WUTC DOCKET: UE-200900 UG-200901 UE-200894
EXHIBIT: AIW-1T
ADMIT ☑ W/D ☐ REJECT ☐

Exh. AIW-1T
Dockets UE-200900, UG-200901,
UE-200894
Witness: Amy I. White

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, UE-200984 (*Consolidated*)**

TESTIMONY OF

Amy I. White

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Advanced Metering Infrastructure (AMI)
Wildfire Mitigation Deferral
Wildfire Mitigation Plan

April 21, 2021

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Amy I. White, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is Amy.White@utc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Energy Regulation Section of the Regulatory Services Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2007.

Q. Please state your qualifications to provide testimony in this proceeding.

A. I have a Master's degree in Public Administration as well as a Master's degree in Business Administration from City University of Seattle, and a Bachelor's degree in accounting and business administration from the University of Washington. I attended the National Association of Regulatory Utility Commissioners' Annual Regulatory Studies Program in August 2007, the Western Utility Rate School sponsored by Michigan State University in May 2008, and have attended other sector-specific workshops, trainings, and conferences during my employment by the Commission.

Q. Have you testified previously before the Commission?

A. I previously filed testimony in Docket UW-101818 regarding Cristalina Water, LLC, in Dockets UW-110107 and UW-110220, both concerning Summit View Water Company, in Dockets UE-170485 and UG-170486, general rate cases filed by Avista Corporation ("Avista" or "Company"), and in Dockets UG-170929 and UG-200568, general rate case filings by Cascade Natural Gas Corporation.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the scope and purpose of your testimony?

A. I address two issues, Avista's costs and investments in Advanced Metering Infrastructure (AMI) and its Wildfire Resilience Plan. In the course of doing so I address three sets of adjustments.

In terms of those adjustments, I first address Restating Adjustments 1.04 E-AMI and 1.04 G-AMI, Remove AMI Rate Base, which remove retired Automatic Meter Reading (AMR) rate base and associated expenses and deferrals as previously ordered**.**

I then address Pro Forma Adjustments 3.16 E-AMI and 3.16 G-PAMI, AMI Capital Additions and Regulatory Amortization, which involve the Company's investment in AMI.

Finally, I testify about both the Company's deferral Petition in Docket UE-200894 related to the Company's Wildfire Mitigation Plan in which the Company requested to defer operating and maintenance (O&M) expenses for the nine months of January 1, 2021 through September 30, 2021, and the Company's Pro Forma Adjustment 3.17 E-WF, Wildfire Plan. Adjustment 3.17 seeks ratemaking treatment for 12 months' worth of pro forma O&M expenses estimated for October 1, 2021 through September 30, 2022, and 17 months' worth of capital expenses for the time period August 1, 2020, through December 31, 2021, including both actual costs and cost estimates. Notably, the Company incurred O&M expenses during calendar year 2020 that it has not sought to recover in rates.

Q. Please provide a summary of your conclusions and recommendations.

A. I do not contest Avista's AMI Adjustments 1.04 and 3.16, as updated by Avista through discovery, but do modify the dollar amounts involved due to use of Staff's proposed capital structure rather than the Company's. I disagree with the Company's proposals for a Wildfire Plan O&M cost deferral and for inclusion of its Adjustment 3.17 Wildfire pro forma adjustment in rates, but offer a Staff proposal for a pro forma adjustment related to Avista's Wildfire Plan.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I have prepared Exhibits AIW-2 through AIW-13.

- Exh. AIW-2 shows Staff's calculation related to adjustments 1.04 E-AMI and G-AMI, Remove AMI Rate Base.

- Exh. AIW-3 shows the Attachment A summary calculations for the Company's filing which updated rate base additions through January 2021 regarding adjustments 3.16 E-AMI and 3.16 G-PAMI, Pro Forma AMI Capital Additions, in its updated response to UTC Staff Data Request No. 107 as filed on March 9, 2021.
- Exh. AIW-4 shows the Attachment B background accounting data for the Company's filing which updated rate base additions through January 2021 for adjustments 3.16 E-AMI and 3.16 G-PAMI, filed on February 26, 2021.
- Exh. AIW-5 shows the Attachment C update that includes the Company's revised calculations for cost savings, including its updated calculation regarding the "last knock rule" which affects realized cost savings from AMI filed on February 26, 2021.
- Exh. AIW-6 shows Avista's updated response to UTC Staff Data Request No. 107, Supplemental 3, as filed on March 9, 2021.
- Exh. AIW-7 shows Staff's calculation related to adjustments 3.16 E-AMI and 3.16 G-PAMI, Pro Forma AMI Capital Additions (gas).
- Exh. AIW-8 shows the Company's response to Public Counsel Data Request 143, regarding the remaining number of meters left to install in the AMI project.
- Exh. AIW-9 shows the Company's response to UTC Staff Data Request No. 61, actual calendar year 2020 O&M spending related to the Wildfire Plan for its entire system.

