

Exh. ANH-1T
Dockets UE-200900, UG-200901,
UE-200894
Witness: Aimee N. Higby

**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-200894 (*Consolidated*)**

TESTIMONY OF

Aimee N. Higby

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Pro Forma Plant Adjustments 3.11, 3.12, 3.13, 3.14, 3.15

April 21, 2021

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1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Aimee N. Higby, and my business address is 621 Woodland Square
5 Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box
6 47250, Olympia, Washington, 98504-7250. My business email address is
7 aimee.higby@utc.wa.gov.

8

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

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

13

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

15 A. I have been employed by the Commission since October 2018.

16

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

18 A. I earned a Bachelor of Arts degree in History from Columbia University in 2007. I
19 earned a Master of Public Administration degree from Portland State University in
20 2013. Prior to my employment with the Commission, I spent six years at Bonneville
21 Power Administration (BPA), a federal power marketing agency within the U.S.
22 Department of Energy. As a Management and Program Analyst and Public Utilities
23 Specialist, I managed multiple projects across the power and transmission business

1 lines, participated in the execution of power purchase agreements (PPA), developed
2 new PPAs for BPA's Power Services, and analyzed the California Independent
3 System Operator's stakeholder and policy initiatives. While at BPA, I attended the
4 National Association of Regulatory Utility Commissioners Annual Regulatory
5 Studies Program.

6 At the Commission I have been a team member on rulemakings related to
7 distribution system planning and distributed energy resources, in Dockets U-161024
8 and UE-190698.

9
10 **Q. Have you testified previously before the Commission?**

11 A. Yes. I previously testified on pro forma policy and plant additions in Avista
12 Corporation's 2019 general rate case (GRC) Dockets UE-190334, UG-190335 and
13 UE-190222 (consolidated) and Puget Sound Energy's (PSE) 2019 GRC Dockets UE-
14 190529, UG-190530, UE-190274 and UG-190275 (consolidated). I also testified on
15 the Commission's policy on petitions for deferred accounting in PSE's 2019 GRC. I
16 testified on cost of service, rate spread, rate design, and load studies in Cascade
17 Corporation's 2020 GRC, Docket UG-200568.

18

19 **II. SCOPE AND SUMMARY OF TESTIMONY**

20

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

22 A. The purpose of my testimony is to respond to the following electric and natural gas
23 pro forma plant adjustments proposed by Avista:

- 1 • Adjustment 3.11, Customer at the Center
- 2 • Adjustment 3.12, Large and Distinct Projects
- 3 • Adjustment 3.13, Programmatic
- 4 • Adjustment 3.14, Mandatory and Compliance
- 5 • Adjustment 3.15, Short-lived
- 6

7 For electric operations, these five adjustments include 166 distinct “budgeted items”
8 (BIs) spread across 54 “expenditure requests” (ERs). For natural gas operations,
9 these five adjustments include 53 distinct BIs spread across 36 ERs. The projects
10 contained in these five proposed pro forma capital adjustments span the testimonies
11 of five Avista witnesses: Kaylene Shultz, James Kensok, Kelly Magalsky, Heather
12 Rosentrater, and Jason Thackston.

13 My testimony will provide an overview of the Commission’s ratemaking
14 policy standards for pro forma plant adjustments, with a particular focus on (1) the
15 circumstances that historically have warranted the application of a major project
16 threshold and (2) the Commission’s offsetting factors standard. I apply those
17 standards to the projects Avista included in its pro forma plant Adjustments 3.11
18 through 3.15. I also respond to the categories of investment each adjustment purports
19 to capture, with a focused critique of the programmatic investments Avista includes
20 in its proposed Adjustment 3.13.

21

22 **Q. Please summarize your recommendations.**

23 A. I recommend the Commission reject Avista’s attempt to include in its pro forma
24 plant adjustments a large number of relatively small post-test year plant additions. I
25 recommend the Commission instead include only in rates projects and programs in
26 Avista’s Adjustments 3.11 through 3.15 that (1) meet a reasonable definition of

1 “major,” (2) are based off the actual transfer to plant numbers, (3) account for
2 offsetting factors, and (4) for Adjustment 3.13 meet the Commission’s definition of
3 programmatic investments.

4 Staff’s electric Adjustments 3.11 through 3.15 include 16 of the 54 ERs (72
5 of the 166 BIs) Avista included in its request. Staff’s natural gas Adjustments 3.11
6 through 3.15 include 14 of the 36 ERs (27 of the 53 BIs) Avista included in its
7 request.

8 Staff’s Adjustments 3.11 through 3.15 reduce Avista’s electric net operating
9 income (NOI) by \$2,169,000 and produce a revenue requirement impact of
10 \$9,018,000. They reduce Avista’s natural gas NOI by \$724,000 and produce a
11 revenue requirement impact of \$3,011,000.

12 Tables 1 and 2, below, compare the NOI and revenue requirement impacts of
13 Staff’s and Avista’s Adjustments 3.11 through 3.15.¹

14 **Table 1: Avista and Staff Comparison – Electric**

Company Electric Filed vs. Staff Net Operating Income and
Revenue Requirement
(000’s of Dollars)

Adjustment	Company NOI	Company RR	Staff NOI	Staff RR
3.11	\$ (1,404)	\$ 2,775	\$ (1,193)	\$ 2,365
3.12	\$ (238)	\$ 2,608	\$ 118	\$ 445
3.13	\$ (749)	\$ 6,062	\$ 274	\$ 1,222
3.14	\$ (375)	\$ 3,997	\$ (162)	\$ 2,539
3.15	\$ (1,496)	\$ 3,052	\$ (1,206)	\$ 2,447
Total	\$ (4,262)	\$ 18,494	\$ (2,169)	\$ 9,018

¹ Higby, Exh. ANH-2.

Table 2: Avista and Staff Comparison – Natural Gas

Company Filed vs. Staff Net Operating Income and Revenue Requirement
(000's of Dollars)

Adjustment	Company NOI	Company RR	Staff NOI	Staff RR
3.11	\$ (441)	\$ 871	\$ (334)	\$ 666
3.12	\$ (110)	\$ 853	\$ (24)	\$ 642
3.13	\$ (143)	\$ 897	\$ 57	\$ 15
3.14	\$ (150)	\$ 1,489	\$ (80)	\$ 989
3.15	\$ (489)	\$ 983	\$ (343)	\$ 699
Total	\$ (1,333)	\$ 5,093	\$ (724)	\$ 3,011

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

2 **A.** Yes. I prepared Exhibits ANH-2 through ANH-5.

- 3 • Exh. ANH-2 shows the difference between Staff’s proposal and Avista’s for
4 Adjustments 3.11 through 3.15.
- 5
- 6 • Exh. ANH-3 is Avista Workpaper 3.11 Customer at the Center Pro Forma
7 2020 Capital Additions that shows the Company’s filed pro forma budgeted
8 items and “expenditure requests for Adjustments 3.11 through 3.15.
- 9
- 10 • Exh. ANH-4 shows Avista’s responses to UTC Staff Data Requests No. 90,
11 No. 143, and No. 152.
- 12
- 13 • Exh. ANH-5 shows Avista’s response to Staff Data Request 107 for updated
14 transfers to plant for 2020.
- 15

16 **III. PRO FORMA PLANT ADJUSTMENTS 3.11 – 3.15**

17

18 **A. Overview Of Avista’s Proposed Pro Forma Plant Adjustments 3.11 –**

19 **3.15**

20

1 **Q. Please provide a high-level summary of Avista’s pro forma plant Adjustments**

2 **3.11 – 3.15.**

3 A. Each of these five adjustments corresponds to a broad category of plant:

4 1. **Adjustment 3.11, Customer at the Center.** This category includes three BIs
5 (spread across three ERs), the costs of which are allocated to both the electric and
6 natural gas businesses. For electric operations costs range from \$868,638 to
7 \$7,465,489. For natural gas operations costs range from \$272,569 to \$2,342,587.
8 Avista characterizes Customer at the Center as an initiative focused on shifting
9 the Company to being more proactive in creating a customer-centric business
10 model and improving customer loyalty to Avista. Avista witness Magalsky
11 addresses this adjustment.

