1.5 million) for 2020 expense reflecting six months of activity. The annualized amount based on Staff's recommendation is approximately $3.065 million (or 3.1 million). White, Exh. AIW-12.

[315] *See* Mullins, Exh. BGM-1T at 38:12-20.

refund with interest of any amounts deemed imprudent or unknown and measurable.[316] Under this proposal, the Commission retains authority to order these measures, with or without a proposal from a party. In addition, we determine consistent with our Used and Useful Policy Statement that Avista's recovery is capped at the level of capital expenditures most recently provided in the record through September 30, 2021. Avista will not be able to recover *more* capital from this period in its next GRC, although the capital expenditures placed in service from April 1, 2021, through September 30, 2021, will remain subject to refund to customers as previously described.[317] This balances the interests of the Company and its ratepayers: Avista benefits from the immediate inclusion of these expenditures in rates, but its ratepayers are guaranteed that the Company cannot request any increased amount of capital the Company may argue would have been included but for some error in its former presentation. Considering the infirmities of Avista's case caused by its choice of test year, we find that authorizing the Company to include these capital expenditures in rates subject to the process of review and refund in its next GRC is the furthest extent justified by the record.

253 Accordingly, we determine that it is appropriate to authorize in rates through Avista's pro forma wildfire capital adjustment all capital additions placed in service by September 30, 2021, but identify all capital additions placed in service between April 1, 2021, and September 30, 2021, as subject to review and refund in Avista's next GRC.

3. *Wildfire Balancing Account*

254 Avista proposes a two-way Wildfire Balancing Account to begin on October 1, 2021, for the 10-year life of the Wildfire Resiliency Plan using the base level of wildfire expense authorized by this Order and updating and offsetting it by the deferred amount in the account in each subsequent GRC.[318] Prudency of any deferred balance would also be

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[316] Avista's Brief at 13-14, ¶¶ 30-31.

[317] To avoid confusion between the minor variation in Avista's Brief and this Order, we select April 1, 2021, as the start date for when plant placed in service may be subject to refund because, consistent with Mullins's observations we cite above, the non-Company Parties' opportunity to review capital additions was limited greatly by the due date of April 21, 2021, for responsive testimony. There is no bright line as to what date prior to response testimony provides sufficient time and opportunity for review. Here, in this case, with the stale test year and extended length of time after its conclusion until the rate effective date (and even longer until the end of Avista's requested provisional pro forma adjustments, which extend until September 30, 2022) we conclude that it would be unreasonable to have expected Parties to conduct review of any plant placed in service after March 31, 2021, for inclusion in responsive testimony.

[318] Andrews, Exh. EMA-1T at 83:5-8, 88:15-89:10; Howell, Exh. DRH-1T 6:4-5.

addressed in each GRC. Avista will track actual wildfire expenses "against the base, and defer the difference up or down over time for later recovery or return to customers, [which] will ensure customers pay no more than the actual wildfire expenditures over the 10-year plan."[319] Avista will record the deferral balances into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit).[320] Interest will not accrue on the unamortized balance. Staff and AWEC oppose Avista's proposal for a Wildfire Balancing Account, while Public Counsel supports it.

Commission Determination

255 Staff and AWEC oppose Avista's proposal to create a Wildfire Balancing Account, arguing instead that the Commission should employ traditional ratemaking to address Avista's wildfire expense going forward. Interestingly, Staff and AWEC each propose secondary options for mechanisms that the Commission should consider instead of Avista's proposal.[321] In particular, AWEC witness Mullins suggests that if we adopt the Wildfire Balancing Account, we implement some of the same requirements that the Oregon Public Utilities Commission has set for PacifiCorp's wildfire mechanism, such as an earnings test and mandatory updates for plant balances of "all investments recovered through the mechanism, in order to account for accumulated depreciation as new capital investments are added."[322]

256 We find that Avista's circumstances concerning wildfires are extraordinary and justify exercising the Commission's discretion to use regulatory tools such as balancing accounts, trackers, or deferrals. With regard to Avista's proposed Wildfire Balancing Account: there are many mechanisms with various designs that the Commission could reasonably and justifiably authorize as a regulatory tool under the circumstances presented in this case. Staff's and AWEC's suggestions have merit, but we find that they lack sufficient explanation and support to persuade us that they are objectively better than the mechanism Avista proposes.

257 We find that Avista has shown that use of a Wildfire Balancing Account is justified. We expect implementation of the Wildfire Balancing Account to remove much uncertainty

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[319] Andrews, Exh. EMA-1T at 88:18-20.

[320] *Id.* at 88:21-89:3

[321] White, Exh. AIW-1T at 26:16-34:13; Mullins, Exh. BGM-1T at 40:18-42:5.

[322] Mullins, Exh. BGM-1T at 41:4-42:5.

regarding wildfire expenses, both for the Company and for customers. Our intent in authorizing the account is to track and review actual wildfire expense, encourage the utility to take actions to address the increasing threat of wildfires to the utility and its customers with the knowledge that prudent expenditures will be recovered and at least a portion will be included in rates currently authorized for recovery, and ensure fairness to Avista's customers by monitoring the incremental wildfire expenses collected from them.

258 Accordingly, we determine that Avista's Wildfire Balancing Account should be authorized beginning on October 1, 2021, with certain modifications and clarifications. We set a base level of wildfire expense using Staff's pro forma 2020 expense of level of approximately $1.5 million annualized to $3.1 million. We authorize the Wildfire Balancing Account to operate outside of GRCs to the extent that we expect the account to true up deferral balances annually for return to ratepayers or recovery for the Company, with the first true up occurring on or about September 30, 2022.[323] Modifications to the mechanics of the account, such as the application of a new base level of wildfire expense, additional requirements, or performance-based metrics, should be considered in GRCs.

259 We will review and revise the Wildfire Balancing Account as necessary in Avista's next GRC, which Avista has indicated it intends to file in early 2022. Thus, we require Avista to include with its initial filing proposals for our review of new metrics that should apply in the context of multi-year rate plans, of performance-based measurements that should apply, and of any other proposals for effectively monitoring wildfire expenses.

h. *Colstrip & SmartBurn (Pro Forma Adjustments 3.19, PC-1)*

260 Avista's electric pro forma Colstrip adjustment reflects, among other things, accelerated depreciation to 2025 and capital additions through September 30, 2022.[324] In response to Bench Request 01 and consistent with the Used and Useful Policy Statement, Avista updated its electric revenue requirement model to appropriately and separately state the 3.19 Colstrip adjustment between its requested traditional and provisional pro forma adjustments (also referred to as 3.19PF and 3.19PV, respectively). The Company updated its adjustment on rebuttal to include actual 2020 capital, updated pro forma 2021 and 2022 capital, and test period SmartBurn capital. Avista's provisional pro forma

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[323] We are aware, and we intend, that the first true up will likely occur during the pendency of Avista's next GRC. The Wildfire Balancing Account will function for its first true up as authorized in this Order, with any subsequent true up being subject to any modifications made during GRCs, unless otherwise specifically ordered by the Commission for compelling cause.

[324] Andrews, Exh. EMA-1T at 78:12-18.

adjustment 3.19 PV requests recovery of rate-effective period investment that will be placed in-service after the rate effective date of October 1, 2021. Consistent with our Used and Useful Policy Statement, any provisional portion of a pro forma adjustment must be subject to refund and a retroactive review process. The traditional pro forma adjustment 3.19PF adjusts test year levels up through September 30, 2021, subject to the Commission's standards for pro forma adjustments.

261 Avista also identifies and includes in this adjustment recovery of capital for its investment in the SmartBurn Project for Colstrip Units 3 and 4 (SmartBurn) in 2017-2018.[325] Other pieces of Avista's pro forma adjustment include recovery of actually incurred (or estimated to be incurred) costs for a Colstrip Unit 3 Turbine Generator Base Overhaul (Unit 3 Overhaul) in 2020-2021 and the Design/Build Dry Waste Disposal System Project more commonly referred to in testimony as the Dry Ash Disposal Project (Dry Ash) in 2020-2022.[326] The amounts and relevant periods for the Washington-

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[325] Thackston, Exh. JRT-1T at 58:1-5; Gomez, Exh. DCG-1CT at 11, n. 16.

[326] Thackston, Exh. JRT-1T at 69:1-15. Thackston explains SmartBurn as follows:

> SmartBurn was originally developed as the part of Alliant Energy's Combustion Initiative Program focused on the reduction of nitrogen oxides ("NOx") by optimizing the combustion process in coal-fired generation plants. . . . SmartBurn uses air staging technology to reduce the amount of NOx that is formed by reducing flame temperatures and improving the efficiency of the combustion of coal. SmartBurn reduces the amount of NOx being formed, so there is less of it to be removed from the emissions stream as additional NOx emissions reductions are required. The NOx emissions data received from Colstrip Units 3 and 4 after SmartBurn was installed would be used to determine the appropriate size of the technology needed to address the next expected step in NOx reduction - Selective Catalytic Reduction.

(SCR). *Id.* at 55:8-18. Thackston explains Dry Ash as follows:

> This project provides for installation of a "non-liquid" disposal system for Coal Combustion Residue (CCR) material created by the operation of Units 3 and 4. This capital project is required as part of the AOC. The Colstrip Wastewater AOC requires pond closure and remediation activities to address impacted groundwater at the Units 3 and 4 Effluent Holding Pond (EHP) area. Litigation on the AOC resulted in a Settlement that requires a "non-liquid" disposal system for CCR material generated by Units 3 and 4 at the EHP no later than July 1, 2022.

Thackston, Exh. JRT-1T at 105:14-21.

allocated portion of Avista's proposed pro forma Colstrip adjustment is illustrated in Table 6, below.

Table 6. Avista's Proposed Colstrip Capital Additions
Washington-Allocated *(in millions)*[327]

SmartBurn	Test Year		Pro Forma			Total
2017	2018	2019	2020	2021	2022	
$ 2.70	$ 3.36	$ 1.88	$ 3.40	$ 2.50	$ 3.34	$17.18

262 Staff, Public Counsel, AWEC, and Sierra Club oppose Avista's proposed adjustment. Staff proposes removing $2.9 million of investment in SmartBurn capital during 2017-2018, $4.0 million of investment in Dry Ash capital during 2020-2022, and $2.1 million of investment in the Unit 3 Overhaul in 2021.[328] Public Counsel accomplishes the removal of only 2017 SmartBurn through its own adjustment (PC-1) and also proposes removing 2021 Unit 3 Overhaul capital from Avista's adjustment.[329] AWEC proposes replacing this adjustment in its entirety as part of its proposal to adjust pro forma capital additions (including Colstrip capital additions) on a 2020 AMA basis.[330] Sierra Club proposes removing 2017-2018 SmartBurn and only 2022 Dry Ash capital, reclassifying a larger share of the Unit 3 Overhaul capital as O&M, and allowing 2021 Dry Ash capital in rates subject to refund.[331]

Commission Determination

263 For the reasons set forth in Paragraph 248 above, and elsewhere in this Order, we reject as a threshold matter Avista's request to include any provisional capital or capital

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[327] Thackston, Exh. JRT-12T at 29:1-6; Gomez, Exh. DCG-1CT at 10:11; Gomez, Exh. DCG-4 (Avista's Response to Staff Data Request 107).

[328] Gomez, Exh. DCG-1CT at 10:11-11:3. Staff indicates that approximately $200,000 identified in 2018 is attributable to SmartBurn and should be removed along with the $2.7 million from 2017. *Id.*

[329] Crane, Exh. ACC-1T at 40:11-14, 43:7-44:12. Hereinafter, we will consider Adjustment PC-1 as a proposal by Public Counsel to remove the amounts therein identified from Avista's pro forma Colstrip adjustment to simplify our discussion and avoid confusion.