- Exh. AIW-10 shows Staff's calculation of Wildfire O&M allocated to Washington for the calendar year 2020.
- Exh. AIW-11 shows the Company's response to UTC Staff Data Request No. 107, updating its Wildfire spending for the calendar year 2020.
- Exh. AIW-12 show's Staff's calculation of total Wildfire spending (both O&M and capital) for the calendar year 2020.
- Exh. AIW-13 shows Avista's Response to Public Counsel Data Request No. 256, which discusses the need to refine Avista's cost estimates related to its Wildfire Plan upgrades.
- Exh. AIW-14 shows Avista's Response to AWEC Data Response No. 28, which shows Avista's planned completion date of June 30, 2021, for nearly all Advanced Metering Infrastructure (AMI) project elements.
- Exh. AIW-15 shows Avista's Response to AWEC Data Response No. 29, which shows that approximately 300 installations related to AMI remain as of March 22, 2021.
- Exh. AIW-16 shows Avista's Response to AWEC Data Response No. 106, which shows the Company's actual numbers of AMI meters installed as of December 31, 2020, reported by customer class.

III. ADVANCED METERING INFRASTRUCTURE (AMI)

A. AMI Background

Q. Please provide background on the Company's AMI project.

A. The Company's AMI project is substantially complete. This project, begun in 2015, has replaced approximately 261,000 electric meters and 153,000 natural gas meters.[1] The issue has been before the Commission repeatedly, first in Dockets UE-150204 and UG-150205, when the Commission deemed it was "not [yet] ripe for" Commission "determination."[2] In January 2016, in Docket UE-160100, the Company filed a petition seeking an order authorizing deferred accounting treatment of the remaining undepreciated net book value of its existing electric meters. Avista ultimately amended this petition to include the natural gas meters and to allow deferral of unrecovered book values of the existing meters upon removal. The Commission approved the amended petition upon the condition that Avista had to execute contracts with vendors and move forward with the project.[3] The Commission also approved the deferral of depreciation expense and carrying charges at the FERC rate associated with the new meters as they were installed in Dockets UE-170327 and UE-170328.[4]

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[1] Exh AIW-8, Avista's response to PC Data Request 143.
[2] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-150204 & UG-150205, Order 05, 71, ¶ 199 (Jan. 6, 2016).
[3] *In re Petition of Avista Corp.*, Docket UE-160100, Order 01, 5, ¶ 18 (Mar. 15, 2016).
[4] *In re Petition of Avista Corp.*, Dockets UE-170327 & UG-170328, Order 01, 1-2, ¶ 3, 5, ¶ 26 (Sept. 14, 2017).

Q. Has the Commission recently provided guidance about what it expects from utilities seeking to recover AMI costs?

A. In Docket UE-190529, the Commission urged Puget Sound Energy (PSE) to "take great strides to ensure that both the Company and its customers receive maximum value from its AMI system"[5] and directed PSE's attention to a Utility Dive article which listed six basic use cases: Time-of-use rates; real-time energy use feedback for customers; behavior-based programs; data disaggregation; grid-interactive efficient buildings; and CVR or volt/VAR optimization.[6] The Commission expressed its interest in PSE's analysis of how AMI provided customer benefits in those six cases.[7] Because PSE had not yet demonstrated AMI's benefits, the Commission authorized PSE to recover the *return of* its investment in AMI, but required it to continue to defer the *return on* that investment.[8]

B. Avista's Filing And Its Update

Q. Does Avista's general rate case filing include adjustments for AMI related costs and investments?

A. Yes, two, in fact. The first is Restating Adjustment 1.04; the second is Pro Forma Adjustment 3.16. Each is applicable to both electric and natural gas operations.

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[5] *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, Order 08, 50 ¶ 157 (July 8, 2020) (hereinafter "PSE Order").
[6] *Id.*
[7] *Id.*
[8] *Id.* at 49, ¶ 156.

Q. Please describe Restating Adjustments 1.04 E-AMI and 1.04 G-AMI, Remove AMI Rate Base.

A. These two adjustments remove electric and natural gas AMR rate base and expense that were included in the Company's test year ending December 31, 2019, on an average of monthly averages (AMA) basis. The difference between the Company's proposed adjustments and Staff's recommendation, which I set out below, results from the use of Staff's proposed capital structure.

Q. Please describe Staff's Pro Forma Adjustments 3.16, E-AMI and 3.16, G-AMI, AMI Capital Additions and Regulatory Amortization.

A. These adjustments add the Company's AMI rate base, amortize the regulatory asset associated with the old AMR meters, increase depreciation to reflect ongoing expense related to the new meters, and reduce expenses to reflect offsets to costs such as the reduction in costs related to meter reading. Again, the difference between the Company's proposed adjustments, as revised, and Staff's recommendation, also set out below, results from the use of Staff's proposed capital structure.

Q. In its filing, has Avista attempted to analyze the use cases noted by the Commission in the PSE order?

A. Yes. In Exhibit JDD-2, the Company provided the results of analysis for each of the Utility Dive use cases cited by the Commission in the PSE case. Avista's analysis showed benefits in five of the six use cases with the sixth, data disaggregation, being integrated among the other benefits.[9]

Q. Has the Company updated its filed case related to its AMI project?

A. Yes, Avista filed revisions to the workpapers it used in preparing its AMI adjustments when it responded to UTC Staff Data Request No. 107. These updates included actual costs through January 2021 and also made adjustments for Avista's decision not to install natural gas meters in some of its natural-gas-only territories.