12
13 2. **Adjustment 3.12, Large and Distinct Projects.** For electric operations, this
14 category includes 18 BIs (spread across nine ERs) ranging from \$14,593 to
15 \$5,321,025. For natural gas operations, this category includes five BIs (spread
16 across five ERs) ranging from \$335,061 to \$4,917,961. This adjustment is
17 comprised of generation, electric transmission and distribution, natural gas
18 delivery and information services/information technology (IS/IT) investments.
19 Avista witnesses Thackston, Rosentrater and Kensok address the ER aggregate
20 projects in this adjustment.

21
22 3. **Adjustment 3.13, Programmatic.** For electric operations, this category includes
23 105 BIs (spread across 23 ERs) ranging from \$89 to \$7,140,381. For natural gas
24 operations, this category includes 22 BIs (spread across 10 ERs) ranging from
25 \$1,501 to \$2,560,293. This adjustment is comprised of generation, electric
26 transmission and distribution, natural gas delivery, general plant, and IS/IT
27 investments. Avista witnesses Thackston, Rosentrater and Kensok address the
28 ER aggregate projects in this adjustment.

29
30 4. **Adjustment 3.14, Mandatory and Compliance.** For electric operations, this
31 category includes 29 BIs (spread across 10 ERs) ranging from \$4,343 to
32 \$11,961,605. For natural gas operations, this category includes 13 BIs (spread
33 across five ERs) ranging from \$2,180 to \$10,226,578. This adjustment is
34 comprised of generation, electric transmission and distribution, and natural gas
35 delivery investments. Avista witnesses Thackston and Rosentrater address the
36 ER aggregate projects in this adjustment.

37
38 5. **Adjustment 3.15, Short-lived.** For electric operations, this category includes 11
39 BIs (spread across 10 expenditure requests) ranging from \$29,751 to \$2,431,706.
40 For natural gas operations, this category includes 10 BIs (spread across 10
41 expenditure requests) ranging from \$205,821 to \$763,042. This adjustment is
42 comprised of IS/IT investments. Avista witness Kensok addresses the ER
43 aggregate projects in this adjustment.

1 For electric operations, these five adjustments include a total of 166 BIs
2 spread across 54 ERs. For natural gas operations, these five adjustments include a
3 total of 53 BIs spread across 36 ERs.

4
5 **B. Staff Response To Avista’s Proposed Adjustments 3.11 – 3.15**

6
7 **1. The Problem Of A Large Number Of Small Projects**

8
9 **Q. What is a “project?”**

10 A. Looking at Avista’s case, it is unclear exactly how a “project” is defined. Following
11 how Avista uses the term “project” is a bit convoluted as the Company uses the term
12 inconsistently throughout the Company’s case, at various times using the term
13 interchangeably with the terms “expenditure request,” “business case,” and
14 “budgeted item.” In the direct testimony of Avista witness Schultz, the Company
15 uses the term “project” as synonymous with a “business case.”² However, in
16 Avista’s pro forma plant exhibits, the Company uses the term “expenditure request”³
17 which seems to be approximately synonymous with the term “business case,” though
18 it is not clear to Staff whether “expenditure request” and “business case” are in fact
19 referring to the same things. Furthermore, the “expenditure requests” in Avista’s
20 exhibits are broken down into “budgeted items,” which Avista also refers to as

² Avista appears to conflate the terms “project” and “business case” in its testimony. *See*, Schultz, Exh. KJS-1T at 10:18-19 (“the Company typically has approximately 120 plus *projects (business cases)* completed on an annual basis[.]”) (emphasis added).

³ Higby, Exh. ANH-2 (showing the Company’s filed pro forma “budgeted items” and “expenditure requests” for Adjustments 3.11-3.15).

1 “projects” and indicates that a “business case” may in fact include multiple
2 “projects.”⁴

3

4 **Q. Can you please recap how many projects Avista included in its pro forma plant
5 Adjustments 3.11 – 3.15?**

6 A. Yes, although the answer depends on what you consider a “project.” If you define a
7 “budgeted item” as a “project,” for electric operations these five adjustments include
8 166 electric projects and 53 natural gas projects. If you define an “expenditure
9 request” as a “project,” these five adjustments include 56 electric projects and 36
10 natural gas projects.

11

12 **Q. Does Staff believe that the Commission should evaluate whether a capital
13 project is major based at the expenditure request or budgeted item level?**

14 A. Staff’s perspective is that neither expenditure requests nor budgeted items reliably
15 capture a distinct capital project. While sometimes it appears that expenditure
16 requests capture distinct capital projects, other times it appears that expenditure
17 requests capture aggregations of individual projects that are distinct from one
18 another. I discuss how Staff approached this problem below.

19

20 **Q. Is it reasonable for Avista to expect Staff and other parties to review so many
21 pro forma projects in a general rate case?**

⁴ Higby, Exh. ANH-4 at 2 (stating “within the 60 Business cases included below, there are approximately 200 specific BI (Budgeted Items) that allow the Company to track and record the *various projects for each business case.*”) (emphasis added.)

1 A. No. A comprehensive examination of just one project is a complicated and time-
2 consuming endeavor. Staff and intervenors check for a multitude of factors to assess
3 if a company met their burden of proof for the inclusion of a project as a pro forma
4 adjustment. It simply is not possible for Staff and other parties to do this for 166
5 electric and 53 natural gas BIs spread across 56 electric and 36 natural gas ERs.
6 From a practical perspective, the number of projects included in Avista’s pro forma
7 plant adjustments must be constrained.

8

9 **Q. Has the Commission recognized that it is unreasonable to expect Staff and other**
10 **parties to review a large number of projects?**

11 A. Yes. In Avista’s 2017 general rate case, the Company sought to pro form 121
12 projects into rates. The Commission rejected those attempts, explaining that “the
13 sheer number of projects in the Company’s initial filing” created “a significant, and
14 nearly prohibitive burden for Staff and the intervening parties to conduct any
15 practical review and audit.”⁵ The Commission ultimately allowed Avista to pro form
16 only 11 projects into rates.

17

18 **Q. How did the Commission limit the number of projects it allowed Avista to pro**
19 **form into rates in that 2017 GRC?**

⁵ *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-170485 & UG-170486, Order 07, 67, ¶ 198 (April 26, 2018) (2017 Avista Order).