[330] Mullins, Exh. BGM-1T at 33:11-16; *see supra* Section III. C.2.iii.e.

[331] Burgess, Exh. EB-1CT at 2:3-16, 28:16-29:22.

expected to be placed in service after the rate effective date of October 1, 2021, due to its reliance on a stale test year. While we have authority to allow rate-effective property into rates, we are not persuaded by the record in this case to exercise our discretion to do so. As it relates Avista's pro forma Colstrip adjustment 3.19PF, we accept and adopt Staff's recommended adjustment for the reasons explained below.

264 **SmartBurn.** We have established that a utility must demonstrate the need for SmartBurn and provide contemporaneous documentation of its decision prior to recovering SmartBurn in rates.[332] To demonstrate the need for SmartBurn, we provided guidance to Avista in its 2017 GRC that the Company must address Staff's primary concern that SmartBurn was not required by law and "provide a more detailed examination of its justification for its investments at Colstrip."[333]

265 In addition to this GRC, Avista requested recovery of its SmartBurn capital investment in in its 2016, 2017, and 2019 GRCs. Avista has thus been afforded several opportunities to present and re-present its case with sufficient information to justify including SmartBurn in rates. It has failed to do so previously, and it fails to do so now. Accordingly, we agree with Staff, Public Counsel, and Sierra Club that Avista has failed to demonstrate that its SmartBurn capital investment was prudently incurred and determine that all SmartBurn capital should be removed from Avista's pro forma Colstrip adjustment as identified by Staff.

266 Specifically, we afford little weight to Avista's testimony because the Company's rebuttal testimony changed materially from its initial filing. Avista witness Thackston initially testifies that the "decision to install SmartBurn was made in 2012" and thus argues that the Commission should base its evaluation on the Company's knowledge in 2012 when it had to consider the potential requirements of the Regional Haze Program.[334] But on rebuttal, Thackston testifies that "Avista's final decision . . . was made in 2015 (not 2012) and was based on the independent report by TRC, presented at the time to all Colstrip owners."[335]

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[332] 2019 PSE GRC Final Order 08 at 61–62, ¶¶ 197–99.

[333] 2017 Avista GRC Final Order 07 at 68-69, ¶¶ 204-05. We also directed Avista to provide "a comprehensive, up-to-date analysis of the economics and environmental liabilities and risks of Colstrip Units 3 and 4 over their expected life." *Id.* at n. 314.

[334] Thackston, Exh. JRT-1T at 66:11, 66:21, 66:11-67:12.

[335] Thackston, Exh. JRT-12T at 2:31-25.

267 Marking the point in time when a company made its decision is fundamental to the Commission's prudency evaluation. Once identified, the Commission can consider whether the Company's decision was prudent *at the time* it was made, in light of what the Company knew or reasonably should have known. Here, due to the Company's own conflicting testimony, we cannot mark Avista's decision.

268 If Avista made its SmartBurn decision in 2012, Avista asks that we assess prudency based on the Company's 2012 knowledge and consider the following, for example:

- Colstrip's cost-effectiveness and expectation for continued cost-effectiveness;
- Avista's 20-year IRP and its modeling, forecasting, and assumptions;
- the expected glide path of the Regional Haze Program, which Avista claims was projected to require additional measures to reduce nitrous oxide (NOx) emissions by the mid- to late-2020s; and
- the absence of any laws or regulations indicating that Colstrip would be required to close by a certain date.[336]

If Avista made its SmartBurn decision in 2015, Avista asks that we assess prudency based on the Company's 2015 knowledge and consider the following, for example:

- the independent TRC Environmental Best Available Control Technology (BACT) report (TRC BACT Report);
- an agreement executed with SmartBurn in March 2015.[337]

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[336] Thackston, Exh. JRT-1T at 66:11-67:12. Thackston emphasizes that we should assess Avista's decision making based on 2012, stating:

> The prudence of the SmartBurn decision needs to be based on what was known about the Regional Haze Program and the expectations about the future need for additional NOx reduction on Units 3 and 4 at the time the decision was made, the life expectancy of Avista's Colstrip ownership interests in Units 3 and 4 at the time the decision was made, and the other applicable laws and regulations in place at the time the decision was made.

Thackston, Exh. JRT-1T at 66:12-17.

[337] Thackston, Exh. JRT-12T at 2:31-35, 18:1-13. Thackston emphasizes that we should assess Avista's decision making based on 2015, stating:

> Remember, in 2015 when the decision was made, Avista and the other owners could not reasonably have foreseen that there might be an early

269 This case is the first where any Washington electric utility has provided the TRC BACT Report as evidence. PSE is a co-owner of Colstrip, like Avista. We disallowed PSE's recovery of SmartBurn due, in part, to PSE's failure to produce supporting contemporaneous documentation of its decision. We opined:

> according to Staff, PSE did not produce any contemporaneous documents or evidence identifying which future regulatory obligations were contemplated when PSE's management decided to install SmartBurn. PSE failed to rebut this allegation. [Staff witness] Gomez further testifies that the Company should have documentation of its decision as required by the Colstrip Ownership and Operation Agreement. We agree. We note, however, that no such documentation exists.[338]

In this case, however, Avista has provided *on rebuttal* the TRC BACT Report, which concluded "the owners would avoid the risk of any later required installation of the far more expensive Selective Catalytic Reduction (SCR) alternative [SmartBurn: $26 million versus SCR: $739 million]" and, Avista claims, convinced it to invest in SmartBurn.[339]

270 Avista's inclusion of the TRC BACT Report in its rebuttal is both surprising and troubling. Staff witness Gomez testifies to discovery attempts made by the Parties in prior GRCs to obtain documentation like the TRC BACT Report through requests asking Avista to provide "all analyses, presentations, memos, board minutes, and any other material produced by, for, or on behalf of Talen or the other Colstrip owners documenting, describing, or presenting the results of these reviews" and "all analyses,

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> closure before 2041, or that Parties would earlier dispose of their interests in the plant. . . . Avista <u>made its final decision in 2015</u> with the support of the other owners, because we concluded that doing so was the best long-term decision for customers at the time. Avista executed an agreement with SmartBurn in March 2015 given the information <u>available to us at the time</u>, including a detailed study performed by a third-party engineer (TRC), that such an installation was the most cost-effective for customers.

Id. at 18:2-5, 9-13 (emphasis in original).

[338] 2019 PSE GRC Final Order 08 at 62, ¶ 199.

[339] Thackston, Exh. JRT-12T at 2:36-3:3.

presentations, memos, board minutes, and any other materials relating to or describing the referenced decision process."

271 Not until this case has Avista produced the TRC BACT Report, which is unquestionably responsive to the requests quoted above. Staff witness Gomez explains:

> Now, in its fourth attempt to seek recovery for its investment in SmartBurn, Avista has provided documents that have existed since 2015, a year before its initial attempt to recover SmartBurn, in response to Staff data requests. Not only did Avista not disclose responsive analysis, . . . it also represented that it was "not aware of any other available NOx control solution reviews." Staff contends that Avista failure's to even identify potentially responsive documents in response to prior data requests regarding SmartBurn is highly prejudicial and undermines the fairness of the current proceedings with respect to SmartBurn.[340]

272 We agree and afford no weight to the previously withheld and newly disclosed TRC BACT Report upon which Avista attempts to rely. Avista argues that the TRC BACT Report was not disclosed in earlier proceedings because it "is privileged and subject to a Joint Defense Agreement among the owners" and Avista could not "unilaterally waive privilege to release this document."[341] However, by choosing not to share critical contemporaneous documentation of its $2.9 million investment decision, Avista, which carries the burden of proof in rate case proceedings, cannot then expect the Commission to assume the prudency of that investment. Here, Avista's failure to disclose the TRC BACT Report would be sufficient justification to summarily reject its request.[342]

273 Even were we to consider the TRC BACT Report, we conclude that it is of little value. We remain unpersuaded by Avista's attempts to justify SmartBurn as a cheaper alternative that might reduce nitrous oxide (NOx) emissions and thereby delay a potential requirement to install the more costly SCR. Consistent with the testimony offered by

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[340] Gomez, Exh. DCG-1CT at 48-49, n. 93.

[341] Thackston, Exh. JRT-12T at 22:5-13.

[342] *See* Thackston, Exh. JRT-1T at 55:5-68:2. It is unclear whether the Idaho Public Utilities Commission was provided with the TRC BACT Report and related prudency justifications by Avista during the case in which recovery from Avista's Idaho customers was allowed. *See id.* at 65:3-7, citing Order No. 33953, Case No. AVU-E-1701 page 13, ¶ 3.

Staff witness Gomez and Sierra Club witness Burgess, Avista was under no legal requirement to install SmartBurn.[343] Avista witness Thackston acknowledges that no requirement to install SCR ever materialized.[344] Additionally, Public Counsel witness Crane testifies that "SmartBurn was a completely discretionary project at the time that it was undertaken, and remains an unnecessary project today."[345] Due to the lack of any evidence to the contrary, we agree.

274 After review of the entire record on this matter, we find that Avista failed to demonstrate that SmartBurn was necessary and failed to produce documentation sufficient to demonstrate that its costs were prudently incurred. Accordingly, we disallow recovery of SmartBurn capital in rates.

275 **Dry Ash.** Avista and the other co-owners of Colstrip reached a settlement with Sierra Club, the Montana Environmental Information Center (MEIC), and National Wildlife Federation (NWF), referred to as the Administrative Order on Consent (AOC) with the Montana Department of Environmental Quality, which resulted in, among other things, a requirement to install Dry Ash by July 1, 2022, to address ground water quality at Colstrip under the AOC and Environmental Protection Agency rules on Coal Combustion Residuals (CCR).[346] The timeline for Dry Ash includes design efforts in 2020, construction starting in 2021, and construction completion in 2022.[347] At the time Avista initially filed this case, Dry Ash was expected to cost Colstrip's co-owners $16 million – Avista's total share would be $2.4 million with $450,000 expected in 2020 and $650,000 expected in 2021.[348] On rebuttal, Avista updated the expected cost to $40 million for Colstrip's co-owners.[349]

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[343] Burgess, Exh. EB-1CT at 6:10-11:21; Gomez, Exh. DCG-1CT at 39 n. 70, 42:12-45:4.

[344] Thackston, Exh. JRT-12T at 17:8-12. Thackston argues that SCR could become a requirement in the future. *Id.* at 17:10. This argument is without merit or reason. Avista has stated it only expected SCR to potentially become a requirement in 2027, or in the mid- to late-2020s. CETA requires all coal-generated electricity supply to be out of Washington rates by 2025. Therefore, if there ever is a requirement for SCR on Colstrip after 2025, its costs will not be recoverable from Washington ratepayers.

[345] Crane, Exh. ACC-1T at 42:15-19.

[346] Thackston, Exh. JRT-1T at 60:17-27, 75:20-76:4; Thackston, Exh. JRT-6T at 31:13-21.

[347] Thackston, Exh. JRT-1T at 106:9-11.

[348] Thackston, Exh. JRT-1T at 69:1-16; 106:12-15; Gomez, Exh. DCG-1CT at 17:17-18:3.

[349] Thackston, Exh. JRT-6T at 33:11-15.