Q. Did you include these updates as exhibits to your testimony?

A. Yes. The Company updated its cost information in three attachments to its responses to Data Request No. 107. Exh. AIW-3 shows the Attachment A summary calculations for the Company's filing, which updated rate base additions through January 2021 regarding adjustments 3.16 E-AMI and 3.16 G-PAMI, Pro Forma AMI Capital Additions. Exh. AIW-4 shows the Attachment B background accounting data for the Company's filing. And Exh. AIW-5 shows the Attachment C update that includes the Company's revised calculations for cost savings, including its updated calculation regarding the "last knock rule," which affects the cost savings realized from AMI. Exhibit AIW-6 shows Avista's Supplemental response to Data Request No. 107, which updates the Company's adjustment.

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[9] DiLuciano, Exh JDD-2 at 10-11.

C. Ratemaking Treatment

Q. Do you contest Avista's Restating Adjustment 1.04 or Pro Forma Adjustment 3.16?

A. No. I reviewed and do not contest Restating Adjustments 1.04 E-AMI and 1.04 G-AMI, Remove AMI Rate Base. I also reviewed and do not contest Pro Forma Adjustments 3.16, AMI Capital Additions and Regulatory Amortization, as updated by the Company using amounts included in its second response to Data Request No. 107. However, as discussed below, Staff recommends that the Commission accept Staff's revised adjustments 1.04 and 3.16 to reflect Staff's proposed rate of return.

Q. Before turning to Staff's adjustments, given that Avista's installation of AMI is not yet complete, why does Staff not oppose its inclusion in rates?

A. In Docket UE-190529, the Commission instructed PSE to continue to defer costs related to its ongoing AMI installation until the project is complete.[10] Staff views Avista's project as effectively complete, although it cannot pass judgment on costs incurred past January 2021 as those costs are currently projected. But those costs should be very small in context of the project as a whole. Avista estimated the project to be 98 percent complete as of September 1, 2020, when the Company estimated that only 20,000 meters remained to be installed.[11] The Company also updated its cost projections in February 2021 to reflect its decision not to install approximately 17,500 AMI meters in areas in its natural-gas only service territories,

[10] PSE Order at 49 ¶ 155.
[11] DiLuciano, Exh-JDD-2 at 1.

leaving the AMR meters in place in those areas.[12] By December 31, 2020, meters installed by customer class ranged from 99.8% complete to 100% complete. [13]As of March 22, 2021, the Company states approximately 300 meters remain to be installed.[14] Finally, Avista reiterated its plans to be essentially 100 percent complete with the AMI installation project by June 30, 2021, in its responses to AWEC Data Request No. 28[15] and AWEC Data Request No. 106.[16]

Q. Does Staff have any other ratemaking concerns related to the delay in including Avista's AMI investment in rates?

A. Yes. A further delay in including the AMI rate base in the Company's rates will unnecessarily increase the cost of the *return on* the rate base, thus increasing costs to ratepayers.

Q. Have you prepared revised restating adjustments related to Restating Adjustments 1.04, E-AMI and G-AMI, Remove AMI Rate Base?

A. Yes. Exhibit AIW-2 shows the calculation for both electric and natural gas.

Q. What effects do Staff's adjustments have?

A. Staff's adjustment decreases net operating income by approximately $260,000 and decreases the revenue requirement by approximately $4.2 million for electric. The

[12] Exh. AIW-8, Response to Public Counsel Data Request No. 143, paragraph j.
[13] Exh. AIW-16, Response to AWEC Data Request No. 106.
[14] Exh. AIW-15, Response to AWEC Data Request No. 29.
[15] Exh. AIW-14, Response to AWEC Data Request No. 28.
[16] Exh. AIW-16, Response to AWEC Data Request No. 106.

gas adjustment decreases net operating income by approximately $99,000, and decreases the revenue requirement by approximately $1.6 million.

Q. Have you prepared revised pro forma adjustments related to Pro Forma Adjustments 3.16, E-AMI and 3.16 G-PAMI, AMI Capital Additions and Regulatory Amortization?

A. Yes. Exh. AIW-7 shows the calculation for both electric and natural gas.

Q. What effects do Staff's adjustments have?

A. Staff's adjustment decreases net operating income by approximately $7.1 million, and increases the revenue requirement by approximately $17.7 million for electric. The gas adjustment decreases net operating income by approximately $2.5 million, and increases the revenue requirement by approximately $6.4 million.

Q. Does Staff recommend that the Commission take any other action regarding Avista's AMI project?

A. Yes. The record does not currently contain Avista's actual post-January 2021 AMI investment. Staff recommends that the Commission require the Company, via a bench request, to further update actual cost data through July 2021. This update should occur prior to the rate effective date so that the Commission may verify that the project is complete and all investment that Avista seeks to recover in rates in this case is both known and measurable and used and useful and offset by any savings resulting from the installation of the meters.

IV. WILDFIRE PLAN COSTS DEFERRAL AND WILDFIRE PLAN PRO FORMA ADJUSTMENT

A. Wildfire Operations And Maintenance Costs Deferral, Docket UE-200894

Q. Please provide background on this issue.

A. On October 30, 2020, Avista filed a Petition for An Accounting Order Authorizing Accounting and Ratemaking Treatment of Costs Associated with The Wildfire Resiliency Plan (Petition) which asked for permission to defer O&M costs to be incurred January 1, 2021, through September 30, 2021, the suspension period in the pending rate case. The Commission consolidated the Petition with Avista's general rate case filings on December 23, 2020.