1 A. As it has long done in similar circumstances, the Commission applied a cost
2 threshold for major projects.⁶ In that case, the Commission’s application of a major
3 project threshold reduced the number of qualifying projects from 121 down to 11.⁷

4

5 **Q. Has the Commission applied a major project standard to limit the number of**
6 **pro forma adjustments in other recent rate cases?**

7 A. Yes. In PacifiCorp’s 2014 general rate case the Commission rejected pro forma
8 treatment for 25 of the 30 relatively small projects included in the company’s case,
9 noting that “the relative size of many of the Company’s proposed plant additions in
10 this case fall short of any reasonable definition of ‘major[.]’”⁸

11

12 **Q. How does a major project standard benefit the Commission’s decision-making**
13 **process?**

14 A. The Commission has recognized that allowing a company to propose an unlimited
15 number of pro forma adjustments significantly restricts the parties’ ability to
16 meaningfully review pro forma adjustments.⁹ The major project standard allows the
17 Commission to limit the number of adjustments to those that are likely to have a
18 “major” or material impact on the Company’s operations, which allows parties to
19 focus their review of the Company’s proposed adjustments.

20

⁶ *Id.* at 67, ¶ 200.
⁷ *Id.* See also, *id.* at 63, Table 6.
⁸ *Wash. Utils. & Transp. Comm’n v. Pac. Power*, Dockets UE-140762, Order 08, 73, ¶ 170 (Mar. 25, 2015) (2014 Pacific Order).
⁹ See generally, 2017 Avista Order at 55–69, ¶¶ 163–205.

1 **Q. Have recent Commission decisions indicated the Commission has abandoned**
2 **the major project standard?**

3 A. No. The Commission indicated in its final order resolving PSE’s most-recent GRC
4 that it had come to worry that the materiality threshold has become increasingly
5 arbitrary.¹⁰ But it did not abandon the use of a materiality threshold or the major
6 project standard, nor does Staff believe that it should, given the interests that they
7 serve, which I have just described.

8

9 **Q. Are there differences between this case and the PSE case that gave rise to the**
10 **order you just described?**

11 A. Yes. In that case PSE’s pro forma plant adjustments were composed of a total of nine
12 projects or aggregations of projects. In this case, Avista has included 54 electric ERs
13 or aggregations of projects composed of 166 distinct budgeted items and 36 natural
14 gas ERs or aggregations of projects composed of 53 budgeted items.

15 The Commission has endorsed a major project threshold in cases where the
16 utility included an excessive number of projects in its pro forma plant adjustment,
17 and it has declined to do so when it considered the number of projects included to be
18 reasonable. PSE included a reasonable number of projects, Avista has not.

19 Additionally, the Commission stated in the PSE order that it would not
20 “endorse any particular methodology for defining ‘major’ projects” and that it “will
21 evaluate individual adjustments for inclusion in rates on a case-by-case basis[.]”¹¹

¹⁰ *Wash. Utils. and Transp. Comm’n v. Puget Sound Energy*, Dockets UE-190529 & UG-190530, Order 08, 128, ¶ 444 (July 8, 2020).

¹¹ *Id.* at 163, ¶ 560.

1 **2. Determining a Major Project Threshold**

2

3 **Q. What are the Commission’s policy standards with respect to application of a**
4 **major project threshold?**

5 A. When circumstances have warranted, the Commission has applied what Staff views
6 as a “reasonableness” standard. That is, when utilities have included so many
7 projects that it was not reasonable to expect Staff and other parties to perform a
8 comprehensive review of them all, the Commission has used a major project
9 threshold to constrain the number of projects.

10

11 **Q. When circumstances have warranted application of a major project threshold,**
12 **how has the Commission determined what is major?**

13 A. The Commission consistently has declined to endorse a bright-line test for
14 materiality.¹² Rather, the Commission has assessed which projects it considers to be
15 major, on a case-by-case basis, maintaining its flexibility in the application of its
16 standards to the case at hand.¹³

17 However, when application of a standard has been necessary, by and large
18 this has meant passing judgment on the “relative size” of projects contained within
19 an expansive utility request¹⁴ and culling projects that “fall short of any reasonable

¹² The Commission has rejected “bright-line standards governing the timing or the number of adjustments that can be accepted in a given case and has not established a minimum size for pro forma adjustments to be recognized.” *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 06, 48–49, ¶ 82 (Dec. 15, 2016).

¹³ The Commission has stated it “requires flexibility in most cases to exercise its informed judgment in ways that respond adequately and appropriately to the dynamic economic and financial circumstances that are characteristic of the utility industry and the general economy.” *Wash. Utils. & Transp. Comm’n v. Pac. Power*, Docket UE-130043, Order 05, 79, ¶ 199 (Dec. 4, 2013).

¹⁴ 2014 Pacific Order at 73, ¶ 170.

1 definition of ‘major.’”¹⁵ For Avista specifically, the Commission has rejected
2 attempts to define major in a way that would have allowed “the barest pro forma
3 adjustments.”¹⁶

4

5 **Q. Has Avista yet again defined major in a way that has allowed “the barest pro**
6 **forma adjustments?”**

7 A. Yes. Avista’s major project threshold is much smaller than thresholds previously
8 used by the Commission and does not appear to be based on any notion of
9 “materiality.” Avista uses a major project threshold of \$500,000 for electric projects
10 and \$200,000 for gas projects.

11

12 **Q. What major project threshold has the Commission used previously?**

13 A. In terms of percent of net plant, the Commission has employed a threshold where
14 “major” projects are those with costs exceeding 0.5 percent of total net plant in
15 service. This threshold aligns with the Commission’s budget rules for electric and
16 natural gas utilities, codified at WAC 480-140-040, which define “major
17 construction projects...as all projects where the Washington-allocated share of the
18 total project is greater than five-tenths of one percent of the company’s latest year-
19 end Washington-allocated net utility plant in service.”¹⁷ The Commission has noted
20 that WAC 480-140-040 is the only directly applicable legal standard for what

¹⁵ *Id.*

¹⁶ 2017 Avista Order at 67, ¶ 199.

¹⁷ WAC 480-140-040.

1 constitutes a major project.¹⁸ The Commission adopted a threshold of 0.5 percent of
2 net plan in service in Avista's 2015 GRC¹⁹ and Avista's 2017 GRC.²⁰

3
4 **Q. Please explain your statement that Avista's major projects threshold does not
5 appear to be based on any notion of "materiality."**

6 A. Without explanation for how these projects are material or should be considered
7 major, Avista has asserted that "major" projects are those exceeding \$500,000 for
8 electric and \$200,000 for natural gas.²¹

9 As a point of reference, at a threshold of 0.5 percent of net plant in service, a
10 major project would be those larger than \$8.3 million for electric operations and \$1.9
11 million for natural gas operations. Avista's proposed thresholds are equivalent to
12 0.03 percent of electric net plant in service and 0.05 percent of natural gas net plant
13 in service, or roughly a full order of magnitude smaller than the threshold of 0.5
14 percent of net plant in service previously used by the Commission.

15
16 **Q. So, it is not just that Avista uses a threshold that is a tenth the magnitude of
17 previous thresholds, but it uses that low threshold to assess aggregations of
18 projects rather than individual projects?**

¹⁸ 2014 Pacific Order at 66, n.222.

¹⁹ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-150204 & UG-150205, Order 05, 17, ¶ 40 (Jan. 6, 2016) (2015 Avista Order) (stating "Staff's proposed threshold relies on an established rule, albeit one established in a somewhat different setting. It has, however, the advantage of being proportional to the size of the Company's rate base and therefore relevant to the issue of the financial impact on the Company in the setting of rates. We find it reasonable to set the threshold in proportion to a company's rate base. In the instant case, we find it reasonable to use the one-half of one percent."). The 0.5 percent of net plant in service was \$6.3 million for electric operations and \$1.2 million for gas.