276 While Sierra Club argues that Dry Ash costs are too premature to include in rates, it recommends that the Commission include 2021 Dry Ash in rates subject to refund.[350] Staff recommends that the Commission exclude Dry Ash from Avista's pro forma adjustment.[351]

277 We agree with Sierra Club and Staff that it is premature to consider including the costs of Dry Ash in rates at this time. The record indicates that Dry Ash's costs have fluctuated drastically over a short time. Avista's initial filing indicated an estimated $16 million total cost, but on rebuttal that estimate had climbed to $40 million. Avista attempts to resolve this large increase by assuring us that the $40 million is known and measurable because it is supported by "quotes, bids, and better estimates," but quite literally states in the next sentence of testimony that the project estimate could continue to increase.[352] The fact that the project is in its beginning stages of mere design adds more uncertainty as to what the final costs may be.[353]

278 Aside from the uncertain costs, it remains uncertain if the Dry Ash project will even exist in the near future. The parties to the AOC appear amenable to discussions about moving or removing the deadline for completing Dry Ash. On February 19, 2021, Sierra Club, MEIC, and NWF sent a letter to Colstrip's co-owners offering to discuss extending the timeline for completing Dry Ash in exchange for a definitive closure date for Colstrip Units 3 and 4.[354] While Avista indicates in testimony that the discussions with Sierra Club, MEIC, and NWF "resulted in no actions, and no plans or schedules for further discussions," the testimony offered in this case by Sierra Club – one of the opposing AOC parties – leads us to conclude there is not sufficient certainty that the costs Avista seeks to recover in rates will be incurred.[355] The record also indicates that Avista has reached out to Colstrip's co-owners regarding limits on the amounts it is willing to contribute.[356]

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[350] Burgess, Exh. EB-1CT at 31:11-21, 32:12-14.

[351] Gomez, Exh. DCG-1CT at 23:1-3.

[352] Thackston, Exh. JRT-12T at 33:13-15.

[353] *See id.* at 32:9-15.

[354] Burgess, Exh. EB-1CT at 31:11-19; Thackston, Exh. JRT-12T at 35:6-11.

[355] Thackston, Exh. JRT-12T at 35:9-11.

[356] Gomez, Exh. DCG-1CT at 14:5-11.

279 Lastly, we are uncertain that Dry Ash is not a life-extending capital addition. Our 2019 Avista GRC Final Order approved a settlement that included an agreement by Avista not to support capital expenditures beyond routine capital maintenance costs that would extend Colstrip's operational life beyond December 31, 2025.[357] We agree with Staff that Dry Ash is not routine capital maintenance measure and, in the context of the factors we have already stated, absent a sufficient showing by Avista that it is *not* life-extending, we are unconvinced that it should be allowed in rates. For the reasons explained above, we agree with Staff and find that the costs associated with Dry Ash are not known and measurable and should be excluded. Accordingly, we remove Dry Ash from Avista's pro forma Colstrip adjustment.

280 **Unit 3 Overhaul.** Avista states that this portion of the Colstrip adjustment represents routine work and is necessary to ensure Unit 3 will function at a reasonable level of reliability with properly working emissions controls until the next overhaul in four years.[358] This overhaul was expected to be completed in May-June 2021, several months after response and rebuttal testimony were filed in this case.

281 The costs indicated in a pro forma adjustment are appropriate to allow in rates when those costs are sufficiently known and measurable. At the time the Parties submitted response testimony, these costs were not sufficiently known and measurable. While the Commission has authority to allow pro forma adjustment in rates subject to a retroactive review and refund – and we have exercised this authority elsewhere in this Order – we find Avista's demonstration here lacking and insufficient to justify its inclusion in rates.

282 The record in this case indicates that the co-owners are not in agreement, at least as of the time of response testimony, to the costs or the timing of the Unit 3 Overhaul.[359] Staff witness Gomez testifies that the scope, scale, costs, and timing of the Unit 3 Overhaul, particularly in light of the co-owners' arbitration with Talen over the proposed budget, rendered these pro forma amounts uncertain.[360] We agree. We find the uncertainty of these costs is too great to allow them in rates. The co-owners may yet decide to forgo the Unit 3 Overhaul, which would render any overhaul costs useless for Washington

[357] 2019 Avista GRC Final Order 09 at 19, ¶ 51.

[358] Thackston, Exh. JRT-1T at 81:13-82:5; Thackston, Exh. JRT-12T at 37:20-38:4.

[359] Gomez, Exh. DCG-1CT at 23:13-14.

[360] Gomez, Exh. DCG-1CT at 24:17-25:2.

ratepayers. Accordingly, we determine that removing the Unit 3 Overhaul from Avista's pro forma Colstrip adjustment as identified by Staff is appropriate.

i. *Substation Rebuilds & Distribution Grid Modernization (Adjustments PC-2, PC-3)*

283 Avista included in its initial filing 10 major project electric system investments, two of which were its Substation Rebuild Program and its Distribution Grid Modernization Program. Avista witness Rosentrater testifies that both replace end-of-life assets for the electric distribution system and substations as well as handle other operational needs including repair work and smaller asset replacement.[361] Both are ongoing programs, which Avista argues allows the Company to continue providing safe and reliable service at a low cost and without major service interruptions.[362]

284 Public Counsel proposes removing all 2019 and 2020 capital additions associated with Avista's Substation Rebuilds Program (PC-2) and Distribution Grid Modernization Program (PC-3), preventing recovery of Avista's investment in and return on this plant.[363] In addition, Public Counsel witnesses Alvarez and Stephens recommend modifications to Avista's Substation Rebuilds Program, elimination of Avista's Distribution Grid Modernization Program, and creation of a worst performing feeder program.[364]

285 Alvarez and Stephens argue that the Substation Rebuilds Program (as well as the Distribution Grid Modernization Program) uses a standing budget that is determined without regard to specific needs or historical precedent, and replaces assets earlier than it should based on the asset's economic end of life when an asset is fully depreciated and no longer earns a return on equity for the Company.[365] The witnesses argue that Avista applies non-standard industry practices to replace substation equipment too soon without

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[361] Rosentrater, Exh. HLR-1T at 18:1-19:6, 26:4-27:4.

[362] *Id.* at 19:7-18, 287:5-10.

[363] Alvarez & Stephens, Exh. PADS-1T at 53:11-14, 65:4-6, 68:15-71:11.

[364] *Id.* at 65:7-67:14.

[365] *Id.* at 29:3-17, 38:1-412:8.

tests or a cost-benefit analysis.[366] Ultimately, they recommend the following modifications to Avista's Substation Rebuilds Program:

- Replace "standing" budgets with zero-based budgets;
- Develop budgets using the distribution planning process following the Jade Cohort recommendation of the NARUC-NASEO (National Association of Regulatory Commissioners-National Association of State Energy Offices) Task Force, but without a separate grid modernization process;
- Prohibit prospective equipment replacement; and
- Require Avista to plan and implement capacity increases only when load forecasts indicate 100 percent capacity will be reached in the next four to five years.[367]

Lastly, Alvarez and Stephens recommend the Commission order greater transparency and stakeholder participation in Avista's utility distribution planning and capital budgeting.[368]

286 With respect to Avista's Distribution Grid Modernization Program, Alvarez and Stephens recommend eliminating it because, they argue, the program results in Avista replacing feeders and other distribution plant before it should, which is not cost-inefficient. They argue that the industry standard is "run-to-failure" – using the equipment until it fails and causes an outage to a few customers –because "no other approach has proven to be as cost effective."[369] Alvarez and Stephens argue that another industry practice is to maintain a worst performing feeder program to examine and replace distribution feeders with the worst reliability.[370]

287 In rebuttal, Avista witnesses Andrews, DiLuciano, and La Bolle respond to Public Counsel's recommendations, arguing that no other party contests the inclusion of these programs in rates and that Public Counsel offers no evidence of unconstrained budgets

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[366] *Id.* at 45:11-13, 52:6-53:2, arguing Avista "replaces substation equipment without the objective test results or cost-benefit analyses that indicate the benefits to customers . . . exceed the costs," and begin the replacement process for substation equipment when actual loads exceed 80 percent of capacity instead of when load forecasts indicate the equipment will soon exceed 100 percent, which therefore makes the risk of failure "essentially zero" while unnecessarily increasing investment.

[367] *Id.* at 53:15-54:18.

[368] *Id.* at 54:19-55:2.

[369] *Id.* at 55:19-57:12.

[370] *Id.* at 57:15-58:2.

for these programs or wasteful investments.[371] In addition, Avista's witnesses testify to processes and principles it applies to ensure appropriate budgeting and replacement of infrastructure and assets.[372] Avista also testifies to its use of asset management tools that are part of Availability Workbench, which is developed by an independent firm, and includes failure analysis, lifecycle cost analysis, integrated asset analysis, and optimized maintenance.[373]

Commission Determination

288 First, we decline to accept Avista's arguments that because Public Counsel witnesses Alvarez and Stephens do not reside in or frequently visit Avista's service territory that their analyses and opinions are without merit. Public Counsel's recommendations are intended to ensure proper cost-benefit analyses for budgeting, such that investment is directed where needed and that assets are not replaced before they should be. These are reasonable recommendations for prudent utility operations that are not inherently subjective to the service territory of a utility.

289 We observe that, in rebuttal, Avista witnesses DiLuciano and La Bolle agree with the capital planning and budgeting principles endorsed by Alvarez and Stephens.[374] Likewise, Alvarez and Stephens agree that Avista follows standard industry practice to first determine grid needs and then build capital budgets to satisfy those needs.[375] The disagreement arises only over the Substation Rebuilds Program and the Distribution Grid Modernization Program.

290 We are unconvinced by Public Counsel's argument that Avista's analyses, modeling, and planning for infrastructure replacements under these programs is inappropriate and that discarding them in favor of a run-to-failure approach and other programs would be in the best interest of Avista's customers. For illustration, Avista and Public Counsel spend significant effort explaining at what percent of load capacity infrastructure should be replaced. Avista's practice is to begin a replacement process when actual load its 80 percent, whereas Public Counsel recommends that the process only begin when load *forecasts* show it will soon meet or exceed 100 percent. At hearing, Avista witness

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[371] DiLuciano & La Bolle, Exh. JD/LL-1T at 13:1-10.

[372] *Id.* at 15:10-18:3.

[373] *Id.* at 6:4-17.

[374] *Id.* at 15:6-9.

[375] Alvarez & Stephens, Exh. PADS-1T at 29:23-30:4.

Rosentrater explained how Avista's system was affected during the extreme heat event in late June 2021, when temperatures reached 106 degrees Fahrenheit and caused Avista's all-time System Peak. She testified that all of Avista's built-in additional capacity "was quickly and unexpectedly used up based on the extreme temperatures," with three transformers sending alarms because they were "being loaded above their capacity" based only on their own load.[376] Three transformers were subject to protective outages on June 28, 2021, reaching actual loads of 95.7, 99.5, and 90.9 percent, while another two transformers reached actual loads of 99.5 and 97.1 percent.[377] We lack information in the record regarding what the load forecasts, as described by Public Counsel, were for these transformers and can make no observation comparing the two methods. However, the five transformers in question had only ever before experienced actual loads of, at most, 86.3, 78.5, 82.8, 85.4, and 80.8 percent.[378]

291 As Alvarez and Stephens assert, unchecked utility spending for the purpose of ensuring that not one customer ever has an outage is unlikely to be prudent investment. However, we must also consider Avista's customers' need for reliable service. The extreme heat event in June 2021 drew great interest from us at hearing as it applies to the reliability of Avista's utility service.[379] Such reliability factors into our consideration of the adjustments Public Counsel proposes here. Thus, we are unconvinced by evidence or argument that Avista's practices are inappropriate. Further, we do not have sufficient information in this record to predict, or even speculate, how Avista's system would have performed during the recent heat event had Avista been employing a run-to-failure practice of replacement. Ultimately, we are not persuaded by Public Counsel's showing in this case that a run-to-failure practice is appropriate or objectively better for Avista than its current practice.