Q. What information did the Company file with its Petition?

With the Petition, Avista filed a suite of documents,[17] developed with a cadre of internal and external subject matter experts, which constitute a plan to harden the Company's grid and increase its resiliency in the face of climate change while presumably also making the system more resistant to utility-caused wildfires. These identical documents were filed again in the general rate case docket by Avista

[17] The documents included Avista's Wildfire Resiliency Plan, dated May 2020; a Wildfire Risk Analysis Summary (Actions Under Consideration), dated September 2019; a Wildfire Resiliency Cost Forecast, dated January 2020; a transmission and distribution system map with Wildland Urban Interface (WUI) Risk gradings shown; and a Communications Plan related to the wildfire plan.

witness David Howell as his exhibits 2 through 6. The Petition also includes a statement, among several other similar statements, that "Avista would seek a prudence determination and recovery method of the deferred costs in a future Commission proceeding."[18]

Q. Please give a brief overview of the Company's Wildfire Plan.

A. Avista's Plan focuses on the following objectives:

- Protect lives and property;
- Ensure emergency preparedness and align operating practices with fire threat conditions, and;
- Protect Avista's energy delivery infrastructure.[19]

Q. What actions does Avista propose to achieve its stated areas of focus?

A. In its plan, Avista seeks to increase investment in four primary areas:

- Enhanced vegetation management, including digital data collection/visualization of power lines; more work with fuel reduction partners, such as the Department of Natural Resources; standardizing rights-of-way; and increased danger tree removal.
- Improved situational awareness, including development of more local weather monitoring stations; improved recloser communications; and the installation of SCADA technology on all its substations.

[18] *In re Petition of Avista Corp.*, Docket UE-200894, Petition of Avista Corp., 1, ¶ 1 (Oct. 30, 2020) (hereinafter "Petition").
[19] *Petition* at 5, ¶ 6.

- Operations Toolkit: increased training for and with emergency responders; subscription to a national fire ignition tracking and notification system; and several smaller projects.
- Grid Hardening and Dry Land Management: increased transmission patrols; use of fire mesh wrap to protect poles; additional reclosers; and increased grid hardening, including a move from wooden poles to steel and replacement of wooden crossarms with fiberglass ones to prevent pole files. Increased grid hardening accounts for nearly half the Wildfire Plan capital spending outlay.[20]

Q. Along with the O&M costs Avista sought to defer in its Petition, did the Company file to recover other costs related to the Wildfire Plan?

A. Yes. Avista also seeks ratemaking treatment for O&M and capital costs in its general rate case. Staff will discuss these costs below, but notes that the piecemeal nature of the requests lends complexity to the filing.

Q. What action does Staff recommend regarding the Company's Petition to defer O&M expenses?

A. Staff recommends the Commission deny the Petition for the January through September 2021 O&M expenses. Staff instead recommends that the Commission pro form O&M expenses incurred in calendar year 2020 into rates, as discussed later in this testimony.

[20] *Petition* at Attachment C, 2-3.

Q. Please explain why Staff recommends that the Commission deny the deferral Petition.

A. Staff does not believe the Petition meets the Commission's standards for deferring costs.

Q. Why not?

A. A deferral involves removing costs from one period and then including them in another for rate recovery. Doing so disturbs the relationship between costs and potential savings in the year in which the costs were incurred, potentially resulting in an overstated or understated revenue requirement and rates that are not fair, just, reasonable, or sufficient. The Commission has therefore required a showing of extraordinary circumstances[21] involving material costs[22] before approving a deferral.

Q. Are there extraordinary circumstances supporting the Company's Petition?

A. Yes and no. Avista attributes the urgency of the situation requiring additional hardening of its grid for wildfire resiliency to climate change and worsening wildfire conditions in the West, which is clearly beyond the Company's control. However, *the way in which Avista chooses to respond* to this urgency *is* within the Company's control. A ten-year grid hardening project, while urgent, does not fit the pattern of occurrences that the Commission has considered extraordinary, even though the Wildfire Plan generates costs that have a material impact on the utility's financial

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[21] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Dockets UE-140762, UE-140617, UE-131384, UE-140094, Order 08, 114, ¶ 273 (Mar. 25, 2015).
[22] *Wash. Utils. & Transp. Comm'n v. Nw. Natural Gas Co.,* Docket UG-080519, Order 01, 3, ¶ 7 (May 2, 2008).

results. These are long-lived assets that will be upgraded over a reasonably long timeframe, not all at once over a very short time under exigent circumstances.

Q. Are there other reasons to deny the Petition?

A. Yes. The Commission can deal with Avista's request without resorting to extraordinary ratemaking devices. Staff's proposal, which the Commission should adopt, includes the actual 2020 O&M expense amount in rates as a pro forma adjustment, which took place immediately after the test year, compensating the Company for ongoing work as it continues its Wildfire Plan. With O&M costs embedded in rates, deferring O&M costs becomes unnecessary and the request for the Petition becomes moot.

Q. Has Avista filed a similar petition with another commission?

A. Yes. In May 2020, Avista filed a nearly identical petition with the Idaho Public Utilities Commission (IPUC) seeking permission to defer all costs for Idaho's share of the Wildfire Plan in Case No. AVU-E-20-05.