²⁰ 2017 Avista Order at 67, ¶ 200 (adopting a modified version of the 0.5 percent net plant in service threshold). In Avista's 2017 GRC, 0.5 percent of net plant in service was \$8.6 million.

²¹ Schultz, Exh. KJS-1T at 11:11-17.

1 A. Correct. And some of Avista’s groupings of projects barely clear the Company’s
2 own diminutive threshold, meaning individual projects within those groupings are
3 smaller still.

4 Also, it bears mentioning that Avista did not faithfully apply its own
5 threshold to ER-level aggregations of projects. Avista’s electric request includes two
6 ERs smaller than \$500,000 (ER 5037 and ER 5025) and Avista’s natural gas request
7 includes four ERs smaller than \$200,000 (ER 7006, ER 5025, ER 5027, and ER
8 5037).

9
10 **Q. How small are the individual BIs Avista included in its ER-level aggregations?**

11 A. Some of them are quite small. In its electric adjustments, Avista has included two
12 BIs smaller than \$100 total.²² In its natural gas adjustments, Avista included a BI as
13 small as \$1,501.²³

14 If one were to consider each BI a “project,” most of the projects Avista
15 includes do not meet the Company’s own major projects threshold. Of the 166
16 electric BIs, 101 are smaller than the Company’s \$500,000 electric threshold, and of
17 the 53 natural gas BIs, 21 are smaller than the Company’s \$200,000 natural gas
18 threshold.

19

²² Higby, Exh. ANH-3. BI_SS703 - Westside Auto Transformer #2 (BI_SS703) included a total transfer to plant of \$89, and BI_SS208 - Metro 115 kV - Rebuild Substation (BI_SS208) included a total transfer to plant of \$98.

²³ Higby, Exh. ANH-3. BI_ZBR12 - Gas Distribution Non-Revenue – Davenport (BI_ZBR12) included a total transfer to plant of \$1501.

1 **Q. Do you agree with Avista’s proposed major project threshold?**

2 A. No. Avista’s threshold is neither reasonable nor justified by the Company. Avista did
3 not describe how it arrived at its threshold, did not provide justification for using a
4 threshold on an order of magnitude smaller than previous thresholds used by the
5 Commission, and did not explain how its threshold meets a reasonable definition of
6 major.

7 Moreover, the threshold Avista employs produces unreasonable results; with
8 Avista’s threshold the Company’s electric pro forma plant adjustments include 166
9 BIs across 54 ERs and its natural gas pro forma plant adjustments include 53 BIs
10 across 36 ERs. Again, it is not reasonable for Staff and other parties to undertake a
11 comprehensive review of this many projects.

12
13 **Q. Why did Staff apply a major project threshold?**

14 A. While the Commission has noted that it will not indiscriminately apply a bright-line
15 test methodology to determine what constitutes a major project, it has not abandoned
16 the major project standard. This case is paradigmatic for why it has not done so.

17 There comes a point when the number of programs and projects a company includes
18 in its pro forma adjustments becomes prohibitively burdensome to review and audit.
19 Avista’s case has gone beyond that point, so Staff applied a major project threshold
20 to constrain the programs and projects to a number that was feasible for review.

21
22 **Q. Why did Staff apply the major threshold to the ER aggregate level rather than**
23 **just apply the threshold to the individual BIs?**

1 A. Due to Avista’s inconsistent use of the term “project” – sometimes referring to ERs
2 as projects and at other times referring to or BIs as projects – it was not clear to Staff
3 whether it could consider each BI to be a distinct project. With Avista’s lack of
4 consistency in capturing projects at the ER level versus the BI level, Staff decided to
5 apply the threshold to the ER level. This approach also was one of necessity given
6 that the Company’s supporting documentation was aggregated at the ER level, not
7 the individual BI level.

8

9 **Q. Did Staff apply a bright-line threshold to all of the ERs Avista included in its**
10 **pro forma plant adjustments?**

11 A. No. Staff decided to not apply a major project threshold at all to Adjustment 3.11
12 (“Customer at the Center”) or Adjustment 3.15 (“short-lived”), as those adjustments
13 are largely composed of projects with short book lives. Although many of the short-
14 lived projects included in those adjustments would not meet Staff’s proposed major
15 project threshold, Staff does not believe a threshold based only on project size is
16 appropriate for short-lived plant.

17

18 **Q. Why do short-lived projects warrant special treatment?**

19 A. Staff believes short-lived plant deserves special consideration given its relatively
20 rapid depreciation and acute vulnerability to regulatory lag. Projects with short
21 depreciable lives can have a financial impact to a company through incremental
22 depreciation, which is directly related to the book life of an asset.

1 Due to the financial impact that short-lived assets may have on a company,
2 Staff has elected to exclude them from a more traditional dollar threshold based on
3 net plant in service.

4
5 **Q. What is Staff's major project threshold?**

6 A. Staff used a threshold calculated as 0.25 percent of test year net plant in service,
7 calculated separately for electric and natural gas operations. In dollar terms, Staff's
8 major projects threshold is roughly \$4.1 million for electric operations and \$0.9
9 million for natural gas operations.

10
11 **Q. Why calculate the threshold as a percentage of net utility plant in service?**

12 A. Because, as the Commission has observed, a threshold based on percentage of net
13 plant in service "has ... the advantage of being proportional to the size of the
14 Company's rate base and therefore relevant to the issue of the financial impact on the
15 Company in the setting of rates."²⁴

16
17 **Q. Why did Staff adopt a threshold of 0.25 percent of net plant in service when the
18 Commission previously has adopted a threshold of 0.5 percent of net plant in
19 service?**

20 A. In short because that threshold resulted in a reasonable number of projects. As
21 discussed in further detail above, the reasonableness of the number of projects a
22 company includes has been a fundamental tenet to the Commission's policy on

²⁴ 2015 Avista Order at 17, ¶ 40.

1 application of a major project threshold. Therefore, Staff felt that it could not put
2 forth a major project threshold that was agnostic to the results it produced.

3 In addition to the reasonableness of the results it produces, a threshold of 0.25
4 percent of net plant in service continues to be proportional to the size of the
5 Company's rate base, which the Commission has recognized as being "relevant to
6 the issue of the financial impact on the Company in the setting of rates,"²⁵ but is less
7 restrictive than the threshold of 0.5 percent of net plant in service that the
8 Commission has endorsed in prior cases.

9
10 **Q. Did Staff apply its major project threshold using the costs Avista included in its**
11 **as-filed Adjustments 3.11 – 3.15?**

12 A. No. Through discovery Staff obtained updated transfers to plant through December
13 31, 2020, for these adjustments. The Company's direct case had listed all transfers to
14 plant as forecasted for the entirety of 2020. Staff applied its major project threshold
15 to the actual project costs as reported in Avista's response to UTC Staff Data
16 Request No. 107. I provide Avista's response to UTC Staff Data Request No. 107 as
17 Exh. ANH-5.

18
19 **Q. Using Staff's threshold of 0.25 percent of net plant in service, how many**
20 **projects qualify as major?**

21 A. Under Staff's major project threshold of 0.25 percent of net plant in service as
22 applied to Adjustments 3.12, 3.13, and 3.14, and with exceptions made for short-

²⁵ *Id.*

1 lived plant in Adjustments 3.11 and 3.15, a total of 18 electric ERs (composed of 97
 2 BIs) and 18 natural gas ERs (composed of 44 BIs) qualify as major.