292 In the absence of a sufficient showing by Public Counsel, we are satisfied by Avista's showing in this record that its programs and practices are appropriate, but it is also possible that there are improvements that Avista can make. In the future, these programs in particular may be suitable for performance-based regulation, but that is a matter that

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[376] Rosentrater, TR at 129:16-130:10; *see* Response to BR-8 at 1.

[377] Response to BR-8 at 1.

[378] Response to BR-8 at 1.

[379] TR at 131:15-149:25.

the Commission will entertain in a later GRC. Accordingly, we determine that Public Counsel's proposed adjustments should not be granted.

293 In addition to our decision above, we encourage Avista to provide greater clarity with its business cases. Here, the business cases were confusing due to apparent overlap. We request that in future GRCs Avista attempt to better delineate, for regulatory if not business purposes, one program from another. We also encourage Avista to consider several of Public Counsel's suggested improvements to the Substation Rebuilds Program. Avista includes stakeholder participation for resource and distribution planning, but there is also opportunity for Avista to have more wholistic planning around these items. Last, we encourage Avista to look at the distribution planning process described in the Jade Cohort recommendation of the NARUC-NASEO Task Force.

j. *Inter-Corporate Cost Allocation (Pro Forma Adjustment 7.03)*

294 AWEC's common inter-corporate cost allocation adjustment removes certain inter-company costs that AWEC argues are attributable to non-utility subsidiaries and are incorrectly allocated to utility operations for recovery from Washington ratepayers.[380] AWEC also recommends, therefore, that the Commission require Avista to develop cost allocation manuals.[381]

295 The issues presented for our resolution are whether these costs have been misallocated to Avista's utility operations and whether Avista lacks sufficient controls, policies, or procedures to guard against such misallocation to justify requiring it to create formal cost allocation manuals. Avista opposes AWEC's adjustment and the requirement that Avista create formal cost allocation manuals.

Commission Determination

296 AWEC witness Mullins raises concerns that Avista's utility operations are inappropriately subsidizing non-utility subsidiaries of Avista Corporation. Mullins identifies several examples of expenses that, Mullins argues, appear to be misallocated, including expenses for cleaning or janitorial services, cab fare, mileage, and labor expenses for employees.[382] Mullins argues that other apparent misallocations are likely

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[380] Mullins, Exh. BGM-1T at 54:13-55:6. Mullins identifies

[381] *Id.* at 55:6-9.

[382] *Id.* at 53:16-55:3.

because Avista has "little to no controls, policies, or procedures in place" to prevent misallocation of costs from non-utility subsidiaries to its utility operations because it lacks a corporate cost allocation manual.[383]

297 In rebuttal, Avista witness Andrews describes Avista's efforts to properly record and allocate transactions and assign labor costs to subsidiaries or affiliates, including training for executives and non-executives in its policies for accounting and recording utility and non-utility expenditures, a systematic structure of review and audit by employee supervisors and corporate accounting and regulatory affairs personnel.[384] Andrews argues that the costs identified by AWEC are properly assigned as utility operations costs and that Avista's processes for recording transactions and its system of controls and audits are sufficient without imposition of the additional and unnecessary administrative burden of a formal cost allocation manual.[385]

298 We agree. We do not intend to dissuade efforts by AWEC and the other Parties to confirm the appropriate assignment of costs between Avista's utility and non-utility operations and that safeguards, practices, or policies exist to ensure appropriate allocation. In this instance, however, we are satisfied and persuaded by Andrews's explanation of Avista's policies, controls, and audits that requiring Avista to develop a cost allocation manual is unnecessary at this time. Further, we find persuasive the showing in Andrews's rebuttal testimony that the expenses identified by Mullins to be removed from Avista's revenue requirement were appropriately assigned to Avista's utility operations.[386] Accordingly, we determine that AWEC's common inter-corporate cost allocation adjustment should be rejected as should its recommendation to require Avista to develop cost allocation manuals.

3. COST OF SERVICE, RATE SPREAD, RATE DESIGN

299 On July 7, 2020, the Commission entered General Order R-599 in Dockets UE-170002 and UG-170003 adopting rules in Chapter 480-85 WAC applicable to cost of service

[383] *Id.* at 52:9-18, 55:1-9.

[384] Andrews, Exh. EMA-6T at 105:13-107:13.

[385] *See id.* at 105:11-12, 106:11-14, 107:10-13, 109:12-20.

[386] *See id.* at 107:17-109:19.

studies filed with the Commission.[387] These consolidated proceedings are the first GRC filed after Chapter 480-85 WAC became effective.

300 Order 01 granted Avista's petition for limited exemption from WAC 480-85-050 in these consolidated dockets, among other things. WAC 480-85-050 requires that data for a cost of service study must come from advanced metering technology or a load study, and neither can use data older than five years. At that time, Avista was in the throes of deploying AMI, and did not yet have data from AMI to use in either its electric or natural gas load studies. In addition, its most recent electric load study was conducted in 2014, slightly over the five-year limit. For natural gas, the Company did not have any load study data. For both electric and natural gas, Avista will have AMI usage data to use in its cost of service study in its next GRC. The Company asked for exemptions for both its electric and natural gas cost of service studies, to permit the use of a 2014 load study (electric) and billing data. We granted the Company's request under the circumstances presented, noting that Avista will be able to incorporate AMI data in its cost of service studies in its next GRC.

301 Avista witness Knox testifies that there would have been no material impact on the results of the cost of service study if the Company had conducted a more recent load study.[388] Knox also testifies that even though a more recent load study might reflect some changes to the demand allocation factors, it still would not have had a "material effect on the directional accuracy of the study's results given that the majority of rate schedules are significantly above or below rate parity."[389]

302 Other than the limited exemption explained above, Avista has submitted cost of service studies that conform to the Commission's rules in Chapter 480-85. In particular, its cost of service studies: (1) were calculated using an embedded cost method, (2) used the functionalization methodologies required in Tables 1 and 3 of WAC 480-85-060(3), and (3) used classification and allocation methodologies required in Tables 2 and 4 of WAC 480-85-060(3). No Party questions these facts.

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[387] *In re Amending WAC 480-07-510 & Adopting Chapter 480-85 WAC Relating to Cost of Service Studies for Electric and Natural Gas Investor-Owned Utilities*, Dockets UE-170002 and UG-170003, General Order R-599, Order Amending and Adopting Rule Permanently (Jul. 7, 2020) [hereinafter General Order R-599].

[388] Knox, Exh. TLK-1T at 14:24-15:5.

[389] *Id.* at 15:1-5.

i. Electric Cost of Service Study

303 According to Avista witness Knox, Avista prepared its 2020 Electric Cost of Service Study (eCOSS) using the methodology prescribed by Commission rule, which differs from previous Company studies.[390] The parity percentages that result from Avista's eCOSS are shown in Table 7, below, by customer class.

304 **Table 7. Relative Rates of Return (ROR) at Present Rates and Parity Ratios**

Customer Class	ROR	Return Ratio	Parity Ratio
Residential Service Schedules 01/02	1.71 %	0.30	0.82
General Service Schedules 11/12	10.67 %	1.89	1.24
Large General Service Schedules 21/22	10.96 %	1.94	1.25
Extra Large General Service Schedule 25	9.13 %	1.61	1.15
Pumping Service Schedules 30/31/32	6.32 %	1.12	1.03
Lighting Service Schedules 41 - 48	7.88 %	1.39	1.12
Total Washington Electric System	**5.65** %	**1.00**	**1.00**

305 Avista's use of the classification and allocation methodologies required by rule modified several aspects of its prior eCOSS.[391] Staff reviewed the Company's eCOSS and agrees that it complies with Commission rules.

306 Public Counsel agrees that Avista has attempted to comply with the Commission's rules for COSSes but argues that no weight should be given to Avista's eCOSS.[392] Public Counsel asserts that Avista's eCOSS cannot be relied on for setting rates due to perceived shortcomings of the classification and allocation methodologies required by Commission rule, the inputs selected by Avista within those methodologies, and Avista's misdistribution of AMI savings to its residential class.

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[390] *Id.* at 15:8-13.

[391] *Id.* at 16:10-17:15, 19:9-20:12,

[392] Watkins, Exh. GAW-1T at 2:12-15, 19:6-8.

Commission Determination

307 We find that Avista's eCOSS and its parity ratios are reliable and should be included in our evaluation of rate spread and rate design. Many of the items that Public Counsel highlights have merit, but, as we explain below, the weight afforded to each ultimately leads us to reject Public Counsel's arguments.

308 We agree with Public Counsel that it has made valid challenges to Avista's eCOSS. Parties are expected to assess an eCOSS to ensure not only that it uses the correct methodology, but also that the methodology is used correctly. It is possible that a submitted eCOSS could comply with the rule's methodologies but suffer from selected inputs, parameters, or assumptions so unreasonable as to render the results of the eCOSS unreliable. That is not the case here.

309 Commission rules do not require a Party to submit an alternative eCOSS as a prerequisite for challenging the reasonableness of another. Public Counsel may validly argue, therefore, that flawed inputs in the methodologies of an eCOSS render it unreasonable without needing to put forth an eCOSS of its own. Thus, we find Public Counsel's arguments should not be dismissed as inappropriate challenges to the Commission's rules or their prescribed methodologies.

310 Public Counsel identifies several concerns related to selected inputs used within the Renewable Future Peak Credit methodology (RFPC). Public Counsel is particularly concerned with Avista's selection of an eight-hour lithium-ion battery as the renewable peaker and of a wind turbine as the base load to use within the RFPC.[393] Public Counsel finds the selected battery inappropriate because it does not exist in Avista's IRP, the costs Avista assigns are higher than Public Counsel supports, and the comparison of battery to wind turbine is unsatisfactory because a wind turbine is not dispatchable as baseload.[394] Watkins highlighted how the costs Avista selected skewed the peak credit ratio of the RFPC toward demand – 67.17 percent demand and 32.83 percent energy.[395]

311 We find that that the inputs, parameters, and assumptions Avista used when applying the RFPC were reasonable. Avista is required by rule to use the RFPC. The RFPC requires a

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[393] Both were assumed to be contracted through power purchase agreements.

[394] Watkins, Exh. GAW-1T at 10:6-19:2. While Watkins identifies renewable resources and batteries in Avista's IRP, he fails to indicate in the same IRP the identity of any gas-fired peaker.

[395] *See id.* at 17:11-19:12.

renewable peaker and a renewable baseload. Consistent with the requirement in General Order R-599 to use the RFPC, Avista selected an eight-hour lithium-ion battery built in 2022 and a wind turbine with characteristics consistent with power purchase agreements for wind within Avista's service territory built for 2022 from resource data assumptions contained in its 2020 IRP, Appendix H.[396] There is no evidence in the record that Avista, presented with the requirement to choose characteristics of a reasonable and current renewable resource, made unreasonable selections rendering the eCOSS unreliable. Similarly, we find Public Counsel's argument unpersuasive absent a sufficient showing that Avista could have and should have known of more reasonable alternative inputs. While unnecessary to challenge the reasonableness of Avista's eCOSS, a better demonstration could have been shown through application of a competing eCOSS with inputs Public Counsel could support as more reasonable. Most of Public Counsel's arguments, which we reject, are instead directed at its dissatisfaction with the RFPC.

312 Public Counsel witness Watkins also finds fault with the RFPC, not just Avista's selection of inputs, and openly laments for a return to the traditional Peak Credit method and away from "the situation [that] is much different today."[397] The Commission chose to codify the RFPC for generation classification and allocation because it uses renewable generation, not fossil-fuel generation.[398] The two methods are fundamentally different because renewable and fossil-fueled generation are fundamentally different. "Renewable generation does not follow the traditional cost-causation paradigm."[399]

313 Washington is transitioning to clean energy. CETA requires Washington's electricity supply to eliminate coal-fired resources by 2025, be net carbon-neutral by 2030, and be carbon-free by 2045.[400] Ultimately, the RFPC "upholds a principle long-favored by this Commission: a properly conducted cost of service study that is forward looking by reflecting the purposes for which plant expenditures are made. Innovation and public

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[396] Watkins, Exh. GAW-6; Watkins, Exh. GAW-1T at 14:18-15:2; *see* General Order R-599 at 12, ¶ 44.