Q. Has the Idaho filing reached a resolution?

A. Yes. The IPUC authorized the following treatment for the Wildfire Plan expenses allocable to Idaho:

- Deferral of incremental O&M expenses without any carrying charge;
- Deferral of monthly depreciation expenses on capital items without any carrying charge, and;

- When the capital items are included in plant in service during the next GRC, the Company may collect a return on the rate base.

Q. Does Staff propose an alternative means of handling the Wildfire O&M costs Avista would defer?

A. Yes. As I mentioned, Staff proposes including known and measurable Wildfire O&M costs incurred during calendar year 2020 as a pro forma adjustment. I discuss this proposal further below.

B. Pro Forma Adjustment 3.17, Wildfire Mitigation Plan Expenses

Q. What costs did Avista include in Pro Forma Adjustment 3.17, Wildfire Mitigation Plan Expenses?

A. In the rate case, Avista seeks ratemaking treatment for twelve months' worth of pro forma O&M expenses as estimated for October 1, 2021, through September 30, 2022, and 17 months' worth of capital expenses on an AMA basis for the time period August 1, 2020, through December 31, 2021, to include both actual costs (for August 2020 through the end of January 2021, as updated) and cost estimates (for February 2021 through December 2021).

Q. Did Avista propose any extraordinary mechanisms for recovering its Wildfire Plan costs?

A. Yes. The Company proposed a Wildfire Balancing Account to recover the O&M costs as incurred via an annual true-up mechanism.[23]

Q. Before turning to Staff's recommendation about Avista's Wildfire Plan costs, would you like to call to the Commission's attention any other recently-litigated filings including wildfire issues in Northwest states?

A. Yes, the Oregon PUC (OPUC) recently filed a decision[24] which involved a proposal by PacifiCorp for a Wildfire Mitigation and Vegetation Management Cost Recovery Mechanism. PacifiCorp sought to include its 2020 Wildfire Mitigation capital expenditures and its proposed level of 2021 O&M costs in base rates and to recover incremental capital and O&M costs beginning in 2021 through a cost recovery mechanism subject to earnings tests based on performance metrics. These performance metrics were driven by the results of safety inspections performed by OPUC Staff safety inspectors. OPUC Staff also proposed that PacifiCorp employ an independent expert to assist in preparing its Wildfire Mitigation Plan.

Q. How was the Oregon filing resolved?

A. The OPUC authorized a cost recovery mechanism for PacifiCorp's Wildfire Mitigation costs, effective for three years, with annual reporting, performance requirements linked to improved levels of violations as scored by the OPUC's safety

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[23] Andrews, Exh. EMA-1T at 87:16 – 89:19.

[24] *In re PacifiCorp, dba Pacific Power*, Docket UE-374, Order 20-473, 115-25 (December 18, 2020).

inspectors, and reimbursements over a base level in rates at risk. OPUC found that approximately 10 percent of PacifiCorp's proposed level of spending should be at risk, assessed against PacifiCorp's violations history, so that its owners shared in the costs along with the ratepayers, should PacifiCorp not meet performance metrics. PacifiCorp was ordered to engage an independent expert in utility fire risk management to assist in development of its mitigation plan.

In the event that the Commission rejects both Avista's proposed treatments of Wildfire Plan costs (discussed above), which it should, and also Staff's (discussed below), which it should not, it could look to the OPUC's order for alternatives.

Q. Returning now to Avista's filings, what information leads Staff to consider wildfire mitigation as a priority?

A. Staff's research shows that there is certainly a basis for action to mitigate wildfires. North America has been enduring a 20-year megadrought.[25] 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 last year'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.

Q. Does Staff feel wildfire mitigation is necessary?

A. Yes. Staff in no way wishes to diminish either the urgency of the situation regarding

[25] A. Park Williams, Edward R. Cook, Jason E. Smerdon, Benjamin I. Cook, John T. Abatzoglou, Kasey Bolles, Seung H. Baek, Andrew M. Badger, & Ben Livneh,, Large contribution from anthropogenic warming to an emerging North American megadrought, *Science* (April 17, 2020), https://science.sciencemag.org/content/368/6488/314.

wildfire mitigation for our state nor denigrate the effort on Avista's part. Part of the complexity of this filing is the fact that Avista is the first investor-owned utility in Washington to file such a Plan. As such, Avista deserves commendation for taking such a proactive step. A coordinated, consolidated wildfire effort, in concert with the managers of Washington's public lands and the state's emergency responders, Staff believes, is going to be increasingly vital as climate change intensifies. As well, Staff believes that action on this issue should be more than merely hoping for good results from the Company's transmission and distribution system as it is currently configured. High winds and a small failed "c-hook" are blamed for the Camp Fire which killed 84 and destroyed Paradise, California.[26] Undoubtedly Pacific Gas and Electric, the utility company involved, has since regretted its ineffective maintenance and upgrade programs; this is likely a lesson for Washington state as well.

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

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[26] Butte County District Attorney, The Camp Fire Public Report-A Summary of the Camp Fire Investigation, 2-3 (June 16, 2020), https://www.buttecounty.net/Portals/30/CFReport/PGE-THE-CAMP-FIRE-PUBLIC-REPORT.pdf?ver=2020-06-15-190515-977.

