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EXHIBIT: ACC-18T
ADMIT ☑ W/D ☐ REJECT ☐

BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILIITES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NOS. UE-200900 and UG-200901

CROSS-ANSWERING TESTIMONY OF ANDREA C. CRANE
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT

EXHIBIT ACC-18T

May 28, 2021

CROSS-ANSWERING TESTIMONY OF ANDREA C. CRANE

DOCKET NOS. UE-200900 and UG-200901

EXHIBIT ACC-18T

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard, #401, Ft. Lauderdale, Florida 33308.

Q. Did you previously file testimony in this proceeding?

A. Yes, on April 21, 2021, I filed Response Testimony on behalf of the Washington Office of Attorney General, Public Counsel Unit ("Public Counsel") regarding Avista Utilities' ("Avista" or "Company") rate case petition, which sought increases in its base rates for electric and gas distribution services. In my Response Testimony, I recommended that the Washington Utilities & Transportation Commission ("Commission") reject the Company's requested base rates increases of $44.183 million and $12.270 million for electric and natural gas utility services respectively. Instead, I recommended increases of $7.225 million for electric and of $4.007 million for natural gas. In addition, I recommended that certain accumulated deferred income taxes, including the associated excess deferred income taxes, be returned to ratepayers over a period of seven to eight years.

Q. What is the purpose of your Cross-Answering Testimony?

A. The purpose of my Cross-Answering Testimony is twofold. First, I respond to the amortization periods recommended by Staff Witness Betty A. Erdahl for certain accumulated and excess deferred income taxes, which the Company is proposing to flow through to ratepayers in this case. Second, I present an update to my revenue requirement recommendations, based on updated 2020 employee benefit expense information.

II. DISCUSSION OF THE ISSUES

A. Amortization of Accumulated and Excess Deferred Income Taxes

Q. Please summarize the Company's request with regard to the flow-through of accumulated and excess deferred income taxes.

A. On March 11, 2021, Avista received authorization from the Commission to flow-through, instead of normalize, certain tax benefits associated with Industry Director Directive No. 5 ("IDD No. 5") and meters, and to defer the associated change in tax expense and future annual benefits.[1] In granting this authorization, the Commission deferred certain ratemaking issues to this base rate case. In this proceeding, Avista proposed to amortize the December 31, 2020 balance of accumulated deferred federal income taxes related to meters and IDD No. 5 over 1.25 years for its electric utility and over two years for the gas utility, in order to offset its proposed base revenue increases. Avista proposed to return future accumulated deferred income taxes associated with meters and IDD No. 5 over a 10-year period.

Q. What did you recommend with regard to the flow-through period?

A. For the initial December 30, 2020 accumulated and excess deferred income tax balances,

[1] *For an Accounting Order Approving Accounting Change to Flow-Through Method for Regulatory Purposes for Federal Income Tax Expense associated with Industry Director Directive No. 5 and Meters; and Defer Benefits Associated with the Change in Tax Expense and Future Annual Benefits,* Docket Nos. UE-200895 and UG-200896, Order 01: Granting Accounting Petition (Mar. 11, 2021).

I recommended that the Commission adopt an amortization period that will offset any electric or gas revenue increases in this case. Based on my recommended revenue requirement increases, this would result in an amortization period of between seven to eight years. My recommendation applied to the entire December 31, 2020 balance of accumulated deferred income taxes, including the excess deferred income tax balance resulting from the reduction in the corporate tax rate that was effective January 1, 2018.

Q. What period of time did Staff Witness Erdahl recommend?

A. Ms. Erdahl recommended that excess deferred income taxes be flowed-through over a period of one year.[2] With regard to other accumulated deferred income taxes, Ms. Erdahl recommended that these amounts be returned to ratepayers over the lives of the underlying assets, which is approximately 34 years for IDD No. 5 and approximately 15 years for meters.

Q. Do you have any concerns about the amortization periods recommended by Ms. Erdahl?

A. Yes, I do. With regard to accumulated deferred income taxes, which Ms. Erdahl recommends be amortized over the useful life of the underlying assets, her recommendation will result in the same ratemaking impact as if the Company was still normalizing these deferred tax balances. Therefore, under Staff's recommendation, ratepayers will not enjoy the benefits of flow-through treatment. As I stated in my

[2] Direct Testimony of Betty A. Erdahl, Exh. BAE-1T, at 12.