3 As compared to the more commonly used major project threshold of 0.5
 4 percent of net plant in service, Staff's threshold here is far more favorable to the
 5 Company. If a threshold of 0.5 percent of net plant in service were applied, equating
 6 to projects larger than roughly \$8.3 million for electric and \$1.9 million for natural
 7 gas, one electric ER (composed of four BIs) and three natural gas ERs (composed of
 8 11 BIs) would qualify as major.

9 Tables 3 and 4, below, provide summaries of the ERs that cleared Staff's
 10 major project threshold by adjustment.

11 **Table 3: Electric Major Projects**

ER_Description	WA - E Allocated 2020 Actual EOP TTP	Meets Staff's "Major" Project Threshold
3.11 ER_5040 - Customer Transactional Systems	\$ 823,488	Yes
ER_5151 - Customer Facing Technology	\$ 8,074,536	Yes
ER_7060 - Strategic Initiatives	\$ 2,396,261	Yes
Total	\$ 11,294,285	\$ 11,294,285
3.12 ER_2051 - Electric Transmission Plant-Storm	\$ 1,349,903	
ER_2059 - Failed Electric Dist. Plant-Storm	\$ 2,533,386	
ER_2618 - Rattlesnake Flat 115kV Wind Farm Project	\$ 6,346,087	Yes
ER_4163 - CG HED Automation Replacement	\$ 2,667,897	
ER_4206 - CS2 Single Phase Transformer	\$ 1,869,289	
ER_4213 - Cabinet Gorge 15 kV Bus Replacement	\$ 260,408	
ER_5030 - Land Mobile Radio & Real Time Comm Systems	\$ 1,157,573	
ER_5156 - Digital Grid Network Expansion	\$ 1,195,169	
ER_7131 - COF Long Term Restructuring Plan Phase 2	\$ 1,388,141	
Total	\$ 18,767,853	\$ 6,346,087
3.13 ER_2000 - Substation - Capital Spares	\$ 1,060,661	
ER_2051 - Electric Transmission Plant-Storm	\$ 1,285,274	
ER_2055 - Electric Distribution Minor Blanket	\$ 8,139,323	Yes
ER_2057 - Transmission Minor Rebuild	\$ 1,039,759	
ER_2059 - Failed Electric Dist. Plant-Storm	\$ 1,654,803	
ER_2060 - Wood Pole Mgmt.	\$ 8,006,581	Yes

	ER_2062 - Downtown Network Asset Condition	\$	1,915,580	
	ER_2063 - Downtown Network - Performance & Capacity	\$	1,947,160	
	ER_2204 - Substation Rebuilds	\$	5,180,957	Yes
	ER_2215 - Substation Asset Mgmt. Capital Maintenance	\$	2,763,471	
	ER_2274 - New Substations	\$	1,420,982	
	ER_2277 - SCADA Upgrade	\$	1,208,686	
	ER_2470 - Dist. Grid Modernization	\$	3,907,006	Yes
	ER_2514 - Distribution - Spokane North & West	\$	2,603,112	
	ER_4148 - Regulating Hydro	\$	684,112	
	ER_4149 - Base Load Thermal	\$	1,464,011	
	ER_5020 - Enterprise & Control Network Infrastructure	\$	1,371,760	
	ER_5025 - Environmental Control & Monitoring Systems	\$	237,396	
	ER_5027 - Fiber Network Lease Service Replacement	\$	273,511	
	ER_5037 - Infrastructure Technology Failed Assets	\$	518,513	
	ER_7000 - Transportation Equip	\$	2,122,837	
	ER_7001 - Structures & Improv	\$	744,496	
	ER_7006 - Tools Lab & Shop Equipment	\$	570,814	
	Total	\$	50,120,804	\$ 25,233,867
3.14	ER_2056 - Distribution Line Relocations	\$	5,382,587	Yes
	ER_2074 - Joint Use	\$	2,422,179	
	ER_2457 - Benton-Othello 115 Recond	\$	5,195,951	
	ER_2531 - Westside 230 kV Substation - Rebuild	\$	393,771	
	ER_2579 - Low Priority Ratings Mitigation	\$	3,300,109	
	ER_2605 - Saddle Mountain Integration	\$	19,109,155	Yes
	ER_2617 - Noxon Hydro-Noxon Switchyard 230kV Trans Line Rbld	\$	996,476	
	ER_6103 - Clark Fork Implement PME Agreement	\$	621,234	
	ER_6107 - Spokane River Implementation (PM&E)	\$	861,163	
	Total	\$	38,282,625	\$ 24,491,742
3.15	ER_5016 - Endpoint Compute and Productivity Systems	\$	2,442,543	Yes
	ER_5018 - Energy Delivery Op Efficiency & Shared Services	\$	1,594,355	Yes
	ER_5019 - Energy Resources Modernization & Op Efficiency	\$	1,075,809	Yes
	ER_5022 - Enterprise Communication Systems	\$	875,823	Yes
	ER_5026 - ET Modernization & Op Efficiency - Technology	\$	1,059,094	Yes
	ER_5028 - Financial & Accounting Technology	\$	190,825	Yes
	ER_5032 - Enterprise Security	\$	1,400,518	Yes
	ER_5038 - Enterprise Data Science	\$	627,618	Yes
	ER_5147 - Project Atlas	\$	1,130,296	Yes
	ER_5155 - Data Center Compute and Storage Systems	\$	980,704	Yes
	Total	\$	11,377,584	\$ 11,377,584
	3.11-3.15 Total	\$	129,843,151	\$ 78,743,564

Table 4: Natural Gas Major Projects

Adjustment	ER Description	WA - G Allocated 2020 Actual EOP TTP	Meets Staff's "Major" Project Threshold
3.11	ER_5040 - Customer Transactional Systems	\$ 258,401	Yes
	ER_5151 - Customer Facing Technology	\$ 2,285,701	Yes
	ER_7060 - Strategic Initiatives	\$ 751,920	Yes
	Total	\$ 3,296,022	\$ 3,296,022
3.12	ER_3311 - Cheney HP Reinforcement	\$ 4,944,134	Yes
	ER_5030 - Land Mobile Radio & Real Time Comm Systems	\$ 363,233	
	ER_5156 - Digital Grid Network Expansion	\$ 304,629	
	ER_7131 - COF Long Term Restructuring Plan Phase 2	\$ 435,583	
	ER_7201 - Jackson Prairie Storage	\$ 1,463,625	Yes
	Total	\$ 7,511,204	\$ 1,463,625
3.13	ER_2204 - Substation Rebuilds	\$ 23,605	
	ER_2277 - SCADA Upgrade	\$ 37,782	
	ER_3000 - Gas Reinforce-Minor Blanket	\$ 953,762	Yes
	ER_3002 - Regulator Reliable - Blanket	\$ 113,107	
	ER_3005 - Gas Distribution Non-Revenue Blanket	\$ 3,473,489	Yes
	ER_5020 - Enterprise & Control Network Infrastructure	\$ 429,620	
	ER_5025 - Environmental Control & Monitoring Systems	\$ 74,486	
	ER_5027 - Fiber Network Lease Service Replacement	\$ 85,825	
	ER_5037 - Infrastructure Technology Failed Assets	\$ 105,259	
	ER_7000 - Transportation Equip	\$ 941,092	
	ER_7001 - Structures & Improv	\$ 246,639	
ER_7006 - Tools Lab & Shop Equipment	\$ 428,348		
	Total	\$ 6,913,013	\$ 4,450,857
3.14	ER_2605 - Saddle Mountain Integration	\$ 273,557	
	ER_3003 - Gas Replace-St&Hwy	\$ 240,055	
	ER_3004 - Cathodic Protection-Minor Blanket	\$ 440,549	
	ER_3007 - Isolated Steel Replacement	\$ 254,880	
	ER_3008 - Aldyl -A Pipe Replacement	\$ 9,308,542	Yes
	ER_3055 - Gas Meter Replacement Non-Revenue	\$ 337,634	
	Total	\$ 10,855,217	\$ 9,308,542
3.15	ER_5016 - Endpoint Compute and Productivity Systems	\$ 766,443	Yes
	ER_5018 - Energy Delivery Op Efficiency & Shared Services	\$ 500,291	Yes
	ER_5019 - Energy Resources Modernization & Op Efficiency	\$ 135,066	Yes
	ER_5022 - Enterprise Communication Systems	\$ 274,823	Yes
	ER_5026 - ET Modernization & Op Efficiency - Technology	\$ 332,332	Yes
	ER_5028 - Financial & Accounting Technology	\$ 59,879	Yes
	ER_5032 - Enterprise Security	\$ 427,277	Yes
	ER_5038 - Enterprise Data Science	\$ 196,939	Yes