Q. Are there other factors that Staff has considered regarding the Petition and Wildfire Plan?

A. Staff believes the wildfire mitigation cost forecasts are still highly nebulous and thus it is impossible to embed a correct amount in rates. For example, the Company predicted 2020 capital spending of $5.265 million,[27] while actual system-wide capital costs related to the wildfire plan were $3.2 million, with $1.7 million allocated to Washington.[28] Staff concedes that 2020 actuals likely have been affected by the Coronavirus Disease 2019 (COVID) pandemic. But, given the ongoing uncertainty related to the pandemic, Staff also finds it unlikely that 2021 spending will rebound to the levels predicted in the Company's Plan. Further, the Company's cost predictions are somewhat in flux, as shown by this comparison of costs as predicted in its original plan (black face) and revised costs from Avista witness Andrews' testimony.

Comparison of Forecasted Costs

From the Company's Original Plan[29]

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Capital	$5,265	$16,985	$27,055	$31,380	$31,380	$31,380	$31,380	$31,380	$31,380	$31,380
Operating	$3,016	$5,154	$6,800	$7,319	$7,337	$6,755	$6,524	$6,042	$5,611	$5,079

From Company Witness Andrews' Testimony[30]

[27] Andrews, Exh. EMA-1T at 84, Table No. 8.
[28] Exh. AIW-12.
[29] Howell, Exh. DRH-4 at 3.
[30] Andrews, Exh. EMA-1T at 84, Table No. 8.

Table No. 8 –Wildfire Annual System Capital Investment & Operating Expense

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

Q. Has Staff considered fairness or equity issues related to the proposal?

Yes. Staff views this issue as analogous to pipeline safety or environmental remediation in that the results provide a social good, a lessened probability of wildfire disaster, that is desirable for all customers. However, Staff also recognizes that *the Company and its owners also reap benefits in making the Company's assets less susceptible to loss* by wildfire while perhaps lowering the Company's potential liability should a wildfire occur. In fact, the Company has made "Protect[ion of] Avista's energy delivery infrastructure"[31] one of the primary objectives of the Wildfire Plan. Thus, Staff feels it is unfair to place the entire burden for all costs on the ratepayers and that the Company and its stockholders should contribute toward costs as well. If stockholders share costs, they will share an interest in keeping the Company's accountable in executing the Wildfire Plan. Any difference between Staff's proposed pro forma adjustment using 2020 actuals and whatever future spending does force the Company to invest its own funds to some degree, which addresses these equity issues.

Q. Has the Company estimated offsetting factors that might decrease the impact of the Wildfire Plan costs?

[31] Petition at 5, ¶ 6.

No. Staff is concerned over the Company's current inability to predict costs that may decrease as a result of the Wildfire Plan spending, such as decreased line patrols, less tree trimming as problem trees are removed during the program, and fewer fire responses. Benefits from these expense reductions should accrue to ratepayers if they are paying the expenses that generate these savings. The Commission should order Avista to report on offsetting savings if the Commission orders any annual reporting by the Company about its Wildfire Plan. Savings should be netted against identified costs if any kind of true-up mechanism is adopted.

Q. Does Staff recommend that the Commission accept Avista's Adjustment 3.17?

A. No.

Q. Why does Staff oppose the Company's position regarding Adjustment 3.17?

A. The Company's proposal does not meet the Commission's guidance regarding pro forma adjustments. Costs as proposed are not yet known and measurable. There are no offsetting expense adjustments to account for savings realized because of the expenses incurred. The estimated capital items are not in service by the rate effective date and thus not used and useful by then. While the costs involved are part of a programmatic series of investments stretching over at least ten years, the Company has not identified the Wildfire Plan spending as a provisional pro forma adjustment as required by the applicable Commission policy statement.[32] Staff finds the multiple time periods for which the Company seeks recovery, along with the Petition seeking

[32] *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, 7, ¶ 20 (Jan. 31, 2020).

deferral of the suspension period O&M costs to be arbitrary and confusing, especially in light of Avista's assertion in its Petition that it would seek prudence in a later general rate case.[33]

Q. What ratemaking treatment does Staff recommend for Avista's Wildfire Plan costs?

A. Staff supports the inclusion of a pro forma adjustment, comprised of known and measurable amounts spent in calendar year 2020 for both capital and O&M items, in rates. This includes approximately $1.6 million in used and useful plant transferred to service by December 31, 2020, and O&M costs of approximately $1.5 million. Staff acknowledges that the 2020 actual O&M spending amounts are short of the amounts the Company anticipates spending in subsequent years, but Staff feels this shortfall may be compensated for by offsetting factors that the Company has not yet been able to analyze, which Staff has discussed previously.

Q. How did Staff arrive at the total O&M costs involved in its adjustment?

A. The Company updated its filed case in its response to UTC Staff Data Request No. 61, regarding actual Wildfire O&M costs for calendar year 2020, which is included as Staff Exhibit AIW-9. Avista also updated its case in its responses to Data Request No. 107, which is included as Staff Exhibit AIW-11. This response to Data Request No. 107 updated the adjustment with actual cost data for the time period of August

[33] Petition at 1, ¶ 1, 21, ¶47, 21, ¶50, 23, ¶55.

2020 through December 2020. The data in these responses provided Staff with the information needed for its adjustment.