Response Testimony, flow-through ratemaking treatment can return these tax benefits to ratepayers sooner than normalization. In addition, with flow-through, ratepayers have the potential to benefit from tax deductions at the same time that the Company actually takes the deduction, or at least closer in time than under normalization. For any given asset, flow-through provides ratepayers with this tax benefit in the early years when the associated rate base is high, and therefore the flow-through of these tax benefits can mitigate the rate impact when it is needed most. Finally, given the time value of money, these tax benefits are more valuable the sooner they are received. For all these reasons, I recommend that the Commission adopt an amortization period that is significantly shorter than the remaining life of the underlying assets. Otherwise, flow-through will provide no financial benefit to ratepayers.

Q. Please comment on Ms. Erdahl's recommendation that excess deferred income taxes be flowed-through in one year.

A. Unlike my concern regarding Staff's recommendation for other accumulated deferred income taxes, discussed above, I believe that Staff's recommendation to flow-through excess deferred income taxes over one year is too short. Flowing back the excess deferred income taxes over one year will require an effective rate increase of $10.3 million for electric customers and of $4.8 million for gas customers after one year, when the amortization expires. In addition, the Biden Administration recently announced the American Jobs Plan which includes a proposal to raise the federal corporate income tax rate.[3] While the final outcome of such legislation is unknown, there is at least a realistic possibility of an increase in the federal corporate income tax rate over the next year or so. If the corporate income tax rate increases, Avista may find itself with deficient deferred income taxes, or a deferred tax asset that would need to be funded by ratepayers. Given the uncertainty surrounding future corporate income tax rates, as well as the impact of rate shock, I recommend that the Commission amortize the excess deferred federal income taxes over a longer period than the one year recommended by Staff.

Q. Do you continue to recommend that the Commission utilize a period of seven to eight years for all December 31, 2020 accumulated deferred income tax balances, including excess deferred income taxes?

A. Yes, I do. I believe that this recommendation provides a benefit to ratepayers while mitigating future rate impacts. Therefore, I continue to recommend that the Commission adopt an amortization period of seven to eight years for all December 31, 2020 accumulated deferred income tax balances, including excess deferred income taxes.

B. Employee Benefits Expense (3.06)

Q. What level of Employee Benefits Expense did you reflect in your Response Testimony?

A. The revenue requirement recommendations developed in my Response Testimony were

[3] Press Release, White House, Fact Sheet: The American Jobs Plan (Mar. 31, 2021), available at https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/.

based on the Company's actual employee benefits expense for the Test Year ending December 31, 2019, instead of on the projected 2022 costs included by Avista in its claim. However, I indicated in my Response Testimony that I would have no objection to the Commission utilizing actual 2020 employee benefit costs once the actual costs were provided, assuming that the actual 2020 costs were otherwise representative of normal operating conditions.[4]

Q. Have you received and reviewed the actual 2020 employee benefit expense data?

A. Yes, the Company provided the actual 2020 employee benefit expense data in response to Public Counsel Data Request No. 315.[5] Although this response was received on April 15, 2021, it was received too late to incorporate into my revenue requirement recommendations. I have now reviewed the response and updated my recommendations accordingly.

Q. What is the impact of using the actual 2020 employee benefit expense cost?

A. Including the actual 2020 employee benefit expense cost results in an increase in my revenue requirement recommendations. For the electric utility, this update results in an electric base revenue increase of $8.500 million, instead of the $7.225 million increase reflected in my Response Testimony. For the gas utility, the updated revenue increase is $4.396 million, instead of the $4.007 million in my original testimony. For ease of presentation, I have submitted a full set of updated schedules, although the only change I

[4] Response Testimony of Andrea C. Crane, Exh. ACC-1Tr, at 25, n.21.
[5] Andrea C. Crane, Exh. ACC-17, Avista Response to Public Counsel Data Request No. 315.

have made is to the employee benefit expense adjustment.[6] These revised exhibits replace the schedules previously filed with my response testimony.

Q. Does this complete your testimony?

A. Yes, it does.

[6] Errata and Revised Versions of the Exhibits of Andrea C. Crane (May 24, 2021).