[397] *Id.* at 9:23-10:3.

[398] General Order R-599 at 12-13, ¶¶ 43-45.

[399] *Id.* at 13, ¶ 45.

[400] RCW 19.405.010(2); RCW 19.405.030(1)(a).

policy, *i.e.*, [CETA], will result in utilities relying on more than large, fossil-fueled plants for electricity generation."[401]

314 Cost of service, rate spread, and rate design – the allocation of costs to customers and customer classes – "is not a matter for the slide-rule. It involves judgment on a myriad of facts. It has no claim to an exact science."[402] Public Counsel witness Watkins adds that "when all reasonable cost allocation approaches consistently show that certain classes are over or under contributing to costs and/or profits, there is a strong rationale for assigning smaller or greater percentage rate increases to these classes."[403] We agree.

315 Avista's eCOSS using the RFPC shows that the residential, general service, and large general service classes are considerably farther from parity than the others.[404] Staff witness Jordan explains in testimony that "the residential class has been the beneficiary of substantial cross-class subsidization for a decade. . .. Perpetuating this inequality . . . is patently unfair."[405] We find Avista's and Staff's demonstrations persuasive, especially knowing that the first case illustrating the use of the RFPC confirms that it, like prior COSSes conducted over a decade, also shows substantial cross-class subsidization.

316 Evidently, Avista witness Knox recognized that Public Counsel's arguments focused on the RFPC methodology and its dissatisfaction with the peak credit ratio used on the study. On rebuttal, Knox flipped the peak credit ratios to illustrate its impact. Table 8, below, shows that there is little impact, if any, for Public Counsel witness Watkins's primary complaint with Avista's eCOSS.

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[401] General Order R-599 at 12, ¶ 44.

[402] *Colo. Interstate Gas Co. v. Fed. Power Comm'n*, 324 U.S. 581, 589 (1945), citing Hamilton, Cost as a Standard for Price, 4 Law & Cont. Prob. 321.

Colo. Interstate Gas Co. v. Fed. Power Com., 324 U.S. 581, 589, 65 S. Ct. 829, 833, 89 L.Ed. 1206, 1216 (1945)

[403] Watkins, Exh. GAW-1T at 5-9.

[404] Knox, Exh. TLK-1T at 3:15-17.

[405] Jordan, Exh. ELJ-1T at 14:16-22.

317 **Table 8. Avista's Comparison of Electric Parity Ratios**[406]

Compare Electric Parity Ratios	Cost Study as Filed	Cost Study Reversed Peak Credit	Change
Customer Class	*Parity Ratio A*	*Parity Ratio B*	*B - A*
Residential Service Schedules 01/02	0.82	0.83	0.01
General Service Schedules 11/12	1.24	1.24	0.00
Large General Service Schedules 21/22	1.25	1.25	0.00
Extra Large General Service Schedule 25	1.15	1.11	-0.04
Pumping Service Schedules 30/31/32	1.03	1.00	-0.03
Lighting Service Schedules 41 - 48	1.12	1.09	-0.03

318 Knox testifies that the "negligible differences shown . . . indicates that alternative assumptions associated with the peak credit in this cost of service study were not a major factor in the overall results particularly for the residential, general service, and large general service customer class."[407] Knox's demonstration confirms similar observations the Commission made in its cost of service rulemaking. In General Order R-599, the Commission observed that, upon its request for a variety of COSSes with different methodologies, "the requested scenarios . . . showed negligible or no impact to a cost of service study from the selection of any particular methodology modeled."[408]

319 Lastly, we are unpersuaded by Public Counsel's assertions that Avista's eCOSS is unreliable due to its method of including the costs and benefits of AMI. As we have earlier discussed and outlined, we are satisfied with Avista's demonstration regarding AMI, but we require Avista to take additional action. The record shows that Avista witness Knox is regularly involved with Avista's AMI team and updates the eCOSS accordingly. We fully expect and require that to continue as Avista's AMI team begins to delve even further into unlocking and maximizing the benefits of AMI for ratepayers.

320 In our own review, and considering those of the Parties', we note two significant pieces of evidence, among many, that instill confidence in Avista's eCOSS. First, Staff has

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[406] Knox, Exh. TLK-4T at 4:10-21.

[407] *Id.* at 4:10-5:4.

[408] General Order R-599 at 6, ¶ 24.

testified and provided demonstrative support that Avista's electric customer classes are out of parity, in particular the residential and large general service classes. Second, Avista has demonstrated persuasively that the inputs Public Counsel criticizes have little effect on the eCOSS. Avista witness Knox testified that "given that the majority of rate schedules are significantly above or below rate parity," the eCOSS can be relied upon for "directional accuracy" even without current AMI data.[409] We agree. We find that the classes are so far from parity, and have been for some time now, that the eCOSS is at minimum directionally accurate and sufficiently reliable if we were to consider the eCOSS as one factor in determining rate spread.

ii. Electric Rate Spread

321 Avista proposes an equal percentage of margin increase across all rate schedules at or near the Company's full revenue requirement, but in brief indicates that it would also support Staff's proposed rate spread if the Commission orders a lower revenue requirement in order to mitigate the inequity that "certain rate schedules are drastically over (Schedules 11/12 and 21/22) or under (Schedules 1/2) paying on a relative cost of service basis."[410] While Staff opposes an equal percentage of margin increase across all rate schedules, Public Counsel proposes such a rate spread methodology.[411]

322 As mentioned previously, Staff has tracked Avista's historical rate spread since its 2010 GRC. Staff witness Jordan argues that of the previous seven GRCs, "only two cases resulted in any movement towards parity. While gradualism is an important principle, the residential class has been the beneficiary of substantial cross-class subsidization for a decade. The burden of this subsidy is carried by the general service and large general service customers."[412] Jordan explains further that for every $1.00 assigned to large general service customers, they pay $1.25, which is a quarter-sized subsidy that goes towards other customers' cost to serve.[413] Staff therefore proposes to spread the rate increase to electric classes as portrayed in Table 9, below.

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[409] Knox, Exh. TLK-1T at 15:1-5.

[410] Avista's Brief at 59, ¶ 157.

[411] Jordan, Exh. ELJ-1T at 3:14-15; Watkins, Exh. GAW-1T at 2:13-14.

[412] Jordan, Exh. ELJ-1T at 14:16-19.

[413] *See* Jordan, Exh. ELJ-1T at 15:2-9.

Table 9. Staff's Proposed Electric Rate Spread[414]

Customer Class	Relative Increase
Residential Service Schedules 01/02	145.38 %
General Service Schedules 11/12	50.00 %
Large General Service Schedules 21/22	50.00 %
Extra Large General Service Schedule 25	100.00 %
Pumping Service Schedules 30/31/32	100.00 %
Lighting Service Schedules 41 - 48	100.00 %

323 Jordan argues that, but for fairness considerations related to the COVID-19 pandemic, Staff would recommend an even more drastic, or just, rate spread that would assign 182 percent of a relative increase to the residential class and only 10 percent to the large general service customer class.[415] According to Staff, moving the residential class to within a range of reasonable parity would require a 1,500 percent increase and revenue increase of approximately $47.5 million.[416] Staff presents a table, reproduced below as Table 10, to explain how it categorizes various parity ratios.

324 **Table 10. Parity Ratio Ranges[417]**

Parity Ratio Range	*Category*
+/- 5 (*i.e.*, 0.95 to 1.05)	Error Range
+/- 10 (*i.e.*, 0.90 to 1.10)	Range of Reasonableness
+/- 20 (*i.e.*, 0.80 to 0.90 or 1.10 to 1.20)	Unreasonable Cross-Class Subsidization
+/- 30 (*i.e.*, 0.70 to 0.80 or 1.20 to 1.30)	Excessive Cross-Class Subsidization
+/- 40 (*i.e.*, <0.70 or >1.30)	Grossly Excessive Cross-Class Subsidization

[414] *Id.* at 13:4-11.

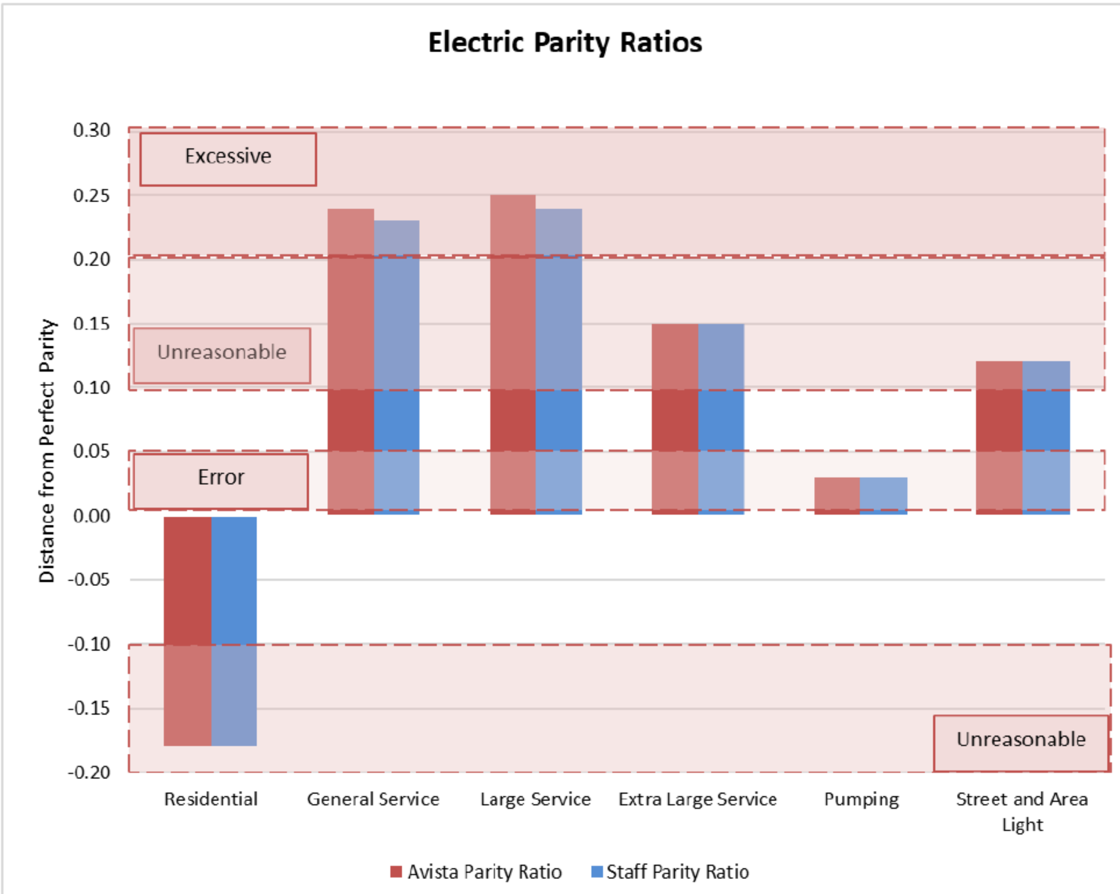
[415] *Id.* at 16:1-10.

[416] *See id.* at 16:14-18.

[417] *Id.* at 10:3.

325 Staff then presents a comparative impact on parity between its proposed rate spread and Avista's proposal for an equal percentage of margin rate spread, which Public Counsel supports. Staff's comparison is produced below in Table 11.