Q. **Have you prepared an adjustment using updated information related to Adjustment 3.17, Wildfire Mitigation Plan?**

A. Yes. Exhibit AIW-10 shows Staff's allocation of O&M costs for 2020 to Washington and Exhibit AIW-12 shows the calculation of both capital and O&M costs for the adjustment.

Q. **What effect does Staff's adjustment have?**

A. Staff's adjustment decreases net operating income by approximately $1.2 million and increases the revenue requirement by approximately $1.7 million.

C. Avista's Proposed Wildfire Balancing Account

Q. **Does Staff support Avista's plan for a balancing account for its ongoing O&M costs?**

A. No.

Q. **Why not?**

A. Avista's balancing account plan embeds O&M estimates into base rates in violation of longstanding Commission principles. The Company's proposed pro forma capital adjustment embeds an especially material estimated amount into rate base and thus into base rates. Avista admitted that it intends to use the 2021 construction season to refine its costs estimates, showing that the amounts proposed by the Company are fundamentally inaccurate. [34] While the cause of wildfire mitigation is worthy, it still must comply with ratemaking standards long in use by the Commission.

Q. What other objections does Staff have to Avista's balancing account proposal?

A. Staff has found it difficult and confusing to separate O&M costs, as proposed by the Company, into "normal operating" and "wildfire mitigation" expense categories. One of the largest components of the plan relates to increased vegetation management. Many of these costs could easily be categorized as statutorily required already and thus a normal operating cost. These costs would – and should - qualify for standard ratemaking treatment, and no extraordinary cost recovery mechanism should be needed.

Q. Is there a specific cost Staff would like to discuss?

A. Yes. Avista's vegetation management or tree trimming has long been a subject rather fraught with controversy. In Docket UE-050482, testimony showed that Avista's tree trimming had dropped to $0 at one point following the energy crisis of 2001-2002.[35] The Company was ordered to increase tree trimming to at least $2.8 million per year and to use a one-way balancing account to ensure this level of spending each year with any unspent funds returned to ratepayers.[36] Avista was again

[34] Exh. AIW-13.
[35] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Docket UE-050482, Testimony of James R. Dittmer, 28:11-29 (Aug. 26, 2005).
[36] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Docket UE-050482, Order 05, 7-8, ¶ 15 (Dec. 21, 2005).

ordered to increase its vegetation management spending to $4.025 million in Docket UE-100467.[37] The Company was also ordered to report annually on tree trimming expense as part of its annual Commission Basis Report (CBR). Subsequent CBRs show the following vegetation management expenses:

Calendar Year	Report Docket UE-	Spending ($Millions)
2011	120447	$5.05
2012	130645	$4.89
2013	140529	$4.85
2014	150698	$4.85
2015	160454	$4.5
2016	170325	$5.0
2017	180354	$5.0
2018	190309	$6.6
2019	200387	$6.4

In testimony filed in this docket, Company witnesses Andrews[38] and Howell[39] both present this confusing note:

> "Wildfire risk tree and other expenditures are incremental to existing vegetation management expenses included in the 2019 test period, with the exception of approximately $265,000 (WA/ID). The calculation of the operating expense included in this case was calculated as follows for the rate year beginning on October 1, 2021: ($3.305 million * 3/12 (2021) + $4.249 million * 9/12 (2022), allocated to Washington and offset by existing vegetation management expense included in the 2019 test period of $184,000 (WA share), totals $4.025 million."

Staff finds the reappearance of the minimum-ordered $4.025 million spending level ordered in Docket UE-100467 arbitrary and confusing after the Company reported test-year tree trimming expenses in Docket UE-200387 of $6.4 million. The $6.4 million in costs are presumably embedded in the test year costs currently under consideration in this filing. Even more difficult to discern is what

[37] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Docket UE-100467, Order 07, 5, ¶ 12 (Nov. 19, 2010).
[38] Andrews, Exh. EMA-1T at 86 n. 58.
[39] Howell, Exh. DRH-1T at 25 n. 8.

part of the expenses should be allocated to "ordinary" O&M and which part to wildfire O&M. The Company has not made its case regarding use of an extraordinary reimbursement methodology and Staff recommends that only known and measurable expenses be embedded in rates.

Q. If the Commission rejects Staff's proposed adjustment, are there alternatives it could consider?

A. Yes, I discuss those below.

D. Alternative Wildfire Mitigation Cost Treatments

Q. Could the Commission adopt another way of dealing with Avista's wildfire costs?

A. Certainly. Staff envisions a number of alternatives to both its wildfire proposal and the Company's. I discuss these in more detail below.

Q. To be clear though, Staff is not recommending that the Commission accept or approve any of these alternatives?

A. No. Staff presents these in the interest of a full discussion of the issue. But Staff views each of these alternatives as less consistent with Commission policy or standards than Staff's recommended adjustment, and thus inferior for ratemaking purposes.

Q. As an alternative to the proposed wildfire adjustments, could the Commission adopt a cost recovery mechanism?

A. Yes. The Commission could consider a cost recovery mechanism (CRM), starting with rate year costs, related to capital costs only with annual reporting and true-up. If the Commission chooses this alternative, Staff does not believe the mechanism balances should accrued interest because the reduced regulatory lag provides sufficient compensation to the Company.