ER_5147 - Project Atlas	\$	354,674	Yes
ER_5155 - Data Center Compute and Storage Systems	\$	270,618	Yes
Total	\$	3,318,342	\$ 3,318,342
3.11-3.15 Total	\$	31,893,798	\$ 21,837,388

1 **C. Some Of Avista’s Pro Forma Plant Adjustments Do Not Properly**
2 **Account For Offsetting Factors**

3
4 **Q. What is the Commission’s policy on offsetting factors?**

5 A. The Commission’s policy on offsetting factors comes from its rules on pro forma
6 adjustments which state, “[p]ro forma adjustments give effect for the test period to
7 all known and measurable changes that are *not offset by other factors*.”²⁶ That is, a
8 pro forma adjustment is not acceptable for ratemaking purposes under the
9 Commission’s rules if the adjustment captures alleged cost increases but fails to
10 account for cost decreases. Known and measurable changes that *are* offset by other
11 factors are not appropriate for pro forma treatment because they have not resulted in
12 a change to the utility’s overall cost of providing service.

13 The offsetting factors standard gives effect to the matching principle of
14 ratemaking.²⁷ In the Commission’s own words:

15 The matching principle requires that all factors affecting a proposed pro forma
16 change be considered in determining the pro forma level of expense. This
17 includes consideration of offsetting factors such as efficiency gains that may
18 or may not be associated directly with the proposed pro forma adjust-
19 ment. Offsetting factors may “cancel out” or at least mitigate the impact of a
20 known and measurable increase in expense. If offsetting factors are not taken
21 into account, the known and measurable change will result in overstated or

²⁶ WAC 480-07-510(3)(c)(ii) (emphasis added).

²⁷ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-090704 & UG-090705, Order 11, 11, ¶ 25 (Apr. 2, 2010) (2009 PSE Order).

1 understated revenue requirements. That is, a mismatch in the relationship of
2 revenues, expenses, and rate base is created.²⁸

3 In a nutshell, the offsetting factors standard recognizes it is unbalanced and unsound
4 for ratemaking purposes for an adjustment to capture post-test period costs but fail to
5 account for post-test period savings. If offsets are not captured in the revenue
6 requirement calculation, rates may be set too high. As the Commission has observed,
7 “[w]ithout incorporating these offsetting factors, a proposal will not be considered to
8 be in the public interest because resulting rates would not be fair, just, reasonable,
9 and sufficient, as required by RCW 80.28.010(1).”²⁹

10

11 **Q. Are offsetting factors limited to only those directly attributable to specific**
12 **projects identified in a pro forma plant adjustment?**

13 A. No. In PSE’s 2009 GRC, the Commission recognized as a distinct aspect of the
14 offsetting factors standard “contemporaneous changes in revenues or expenses that
15 are not directly related to the proposed pro forma adjustment, but which offset its
16 financial impacts.”³⁰ The Commission also recognized the relevance of indirect
17 factors in its used and useful policy statement, wherein it specifically cited
18 retirements as an example.³¹

19

²⁸ *Id.* at 12, ¶ 27.

²⁹ *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, n.25 (Jan. 31, 2020) (Valuation Policy Statement).

³⁰ 2009 PSE Order at 12, ¶ 28.

³¹ Valuation Policy Statement at 7, n.25.

1 **Q. Does Avista account for indirect offsetting factors?**

2 A. Yes. In fact, Avista should be lauded for its efforts in this regard. In its pro forma
3 plant adjustments, the Company took into account post-test year plant retirements
4 and reduced the pro forma level of depreciation expense accordingly.

5 Companies do not typically attempt to account for post-test year plant
6 retirements in their revenue requirement calculations, and Staff has raised this as a
7 concerning issue in previous cases. If post-test year retirements are not removed
8 from the revenue requirement calculation, rates will include (a) property that is not
9 used and useful, in violation of RCW 80.04.250, and (b) depreciation expense that
10 the utility will not incur. In this case, for post-test year plant retirements, Avista has
11 removed the associated rate base and depreciation components from revenue
12 requirement. The Commission should use Avista's approach to account for plant
13 retirements in this case as an example going forward.

14

15 **Q. Does Avista account for direct offsetting factors?**

16 A. Only minimally. While Avista does include O&M offsets for Wood Pole
17 Management, Distribution Grid Modernization, and the Downtown Network,³² the
18 Company recognizes but does not account for benefits which allow for redeployment
19 of costs or efficiency gains throughout the other pro forma adjustments.

20

21 **Q. Why is this a problem?**

22 A. Because Avista does not account for offsetting benefits associated with some of the

³² Staff has removed the offset for the Downtown Network project after excluding the project from its Adjustment 3.13 because it did not meet Staff's major project threshold.

1 projects it proposes to include in revenue requirement. Some ER level aggregate
2 projects within Adjustments 3.11 (ER 7060 – Strategic Initiatives – Customer
3 Experience Platform), 3.12 (ER 4206 – CS2 Single Phase Transformer), and 3.15
4 (ER 5026 – ET Modernization & Op Efficiency – Technology, ER 5038 – Enterprise
5 Data Science) do not comply with the Commission’s rules on pro forma adjustments
6 and do not accurately portray post-test year changes to the Company’s cost of
7 providing service.

8

9 **Q. Has Avista admitted there are offsetting benefits that it did not account for?**

10 A. Yes. Avista has acknowledged that some projects it included have offsetting benefits
11 that the Company did not attempt to quantify, and some have offsetting benefits the
12 Company did quantify but chose to omit from its revenue requirement calculation.

13

14 **Q. Does Avista give a reason for choosing to omit offsetting factors from its
15 revenue requirement calculation?**

16 A. Yes. According to Avista:

17 Because these benefits are not material to the justification of the need for the
18 investment, and often are not even realized until after deployment, the
19 Company typically does not expend the resources that would be required to
20 quantify or track such incidental benefits. That is, the investments are already
21 justified based on the primary benefits evaluated and/or quantified in the
22 business case, and to the degree they provide additional benefits for our
23 customers, so much the better.³³

24

25 For offsetting benefits that were omitted because Avista did not attempt to
26 quantify them, Avista reasons that it should not expend resources to quantify benefits

³³ Higby, Exh. ANH-4 at 15.