326 **Table 11. Staff's Electric Parity Ratios, Company and Staff**[418]



327 In brief, AWEC argues that the record evidence shows that Schedule 25 is well above parity and recommends that an equal percentage of margin rate spread should be rejected because it will perpetuate the rate subsidy Schedule 25 provides to other customers.[419] Additionally, in brief, Avista asserts that if the Commission approves a rate increase smaller than initially requested, it supports Staff's rate spread.

[418] *Id.* at 18:11-12.

[419] AWEC's Brief at 13-14, ¶¶ 24-25.

Commission Determination

328 A COSS is not the only factor we consider when allocating costs to customers and customer classes. We may also consider, as appropriate, such factors as fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability. In this case, we hold these factors substantially more valuable than negligible technical arguments about minute inputs in Avista's eCOSS that have been demonstrated to have little impact on the results of the study. These factors remain important, particularly in the context within which we consider this GRC and the rate increase we authorize in this Order. As we have stated throughout this Order, the COVID-19 pandemic has had a significant impact on customers, particularly low-to-moderate income customers, as well as an impact on both Washington's and the global economy. However, Staff witness Jordan presents a compelling demonstration that Avista's residential customers have enjoyed the benefits of unreasonable cross-subsidization for nearly a decade, while Avista's largest customers have been excessively subsidizing other classes.

329 Staff's proposed rate spread is fair, just, and reasonable. Even the seemingly large increase to the residential class should impact residential customers only marginally. Considering the current economic conditions in Avista's service territory, in Washington, and in the country, we conclude it is necessary to direct Avista to spread the return of the Tax Customer Credit so that no customer class experiences a rate increase from this Order for the next two years. Because we accept Staff's rate spread prior to the return of the Tax Customer Credit, the residential class will consequentially receive more of the credit than it would have had we maintained an equal percentage of margin rate spread. We find this fair and appropriate because we are taking a gradual step to bring Avista's largest customers and its residential customers back towards parity while ensuring that the shift is moderated over the next two years so that residential customers will not be impacted. Accordingly, we determine that Staff's rate spread is fair and reasonable and should be approved.

iii. Electric Rate Design

330 Avista does not propose any changes to the existing rate structures within its rate schedules.[420] Avista also proposes to return the Tax Customer Credit on a per kWh basis.

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[420] Miller, Exh. JDM-1T at 7:19-21.

331 AWEC proposes modifications to Avista's electric rate design for Schedule 25. If the Commission authorizes a rate increase, AWEC proposes that the Commission authorize demand charges and the third energy block rates to remain unchanged, and also authorize the rates for the first two energy blocks (usage for the first 6 million kWh per month) to be changed by an equal percent.[421] AWEC also proposes that the third energy block in Schedule 25 remain unchanged.[422]

Commission Determination

332 No Party objected to Avista's proposed rate design, but AWEC did propose a minor modification to help bring Schedule 25 back towards parity. No Party opposes AWEC's proposal.[423] We find AWEC's proposal appropriate and we approve AWEC's requested rate design. Accordingly, we determine that Avista's rate design as modified by AWEC's proposal is appropriate and should be approved.

iv. Natural Gas Cost of Service Study

333 According to Avista witness Anderson, Avista prepared its 2020 Natural Gas Base Case COSS (Base Case) using the methodology prescribed by Commission rule, which differs from previous cost studies submitted by the Company.[424] The parity percentages that result from Avista's Base Case are shown in Table 12, below, by customer class.

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[421] Mullins, Exh. BGM-11T at 7:5-7.

[422] *Id.* at 7:15-17.

[423] *See* Miller, Exh. JDM-8T; Knox, Exh. TLK-4T; Watkins, Exh. GAW-7T; Jordan, Exh. ELJ-10T.

[424] Anderson, Exh. JCA-1T at 15:8-13.

334 **Table 12. Avista's Base Case Results**[425]

Rate Schedule	ROR	Return Ratio	Parity Ratio
General Service Schedule 101/102	3.42 %	0.66	0.91
Large General Service Schedules 111/112	15.29 %	2.96	1.70
Interruptible Sales Service Schedule 132	11.02 %	2.14	1.40
Transportation Service Schedule 146	4.42 %	0.86	0.91
Total Washington Natural Gas System	**5.34 %**	**1.00**	**1.00**

335 Avista's use of the classification and allocation methodologies required by rule modified several aspects of its prior Base Case.[426] Staff reviewed the Company's Base Case and agrees that it complies with Commission rules. Public Counsel reviewed the Company's Base Case and concludes that it "reasonably reflects cost causation and is in accordance with the Commission's new rules regarding cost allocations."[427] Public Counsel witness Watkins argues, however, that little, if any, weight should be given to the Base Case parity ratios because Avista's class cost allocation study does not appropriately reflect the "expect[ed] considerable cost savings during the rate period associated with the implementation" of AMI, the majority of which should benefit the Residential class.[428]

Commission Determination

336 We find that the natural gas cost of service study presented by Avista is adequate for use in determining rate spread and rate design because it is only one of several factors that we consider. We remain unpersuaded by Public Counsel's assertions that Avista's Base Case is unreliable due to how the Company has chosen to include the costs and benefits of AMI. As we have earlier discussed and outlined, we are satisfied with Avista's demonstration regarding AMI, but we require Avista to take additional action. The record shows that Avista's cost of service analysts are regularly involved with Avista's AMI

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[425] *Id.* at 18:4-11.

[426] *Id.* at 16:10-17:15, 19:9-20:12,

[427] Watkins, Exh. GAW-1T at 29:8-10.

[428] *Id.* at 32:14-33:15.

team and include updates in the Base Case accordingly. As we expected and required for Avista's eCOSS, we similarly require for Avista's Base Case.

v. Natural Gas Rate Spread

337 Avista proposes an equal percentage of margin increase across all rate schedules at or near the Company's full revenue requirement, but in brief indicates that it also supports Staff's proposed rate spread at a lesser revenue requirement level in order to mitigate the inequity "that certain natural gas rate schedules are grossly overpaying on a relative cost of service basis (Schedules 111/112/116 and 131/132)."[429] Staff opposes an equal percentage of margin increase across all rate schedules and Public Counsel supports it.[430]

Table 13. Staff's Proposed Natural Gas Rate Spread[431]

Customer Class	Relative Increase
General Service, 101/102	118.32 %
Large General Service, 111/112	25 %
Interruptible Service, 131/132	50 %
Transportation Service, 146	118.32 %

338 Jordan argues that, but for fairness considerations related to the COVID-19 pandemic, Staff would recommend an even more drastic, or just, rate spread that would assign 122 percent of a relative increase to the General Service and Transportation and 10 percent to large general service customer, and 25 percent to interruptible service territory.[432] According to Staff, moving the large general service class to within a range of reasonable parity would require a 600 percent decrease.[433] Staff presents its own table, reproduced above as Table 10, to explain how it categorizes various parity ratios.

[429] Miller, Exh. JDM-8T at 4:1-24; Avista's Brief at 60, ¶ 159.

[430] Jordan, Exh. ELJ-1T at 20:4; Watkins, Exh. GAW-1T at 2:17-19.

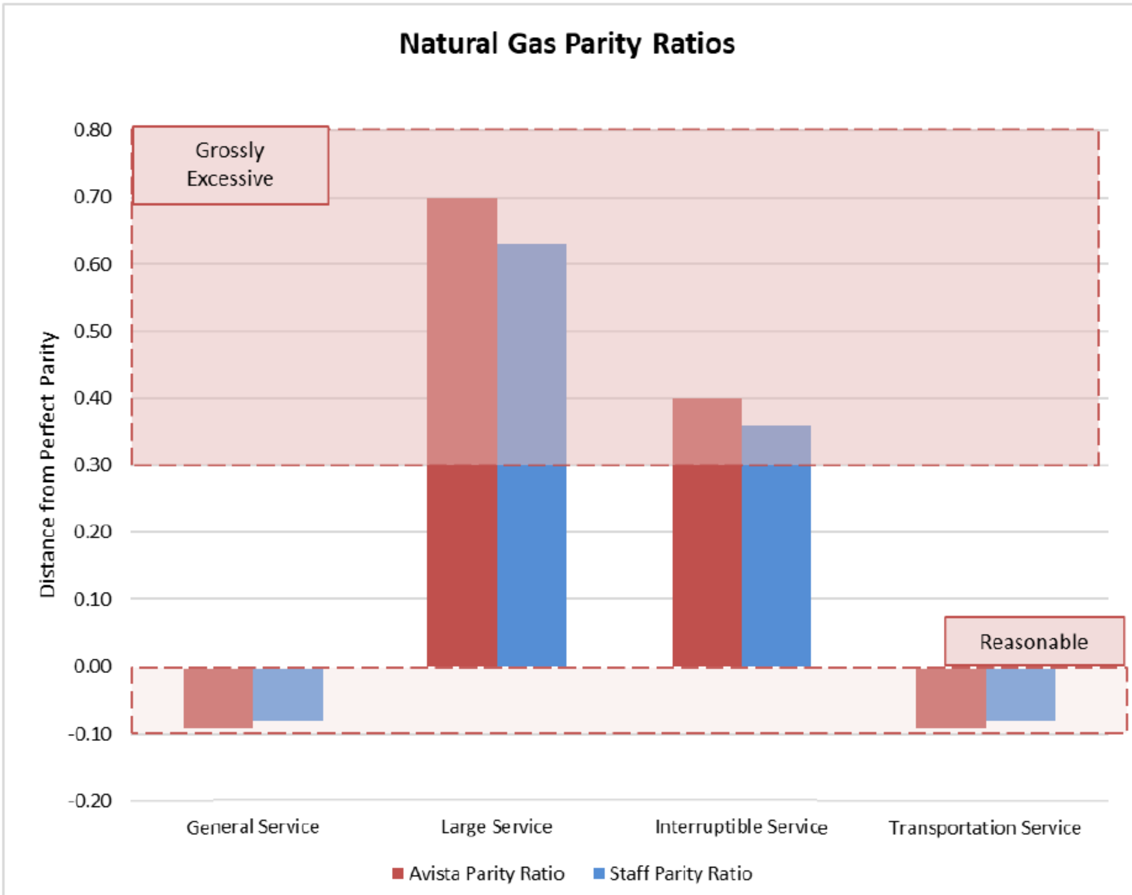
[431] Jordan, Exh. ELJ-1T at 20:16-21. Staff removed the one extra-large customer that left Avista's service in the extra-large general services class, therefore only four classes are now in existence.

[432] *Id.* at 16:1-10.

[433] *See id.* at 16:14-18.

339 Staff then presents the comparative impact on parity between its proposed rate spread and an equal percentage of margin rate spread. Staff's comparison is produced below in Table 14.

Table 14. Staff's Natural Gas Parity Ratios, Company and Staff[434]



340 In rebuttal and in brief, Avista asserts that if the Commission approves a rate increase smaller than initially requested, it supports Staff's rate spread.[435]

Commission Determination

341 As we have noted above, a COSS is not the only factor we consider when allocating costs to customers and customer classes. We may also consider, as appropriate, such factors as

[434] *Id.* at 24:1.

[435] Miller, Exh. JDM-8T at 6:21-7:6; Avista's Brief at 59, ¶¶ 155-157.

fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability. Regarding Avista's natural gas rate spread, our consideration is much the same as for the electric rate spread. These factors remain important, considering the context within which we consider this GRC and the rate increase we authorize in this Order. The COVID-19 pandemic has had a substantial impact on residential, commercial and industrial customers, as well as the economy as a whole, but Staff witness Jordan presents a compelling demonstration that Avista's general service class has been subsidizing other customers by paying $1.70 for every $1 in expense that they cause. While the general service class and transportation service class are not out of a reasonable zone of parity, the other two classes are so far out of parity that we are convinced movement slightly upwards towards parity for general service and transportation is warranted.