Q. How does this alternative compare with Avista's balancing account?

A. This contrasts with the Company's proposal for an annual Wildfire Balancing account to recover O&M costs only, with capital costs moving into the Company's rates whenever subsequent general rate cases are filed.

Q. Why does Staff believe that the CRM should not include O&M?

A. The CRM should parallel existing CRMs (for example, Cascade Natural Gas's) under the terms of the Commission Policy Statement regarding accelerated replacement of pipelines. Per the Policy Statement, the pipeline "CRM . . . exclude[s]…any incremental changes in operating and maintenance (O&M) expenses…" and plant would move into base rates via a general rate case at the end of the CRM life.[40]

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[40] *In re the Policy of the Wash. Utils. and Transp. Comm'n Related to Replacing Pipeline Facilities with an Elevated Risk of Failure,* Docket UG-120715, Policy Statement, 15-16, ¶ 59-62 (Dec. 31, 2012).

Q. What other features should the alternative CRM include?

A. The alternative should include an annual review to see how closely Avista is adhering to the investment timeline projected in its plan, so that the Company remains accountable. An independent expert should review the plan and its progress, perhaps at the end of the third year, to enhance Avista's accountability, since Staff does not have the luxury of relying upon power line inspector colleagues and violations scores at the Commission, which is the standard for accountability and judgment of amounts at risk for companies at the OPUC. And by the end of the third year, Avista should have a firmer understanding regarding cost savings due to offsetting factors.

Q. What are the merits of a CRM?

A. This mechanism could hasten the Company's work and make the system more resilient against wildfires more quickly, which is a major public benefit. Regulatory lag would be virtually eliminated, which would act as an incentive to the Company. Known and measurable amounts would be used to set rates related to used and useful capital items in the Company's system. And with annual reporting required, the Company would be more accountable for meeting goals from its plan.

Q. Why does Staff recommend that the Commission address wildfire costs with its proposed pro forma adjustment rather that the CRM alternative?

A. Staff's proposed pro forma adjustment using the 2020 actual capital and O&M costs compensates the Company for both facets of its Wildfire Plan and complies with

Commission standards such as known and measurable and used and useful. **Further,** Staff's adjustment adheres to Commission standards regarding the use of known and measurable costs which allows the Company to make a serious start at implementing the Wildfire Plan. Staff's proposed adjustment includes both O&M and capital costs while a CRM would only include capital costs while ignoring O&M costs.

Q. What other alternatives could the Commission use to address ongoing O&M costs related to the Wildfire Plan?

A. If the Commission does not adopt Staff's proposed pro forma treatment, or the cost recovery mechanism just described, Staff recommends that the Commission consider addressing Avista's O&M costs in one of three other ways:

- The Commission could grant the Company's pro forma adjustment, including estimated amounts of approximately $4.4 million O&M and $13.1 million rate base for the rate effective year as filed. The Commission would also have to consider the Company's proposal for a Wildfire Balancing Account to adjust the amount embedded in rates for O&M costs annually if the Commission granted the Company's adjustment as filed.
- The Commission could include the estimated $2.6 million in O&M costs for the suspension period (the costs that were the subject of the deferral Petition), *averaged with* the actual costs of $1.5 million for calendar year 2020 as a pro forma adjustment to rates, which would embed approximately $2 million per year in O&M costs in rates. Capital items could be added to the Company's balance sheet during general rate cases, as per usual Commission practice.

- Finally, the Commission could declare the subject to be not yet ripe, order the Company to defer all costs, and to file for reimbursement in its next GRC.

Q. What are the merits of and arguments against these alternatives?

A. The Company's proposal embeds *only projected spending* for O&M costs during the rate year (September 2021 through August 2022) while *ignoring known O&M spending amounts* incurred during 2020. Its capital adjustment includes *actual* spending August through December 2020 and *projected* amounts for January 2021 through December 2021. The Company's proposal for an annual O&M true-up does mitigate errors related to O&M costs. However, the use of estimates in rate base is especially problematic. In its response to Public Counsel Data Request No. 256 ¶a, which Staff has attached as Exh. AIW-13, the Company acknowledges that its current cost estimates are essentially premature since "Avista plans to use data from the 2021 construction season to help refine the grid hardening cost estimates for both distribution and transmission." Use of estimated capital costs here would effectively guarantee the embedding of incorrect costs in rates. This approach would still require an annual reporting regarding Avista's O&M spending to the Commission which could include updates on Avista's adherence to its plan.

The second alternative proposed in the preceding Q&A, averaging actual and estimated O&M costs, takes advantage of including known and measurable costs to a degree. 2021 costs will likely be higher than 2020 costs as pandemic restrictions ease and the Company gears up to accomplish a full year's work. However, Staff once again chafes at the use of estimates and advocates for the Commission standard of using known and measurable costs, rather than use of this method.

Finally, a full deferral of costs, with reimbursement set at intervals, would give the Commission and ratepayers assurance that costs are known and measurable. Deferral would increase costs, presuming the Commission allows a carrying charge to accrue on these costs. The carrying costs may, however, be offset by the use of actual cost data, rather than estimates. The Company would also have time to develop mature data regarding offsetting amounts (such as decreased tree trimming and line patrol costs) as the plan is carried out, allowing those cost savings to be matched against the Wildfire Plan costs.

Q. Does this conclude your testimony?

A. Yes.