1 that are not material to the justification of the investment: “[I]t is not necessary to
2 expend resources to track down these incidental benefits, because to the degree that
3 they help lower our costs of operation through efficiency gains or redeployed costs,
4 those benefits will ultimately be reflected in a lower costs [sic] to customers over
5 time than would otherwise have been.”³⁴

6
7 **Q. Does Avista’s explanation concerning offsets that it declines to track or quantify
8 trouble Staff?**

9 A. Yes. It is not clear how Avista has made the determination that these benefits are not
10 material since the Company did not attempt to quantify them. Further, Avista’s
11 explanation that customers will “ultimately” realize savings “over time” effectively
12 admits that pro forming these costs into rates will result in an overstated revenue
13 requirement and rates that are too high in the rate year in violation of the
14 Commission’s rules on pro forma adjustments.

15
16 **Q. Does Staff find Avista’s refusal to attempt to track certain offsetting benefits
17 problematic?**

18 A. Yes. Avista states that “[w]here there are assumed benefits that cannot be quantified,
19 specific documentation regarding redeployed costs or efficiency gains has not been
20 consolidated or tracked and therefore is not readily available.”³⁵ In other words,
21 Avista does not consolidate or track documentation that would be helpful in
22 assessing the offsetting benefits of projects. Avista appears to use this lack of

³⁴ *Id.*

³⁵ *Id.* at 15–16.

1 documentation as justification for including a zero for offsetting benefits, even for
2 projects the Company acknowledges have offsetting benefits.

3

4 **Q. Are there other benefits the Company chose not to quantify?**

5 A. Yes. In response to discovery Avista clarifies that the Company did not account for
6 some offsetting benefits in its revenue requirement because it will simply increase
7 costs elsewhere in the business. Specifically, the Company stated:

8 With regards to operations and maintenance costs, Avista did not quantify and
9 include offsetting factors that did not actually reduce O&M expenses.
10 However, as Ms. Schultz describes in her testimony, there are non-quantifiable
11 benefits of the investments being made that allow for re-deployment of costs
12 or efficiency gains to benefit customers, but do not change the overall total
13 level of O&M expense that the Company will incur during the rate year.³⁶
14

15 **Q. Does Staff find this acceptable?**

16 A. No. Avista's explanation is concerning because the Company appears to (a) reject
17 the notion that these cost savings should be passed on to ratepayers through rates,
18 and (b) admits that it does not take advantage of opportunities to control its costs.
19 That is, when an investment generates cost savings Avista appears to view those
20 savings as justification for choosing to increase costs elsewhere in the business –
21 costs that previously Avista had been able to control. To Staff, it sounds as though
22 Avista actively prevents investments in operational efficiency from reducing the
23 Company's overall costs. Failing to take advantage of opportunities to control costs
24 could help explain the frequency of rate cases the Company files with the
25 Commission. Avista has filed 6 electric and 6 gas rate cases since 2014.

³⁶ Higby, Exh ANH-4 at 1.

1 **Q. Are there benefits that Avista quantified but did not include in its revenue**
2 **requirement?**

3 A. Yes. For offsetting benefits the Company did quantify but chose to omit from its
4 revenue requirement calculation, the Company states those benefits are not “hard
5 savings” and therefore should not be included.³⁷

6

7 **Q. Can you give an example of where the Company failed to incorporate**
8 **quantified offsetting factors into revenue requirement?**

9 A. Yes. For example, although Avista states that the investments in customer
10 technology as part of the Customer at the Center initiative (Adjustment 3.11) will
11 produce multiple efficiencies, such as a reduction in time to resolve customer issues,
12 reduction in transfers and the amounts of additional calls, and increased productivity
13 of employees,³⁸ the Company does not fully quantify those efficiencies or attempt to
14 capture them in its revenue requirement calculation. Specifically in ER 7060
15 Strategic Initiatives – the Customer Experience Platform - Avista details increased
16 efficiencies of tools, productivity of employees and cost-savings on an annual basis,
17 but then goes on to say these are not hard savings and therefore are not incorporated
18 into the revenue requirement.³⁹

19

³⁷ Magalsky, Exh. KEM-1T at 25:20 - 27:12.

³⁸ Magalsky, Exh. KEM-1T at 9:23 - 11:18.

³⁹ Magalsky, Exh. KEM-1T at 25:20 - 27:12.

1 **Q. For the ERs you identify as major in Adjustments 3.11 – 3.15, which ones have**
2 **offsetting factors that are not accounted for in Avista’s revenue requirement**
3 **calculation?**

4 A. The Company claims efficiencies, increased productivity, cost reductions and
5 revenue growth as benefits in three ERs that meet Staff’s major project threshold.
6 ER 7060 – Strategic Initiatives – Customer Experience Platform in adjustment 3.11
7 states that benefits include increased efficiencies of tools, productivity of employees,
8 and cost-savings, yet does not include any of these benefits as offsetting factors.⁴⁰
9 ER 5026 – ET Modernization & Op Efficiency – Technology and ER 5038 –
10 Enterprise Data Science in adjustment 3.15 discuss benefits such as increased
11 productivity, efficiency, cost savings or revenue growth, yet these are not included as
12 offsetting factors.⁴¹

13
14 **Q. Did Staff assess whether any of the non-major ERs had offsetting factors that**
15 **were not accounted for in Avista’s revenue requirement calculation?**

16 A. Not in depth. Staff did a cursory review of a handful of non-major ERs and has noted
17 a potentially problematic ER. Specifically ER 4206 – CS2 Single Phase Transformer,
18 which has offsetting factors that were not included in the revenue requirement
19 calculation.

20 Staff witness Gomez discusses the history of the failure of the Company to
21 consider offsetting factors for ER 4206, going back to the 2019 GRC. The Company

⁴⁰ Magalsky, Exh. KEM-1T at 25:20 - 27:12.

⁴¹ Kensok, Exh. JMK-1T at 32:18-22; Kensok, Exh. JMK-3 at 102–103, 130–131.

1 failed to account for a \$5.2 million insurance claim and \$2.9 million write off of net
 2 book value of two failed transformers.⁴²

3

4 **Q. Please summarize the overall results after accounting for the Company’s failure**
 5 **to include all offsetting factors.**

6 A. Staff removed three electric ERs and three natural gas ERs. Tables 5 and 6 below
 7 show the electric and natural gas ERs that fail the offsetting factors standards:

8 **Table 5: Electric Projects that Improperly Account for Offsetting Factors**

Adjustment	ER Description	Met Major Project Threshold	Accounts for Indirect and Direct Offsetting Factors
3.11	ER_5040 - Customer Transactional Systems	\$ 823,488	No
	ER_5151 - Customer Facing Technology	\$ 8,074,536	
	ER_7060 - Strategic Initiatives	\$ 2,396,261	
	Total	\$ 11,294,285	\$ 8,898,023
3.12	ER_2618 - Rattlesnake Flat 115kV Wind Farm Project	\$ 6,346,087	
	Total	\$ 6,346,087	\$ 6,346,087
3.13	ER_2055 - Electric Distribution Minor Blanket	\$ 8,139,323	
	ER_2060 - Wood Pole Mgmt.	\$ 8,006,581	
	ER_2204 - Substation Rebuilds	\$ 5,180,957	
	ER_2470 - Dist. Grid Modernization	\$ 3,907,006	
	Total	\$ 25,233,867	\$ 25,233,867
3.14	ER_2056 - Distribution Line Relocations	\$ 5,382,587	
	ER_2605 - Saddle Mountain Integration	\$ 19,109,155	
	Total	\$ 24,491,742	\$ 24,491,742
3.15	ER_5016 - Endpoint Compute and Productivity Systems	\$ 2,442,543	No
	ER_5018 - Energy Delivery Op Efficiency & Shared Services	\$ 1,594,355	
	ER_5019 - Energy Resources Modernization & Op Efficiency	\$ 1,075,809	
	ER_5022 - Enterprise Communication Systems	\$ 875,823	
	ER_5026 - ET Modernization & Op Efficiency - Technology	\$ 1,059,094	
	ER_5028 - Financial & Accounting Technology	\$ 190,825	
	ER_5032 - Enterprise Security	\$ 1,400,518	

⁴² Gomez, Exh. DCG-1CT at 52:10 - 54:10.