342 Staff's proposed rate spread is fair, just, and reasonable. Even the seemingly large increase to the general service class should impact customers only marginally. Considering the current economic conditions in Avista's service territory, in Washington, and in the country, we conclude it is necessary to direct Avista to spread the return of the Tax Customer Credit so that no customer class experiences a rate increase from this Order for the next two years. Because we accept Staff's rate spread prior to the return of the Tax Customer Credit, the general service class will consequentially receive more of the Credit than it would have had we maintained an equal percentage of margin rate spread. We find this fair and appropriate because we are taking a gradual step to bring Avista's large service customers and its general service customers back towards parity while ensuring that the shift is moderated over the next two years so that general service customers will not be impacted. Accordingly, we determine that Staff's rate spread is fair and reasonable and should be approved.

vi. Natural Gas Rate Design

343 Avista made minor proposals to its natural gas rate design. Avista proposes to increase the monthly minimum charge for large general service by $15.90 for a total minimum charge of $123.46.

Commission Determination

344 Avista's natural gas rate design modifications are uncontested and adequately supported by the record. Accordingly, we find that these uncontested adjustments should be approved.

D. CONCLUSION

345 The Commission's statutory duty is to establish rates, terms, and conditions for electric and natural gas service that are "fair, just, reasonable and sufficient."[436] In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The resulting rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case 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 utility to cover its expenses and attract capital on reasonable terms.[437]

346 Accordingly, we determine that approval of the Settlement, without condition, in concert with the other findings we have made and explained, above, establish rates, terms, and conditions for Avista's electric and natural gas services that are fair, just, reasonable, and sufficient. We authorize and require Avista to make a compliance filing in these consolidated dockets to recover in prospective rates its revenue deficiency, shown in Appendix B, of approximately $13.6 million for electric operations and its revenue deficiency of approximately $8.1 million for natural gas operations, showing amortizations of the AFUDC Deferral and Tax Customer Credit to exactly offset each rate class for two years.

FINDINGS OF FACT

Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the Parties and the reasons therefore, the Commission now makes the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

347 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers

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[436] RCW 80.28.010(1); RCW 80.28.020.

[437] *See generally Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W.V.,* 262 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.,* 320 U.S. 591 (1944); *People's Org. for Wash. Energy Res. v. Wash. Utils. & Transp. Comm'n*, 104 Wn.2d 798, 807-13 (1985) (describing rate setting process in Washington).

of property and affiliated interests of public service companies, including electric and natural gas companies.

348 (2) Avista is a "public service company," an "electrical company," and "gas company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. Avista provides electric and natural gas utility service to customers in Washington.

349 (3) Avista's currently effective rates were determined by the Commission's Final Order in *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-190334, UG-190335, and UE-190222 *(Consolidated)*, Order 09 (Mar. 25, 2020).

350 (4) On October 30, 2020, Avista filed with the Commission revisions to its currently effective Tariffs WN U-28, Electric Service, and WN U-29, Natural Gas Service, and also filed its Petition with the Commission to request accounting and ratemaking treatment of costs associated with its Wildfire Resiliency Plan.

351 (5) Avista requests an increase in its annual electric revenue requirement of approximately $28.5 million (5.38 percent), and an increase to its annual natural gas revenue requirement of approximately $10.7 million (10.14 percent).

352 (6) On May 27, 2021, the Settling Parties filed the Settlement, which is attached to this Order as Appendix A, and requested the Commission approve and adopt it as a resolution of some, but not all, of the issues in this proceeding. Public Counsel neither joins nor opposes the Settlement.

353 (7) Avista proposes 32 uncontested restating and pro forma adjustments to its electric revenue requirement and 26 uncontested restating and pro forma adjustments to its natural gas revenue requirement. These 58 adjustments are depicted in Appendix B to this Order, including the resulting impact to revenue requirement. These uncontested adjustments are supported by substantial competent evidence in the record of this proceeding.

354 (8) Several adjustments originally contested by a non-Company party were resolved on rebuttal because Avista adopted other Parties' proposals or otherwise made updates that satisfied the Parties' objections. These five adjustments are depicted in Appendix B to this Order, including the resulting impact to revenue requirement. These uncontested adjustments are supported by substantial competent evidence in the record of this proceeding.

355 (9) The Settlement proposes reasonable resolutions, supported by the record, to the following issues: power supply update, Energy Imbalance Market capital and expenses, the IEP Special Contract, returning AFUDC deferral balances to customers, TOU and peak-time rebate pilots, low-income funding, and Fee Free and LEAP deferrals.

356 (10) The record evidence supports a capital structure of 48.5 percent equity and 51.5 percent debt, and a cost of debt of 4.97 percent.

357 (11) The record evidence demonstrates a range of reasonable returns on equity between 9.0 and 9.8 percent and supports maintaining Avista's ROE at 9.4 percent.

358 (12) The record evidence demonstrates that Avista's proposal to match the Schedule 76/176 Tax Customer Credit with rates based on authorized revenues no longer than two years is reasonable.

359 (13) The record evidence demonstrates that temporarily granting Avista's request to amortize the Schedule 76/176 Tax Customer Credit over 10 years after the first two-year period is reasonable.

360 (14) Avista's use of a six-year period to calculate its common injuries and damages adjustment using a yearly average of actual injuries and damages payments not covered by insurance is supported by the evidence in the record.

361 (14) The record evidence demonstrates that Avista's annual incentive compensation plan is reasonable and benefits ratepayers.

362 (15) Valuing rate base on an EOP basis addresses regulatory lag for short-term investments and accurately reflects rate base values during the rate effective period.

363 (16) The Enbridge pipeline rupture was a rare and extraordinary event that created a substantial temporary variation in generation and transmission. Accordingly, it is reasonable for Avista, in calculating its pro forma adjustment to wheeling revenue, to modify its three-year average of historic wheeling revenue to remove additional revenue resulting from the Enbridge pipeline rupture.

364 (17) Avista's 2021 union wage increase expense is neither known nor measurable because the union contract has not been signed.

365 (18) Avista's 2021 non-union wage increase has become effective, and the related expense is therefore known and measurable.

366 (19) Public Counsel proposes to exclude 50 percent of D&O Insurance. Because D&O insurance benefits both customers and shareholders as part of the compensation package necessary to attract and retain qualified directors and officers, allocating 90 percent to customers and 10 percent to shareholders is appropriate.

367 (20) Avista failed to provide sufficient evidence to establish that its 2021 insurance expenses are known and measurable or that its prepayments were prudent.

368 (21) AWEC recommends the Commission exclude Salesforce expenses from Avista's IS & IT Programs and Expenses adjustment arguing they appear to have been incurred for a subsidiary. The record evidence sufficiently demonstrates that Avista's contract with Salesforce is not related to a subsidiary but was incurred to develop the Company's customer experience platform.

369 (22) There is sufficient evidence in the record demonstrating that Avista's 2020 actual IS & IT Programs and Expenses are known and measurable, but insufficient evidence to demonstrate that Avista's 2021 actual IS & IT Programs and Expenses are known and measurable.

370 (23) The record evidence demonstrates that Avista prudently incurred costs related to its customer-focused projects that comprise the Customer at the Center pro forma adjustment.

371 (24) The record evidence demonstrates that Avista prudently incurred costs related to its Rattlesnake Flat Wind Farm, the electric Labor Day 2020 Storm Damage project, and the natural gas Cheney High-Pressure Reinforcement project, which comprise the Large & Distinct pro forma adjustment.

372 (25) The record evidence demonstrates that Avista prudently incurred costs related to ongoing, reoccurring projects such as Wood Pole Management, substation rebuilds, and distribution grid modernization, which comprise the Programmatic pro forma adjustment.

373 (26) The record evidence demonstrates that Avista prudently incurred costs related to projects associated with ongoing, reoccurring annual projects required to meet regulatory obligations such as Isolated Steel and Aldyl-A Pipe Replacement, which comprise the Mandatory & Compliance pro forma adjustment.

374 (27) The record evidence demonstrates that Avista prudently incurred costs related to various short-lived capital projects including Endpoint Compute and Productivity Systems, Project Atlas, and Enterprise Security Systems, which comprise the Short-Lived pro forma adjustment.

375 (28) AWEC proposes to use actual 2020 capital on an AMA basis. The record evidence demonstrates AWEC's proposal would result in recovery for a level of plant falling well below the amount in service and currently used and useful to ratepayers and would exacerbate Avista's already significant regulatory lag.

376 (29) The record evidence demonstrates that Avista prudently incurred costs related to AMI capital additions and regulatory amortization and should thus be allowed to recover the costs *of* its investment and a return *on* its investment in AMI.

377 (30) Based on the specific facts and circumstances of this case, the record evidence supports using Avista's method for selecting a materiality threshold to address regulatory lag.

378 (31) The record evidence demonstrates that Avista included appropriate offsets to its pro forma 2020 major capital additions adjustments associated with failed transformers but submitting an insurance claim for failed distribution infrastructure should trigger a regulatory process to ensure transparency and tracking.

379 (32) The record evidence demonstrates that Avista's investments identified in its blanket funding projects qualify as programmatic under the Commission's definition in the Used and Useful Policy Statement.

380 (33) Avista's support for blanket programmatic projects was sufficient for the purposes of this case but must be more robust in future filings.

381 (34) The record evidence demonstrates that Avista's expenses for its pro forma 2020 major capital additions, including Customer at the Center (Adjustment 3.11), Large Distinct Projects (Adjustment 3.12), Programmatic (Adjustment 3.13), Mandatory and Compliance (Adjustment 3.14), and Short-Lived Assets (Adjustment 3.15), were prudently incurred.

382 (35) AWEC's proposal to modify Avista's pro forma capital (including Colstrip capital additions) based on 2020 AMA balances is inappropriate in light of the record evidence.

383 (36) To demonstrate the benefits of AMI, Avista should be required (1) to develop and report further analyses of the use cases: TOU rates, real-time energy use feedback for customers, behavior-based programs, data disaggregation, grid-interactive efficient buildings, CVR or volt/VAR optimization; (2) to craft and report plans for achieving benefits through each of these use cases, and (3) to develop and propose AMI performance-based regulation metrics and measurements that the Commission might apply, and specifically such metrics and measurements relevant for each of these use cases.

384 (37) On October 30, 2020, Avista filed with the Commission in Docket UE-200894 a petition for an accounting order authorizing the accounting and ratemaking treatment of the costs associated with the Company's Wildfire Resiliency Plan.

385 (38) In June 2021, Washington experienced an unprecedented, extreme, and record-breaking hot weather event, following which the Governor issued Proclamation 21-10, declaring a state of emergency in all of the state's counties.

386 (39) The record evidence demonstrates that Avista faces increased wildfire threats, risks, costs, and other circumstances.

387 (40) The record evidence demonstrates that Avista has been taking incremental wildfire actions above normal activities and that the circumstances it faces are extraordinary.

388 (41) The record evidence is insufficient to demonstrate that Avista's provisional wildfire capital and provisional expense expected to be incurred or placed in service after the rate effective date of October 1, 2021, are either known and measurable or used and useful to ratepayers.

389 (42) The record evidence demonstrates that Avista prudently incurred expenses related to wildfire capital additions placed in service by September 30, 2021, and that all capital additions placed in service between April 1, 2021, and September 30, 2021, should be subject to review and refund in Avista's next GRC.

390 (43) The record evidence demonstrates that implementation of the Wildfire Balancing Account is justified. The base level of wildfire expense should be set at $3.1 million, based on Avista's annualized actual 2020 wildfire expenses. Avista should include with its initial filing in its next GRC proposals for Commission review of new metrics that should apply in the context of multi-year rate plans, of performance-based measurements that should apply, and of other proposals for effectively monitoring wildfire expenses.

391 (44) Avista provided insufficient evidence to support its request to include any provisional Colstrip capital or capital expected to be placed in service after October 1, 2021.

392 (45) Avista failed to demonstrate that its SmartBurn investment was necessary and failed to produce documentation sufficient to demonstrate that its costs were prudently incurred.

393 (46) The costs associated with Dry Ash are not known and measurable and should be excluded.

394 (47) The record evidence is insufficient to justify inclusion of the Unit 3 Overhaul in rates.

395 (48) The record evidence demonstrates that Avista prudently incurred costs related to 10 major project electric system investments, two of which were its Substation Rebuild Program and its Distribution Grid Modernization Program.

396 (49) The record evidence is insufficient to establish that AWEC's proposed Inter-Corporate Cost Allocation adjustment should be accepted.

397 (50) Avista's electric COSS and its parity ratios are reliable and directionally accurate.

398 (51) The inputs, parameters, and assumptions Avista used when applying the RFPC methodology for its electric COSS were reasonable.

399 (52) The record evidence demonstrates that Staff's proposed electric rate spread is fair, just, and reasonable.

400 (53) Avista's rate design as modified by AWEC's proposal is appropriate and should be approved.

401 (54) Avista's natural gas COSS is adequate for use in determining rate spread and rate design because it is only one of several factors that we consider.

402 (55) Staff has presented persuasive evidence that its natural gas rate spread is fair, just, and reasonable.

403 (56) Avista's proposed natural gas rate design modifications are uncontested and adequately supported by the record.

404 (57) Avista's currently effective electric and natural gas rates do not provide sufficient revenue to recover the costs of its operations.

CONCLUSIONS OF LAW

Having discussed above all matters material to this decision, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

405 (1) The Commission has jurisdiction over the subject matter of, and Parties to, this proceeding.

406 (2) Avista is an electric company, a natural gas company, and a public service company subject to Commission jurisdiction

407 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company. RCW 80.04.130 (4). The Commission's determination of whether the Company has carried its burden is adjudged based on the full evidentiary record.

408 (4) Avista's existing rates for electric and natural gas service are neither fair, just, reasonable, nor sufficient, and should be adjusted prospectively after the date of this Order.

409 (5) Avista should be authorized to recover in rates 32 uncontested restating and pro forma adjustments to its electric revenue requirement and 26 uncontested restating and pro forma adjustments to its natural gas revenue requirement.

410 (6) Avista should be authorized to recover in rates five adjustments originally contested by a non-Company party that were resolved on rebuttal.

411 (7) The Commission should approve the Partial Multiparty Settlement in this proceeding because it is lawful, supported by an appropriate record, consistent with the public interest in light of all the information available to the Commission. The Settlement should be incorporated by reference into the body of this Order, as if set forth in full.

412 (8) The Commission should authorize a capital structure of 48.5 percent equity and 51.5 percent debt, a cost of debt of 4.97 percent, and an ROE of 9.4 percent, resulting in a ROR of 7.12 percent.

413 (9) Avista should be authorized to match the Schedule 76/176 Tax Customer Credit with rates based on authorized revenues no longer than two years.

414 (10) Avista should be temporarily authorized to amortize the Schedule 76/176 Tax Customer Credit over 10 years after the end of the two-year period.

415 (11) Avista should be authorized to use a six-year period to calculate its common injuries and damages adjustment using a yearly average of actual injuries and damages payments not covered by insurance.

416 (12) The Commission should authorize Avista's annual incentive compensation.

417 (13) Valuing rate base on an EOP basis will result in rates that are fair, just, reasonable, and sufficient.

418 (14) In calculating the pro forma adjustment to wheeling revenue, Avista should be authorized to modify its three-year average of historic wheeling revenue by removing additional revenue resulting from the Enbridge pipeline rupture.

419 (15) Avista's 2021 union wage increase expense should not be included in rates.

420 (16) Avista should be authorized to recover in rates its 2021 non-union wage increase.

421 (17) Public Counsel's proposal to exclude 50 percent of D&O Insurance should be rejected.

422 (18) Avista's 2021 insurance expenses adjustment should be disallowed.

423 (19) AWEC's proposal to exclude Salesforce expenses from Avista's IS & IT Programs and Expenses adjustment should be rejected.

424 (20) Avista's 2021 expenses should be excluded from its IS & IT Programs and Expenses adjustment.

425 (21) Avista's pro forma IS & IT expense adjustment with the use of actual 2020 IS & IT expenses should be authorized.

426 (22) Avista should be authorized to recover in rates costs related to its customer-focused projects that comprise the Customer at the Center pro forma adjustment.

427 (23) Avista should be authorized to recover in rates costs related to its Rattlesnake Flat Wind Farm, the electric Labor Day 2020 Storm Damage project, and the natural gas Cheney High-Pressure Reinforcement project, which comprise the Large & Distinct pro forma adjustment.

428 (24) Avista should be authorized to recover in rates costs related to ongoing, reoccurring projects such as Wood Pole Management, substation rebuilds, and distribution grid modernization, which comprise the Programmatic pro forma adjustment.

429 (25) Avista should be authorized to recover in rates costs related to projects associated with ongoing, reoccurring annual projects required to meet regulatory obligations such as Isolated Steel and Aldyl-A Pipe Replacement, which comprise the Mandatory & Compliance pro forma adjustment.

430 (26) Avista should be authorized to recover in rates costs related to various short-lived capital projects including Endpoint Compute and Productivity Systems, Project Atlas, and Enterprise Security Systems, which comprise the Short-Lived pro forma adjustment.

431 (27) AWEC's proposal to use actual 2020 capital on an AMA basis should be rejected.

432 (28) Avista should be authorized to recover in rates costs and investment related to AMI capital additions and regulatory amortization.

433 (29) Avista's method for selecting a materiality threshold to address regulatory lag should be approved.

434 (30) Avista should file with the Commission an accounting petition to defer the insurance claim proceeds associated with the Coyote Springs 2 Single Phase Transformer and an accounting petition to defer any insurance claims proceeds associated with any material future distribution infrastructure failure, such as a failed transformer, for which Avista submits an insurance claim.

435 (31) Avista must demonstrate in its next GRC why normalizing its blanket programmatic investments is inappropriate and, in all subsequent GRC filings, that its pro forma blanket programmatic investments are incremental to the test year.

436 (32) Avista should be authorized to recover in rates expenses incurred for its pro forma 2020 major capital additions, including Customer at the Center (Adjustment 3.11), Large Distinct Projects (Adjustment 3.12), Programmatic (Adjustment 3.13), Mandatory and Compliance (Adjustment 3.14), and Short-Lived Assets (Adjustment 3.15).

437 (33) AWEC's proposal to modify Avista's pro forma capital (including Colstrip capital additions) based on 2020 AMA balances should be rejected.

438 (34) Avista should be required (1) to develop and report further analyses of the following AMI use cases: TOU rates, real-time energy use feedback for customers, behavior-based programs, data disaggregation, grid-interactive efficient buildings, CVR or volt/VAR optimization; (2) to craft and report plans for achieving benefits through each of these use cases, and (3) to develop and propose AMI performance-based regulation metrics and measurements that the Commission might apply, and specifically such metrics and measurements relevant for each of these use cases.

439 (35) Avista's request that it be allowed to track the wildfire costs it incurred from January 1, 2021, through September 30, 2021, and that it be permitted the opportunity in a future GRC to request to recover any amounts that it can show were incremental and prudently incurred should be approved.

440 (36) Avista's provisional wildfire capital and provisional expense expected to be incurred or placed in service after the rate effective date of October 1, 2021, should be disallowed.

441 (37) Avista should be authorized to recover in rates expenses related to wildfire capital additions placed in service by September 30, 2021, and all capital additions placed in service between April 1, 2021, and September 30, 2021, should be subject to review and refund in Avista's next GRC.

442 (38) Avista's Wildfire Balancing Account should be authorized beginning on October 1, 2021, with a base level of wildfire expense of $3.1 million, based on Avista's annualized actual 2020 wildfire expenses.

443 (39) Avista's request to include any provisional Colstrip capital or capital expected to be placed in service after October 1, 2021, should be denied.

444 (40) Avista's pro forma adjustment for costs related to its SmartBurn investment should be disallowed.

445 (41) Expenses related to Dry Ash should be excluded from Avista's pro forma Colstrip adjustment.

446 (42) Expenses related to Unit 3 Overhaul should be excluded from Avista's pro forma Colstrip adjustment.

447 (43) Avista should be authorized to recover in rates costs related to 10 major project electric system investments, two of which were its Substation Rebuild Program and its Distribution Grid Modernization Program.

448 (44) AWEC's proposed Inter-Corporate Cost Allocation adjustment should be rejected.

449 (45) Avista's electric COSS should be accepted.

450 (46) Staff's proposed electric rate spread should be accepted.

451 (47) Avista's electric rate design as modified by AWEC's proposal should be accepted.

452 (48) Avista's natural gas COSS should be accepted.

453 (49) Staff's proposed natural gas rate spread should be accepted.

454 (50) Avista's proposed natural gas rate design modifications should be accepted.

455 (51) Avista should be authorized and required to make a compliance filing in these consolidated dockets to recover in prospective rates its revenue deficiency, shown in Appendix B, of approximately $13.6 million for electric operations and its revenue deficiency of approximately $8.1 million for natural gas operations, with showing amortizations of AFUDC Deferral and Tax Customer Credit to exactly offset each rate class for two years.

456 (52) The Commission Secretary should be authorized to accept by letter, with copies to all Parties to this proceeding, filings that comply with the requirements of this Order.

457 (53) The Commission should retain jurisdiction over the subject matter and the Parties to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

458 (1) The proposed tariff revisions Avista Corporation, d/b/a Avista Utilities, filed in these dockets on October 30, 2020, and suspended by prior Commission order, are rejected.

459 (2) Avista Corporation, d/b/a Avista Utilities, is authorized and required to make compliance filings in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Order.

460 (3) The Commission Secretary is authorized to accept by letter, with copies to all Parties to this proceeding, filings that comply with the requirements of this Order.

461 (4) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective September 27, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

SEPARATE STATEMENT OF COMMISSIONER BALASBAS

DISSENTING IN PART

462 Regarding the majority's decision to disallow rate recovery for SmartBurn, I respectfully disagree with my colleagues that the costs were not prudently incurred. As the Company points out in its rebuttal testimony, this is a different record than what the majority decided in the 2019 Puget Sound Energy GRC.[438] There is more documentation in this record to support the decision to invest in SmartBurn than what was presented in the 2019 PSE case.

463 I would have approved for recovery the SmartBurn costs as proposed by the Company in today's Order. The Idaho Public Utilities Commission litigated and deemed Avista's investment in SmartBurn prudent and I see no reason why this Commission should not do the same.[439] However, that is unfortunately now not the case for two of our regulated electric utilities. The Company will incur a substantial write-off for an investment that is used and useful to Washington ratepayers.

464 We should incentivize actions that reduce emissions rather than create barriers by disallowing cost recovery. I find it especially ironic and disingenuous that parties in this case who constantly decry the emissions created by the Colstrip plant would oppose investments and tools to reduce those very emissions they worry about.

JAY M. BALASBAS, Commissioner

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[438] Thackston, Exh. JRT-12T at 2:28-30.

[439] *Id.* at 4:9-12.

APPENDIX A

MULTIPARTY PARTIAL SETTLEMENT STIPULATION

APPENDIX B

ADJUSTMENTS TO REVENUE REQUIREMENT