ER_5038 - Enterprise Data Science	\$	627,618	No
ER_5147 - Project Atlas	\$	1,130,296	
ER_5155 - Data Center Compute and Storage Systems	\$	980,704	
Total	\$	11,377,584	\$ 9,690,872
3.11-3.15 Total	\$	78,743,564	\$ 74,660,591

Table 6: Natural Gas Projects that Improperly Account for Offsetting Factors

Adjustment	ER_Description	Met Major Project Threshold	Accounts for Indirect and Direct Offsetting Factors
3.11	ER_5040 - Customer Transactional Systems	\$ 258,401	
	ER_5151 - Customer Facing Technology	\$ 2,285,701	
	ER_7060 - Strategic Initiatives	\$ 751,920	No
	Total	\$ 3,296,022	\$ 2,544,102
3.12	ER_3311 - Cheney HP Reinforcement	\$ 4,944,134	
	ER_7201 - Jackson Prairie Storage	\$ 1,463,625	
	Total	\$ 6,407,759	\$ 6,407,759
3.13	ER_2204 - Substation Rebuilds	\$ 23,605	
	ER_3000 - Gas Reinforce-Minor Blanket	\$ 953,762	
	ER_3005 - Gas Distribution Non-Revenue Blanket	\$ 3,473,489	
	Total	\$ 4,450,857	\$ 4,450,857
3.14	ER_3008 - Aldyl -A Pipe Replacement	\$ 9,308,542	
	Total	\$ 9,308,542	\$ 9,308,542
3.15	ER_5016 - Endpoint Compute and Productivity Systems	\$ 766,443	
	ER_5018 - Energy Delivery Op Efficiency & Shared Services	\$ 500,291	
	ER_5019 - Energy Resources Modernization & Op Efficiency	\$ 135,066	
	ER_5022 - Enterprise Communication Systems	\$ 274,823	
	ER_5026 - ET Modernization & Op Efficiency - Technology	\$ 332,332	No
	ER_5028 - Financial & Accounting Technology	\$ 59,879	
	ER_5032 - Enterprise Security	\$ 427,277	
	ER_5038 - Enterprise Data Science	\$ 196,939	No
	ER_5147 - Project Atlas	\$ 354,674	
	ER_5155 - Data Center Compute and Storage Systems	\$ 270,618	
	Total	\$ 3,318,342	\$ 2,789,070
	3.11-3.15 Total	\$ 26,781,522	\$ 25,500,331

1 **D. Avista’s Adjustment 3.13 Is Problematic**

2

3 **Q. Please describe pro forma plant Adjustment 3.13.**

4 A. Adjustment 3.13 includes 23 ERs Avista characterizes as “programs” or
5 “programmatic” investments. The ERs Avista includes in Adjustment 3.13 generally
6 can be broken down into two categories: (1) ongoing investments made following
7 some sort of plan and systematic approach (e.g., ER 2060 Wood Pole Management
8 and ER 2470 Distribution Grid Modernization.), and (2) “blanket” programs
9 consisting of multiple small, unplanned projects (e.g., ER 2055 Electric Distribution
10 Minor Rebuild Program, ER 3005 Natural Gas Non-Revenue Program and ER 3000
11 Natural Gas Reinforcement Minor Blanket).

12

13 **Q. Before going into more detail, can you please summarize your concerns with**
14 **Avista’s Adjustment 3.13?**

15 A. Yes. Staff has three concerns with this adjustment (1) some of the programmatic ERs
16 in this adjustment do not meet the Commission’s definition of programmatic
17 investments;⁴³ (2) for the unplanned and small projects the Company included in
18 Adjustment 3.13, it is impossible to determine if the Company adhered to any sort of
19 plan; and (3) the burden of demonstrating prudence is even more complicated for
20 programmatic investments.

21

⁴³ Valuation Policy Statement at 5, n.19 (explaining “[p]rogrammatic investments are, by their very nature, investments made according to a schedule, plan, or method such as the replacement of power poles or other small distribution system investments[.]”).

1 **Q. Do the projects Avista includes in Adjustment 3.13 fall into the “Commission**
2 **defined categor[y]” of programmatic investments, as Avista claims?⁴⁴**

3 A. Yes and no. The Commission stated, “[p]rogrammatic investments are, by their very
4 nature, investments made according to a schedule, plan, or method such as the
5 replacement of power poles or other small distribution system investments.”⁴⁵ While
6 Avista includes some programs which align with the Commission’s guidance on what
7 constitutes programmatic investments, Avista includes some which do not.

8
9 **Q. Which ERs are consistent with the Commission’s view on “programmatic”**
10 **investments?**

11 A. There are three electric ERs (ER 2060 Wood Pole Management, ER 2204 Substation
12 Rebuilds, and ER 2470 Distribution Grid Modernization) and one gas ER (ER 3000
13 Gas Reinforce – Minor Blanket) that are consistent with the Commission’s view of
14 programmatic investments.

15 Despite the different objectives of these ERs, they are all focused on using a
16 systematic approach to replacing or upgrading wood poles, substations, distribution
17 feeders and natural gas capacity reinforcements.

- 18
- 19 • ER 2060 Wood Pole Management program assess and replaces wood poles
20 that are at or near their end-of-life or have other issues that come to light
21 during the inspection cycle.⁴⁶
 - 22 • ER 2204 Substation Rebuilds program is focused on rebuilding the
23 Company’s electric substations, this is an ongoing infrastructure program that
24 refurbishes Avista’s end-of-life electric substations.⁴⁷
 - 25 • ER 2470 Distribution Grid Modernization is focused on rebuilding and
upgrading the Company’s electric distribution feeders. This is done by the

⁴⁴ Schultz, Exh. KJS-1T at 11:11-17.

⁴⁵ Valuation Policy Statement at 5, n.19.

⁴⁶ Rosentrater, Exh. HLR-2 at 17–18.

⁴⁷ Rosentrater, Exh. HLR-1T at 27:12-14.

1 systematic replacement of aging equipment at or near the end of its useful
2 life.⁴⁸

- 3 • ER 3000 Gas Reinforcement program is focused on reinforcements for
4 capacity constrained areas, which are identified through the monitoring and
5 modeling of the natural gas system. Capacity needs are based on firm
6 customer loads on the coldest expected winter design day.⁴⁹

7
8 **Q. Which ERs are inconsistent with the Commission’s view on programmatic
9 investments?**

10 A. Avista includes two ERs that it refers to as “blanket” programs – “electric
11 distribution minor blanket” and “gas distribution non-revenue blanket.” The
12 Company describes these programs as consisting of “many, small unplanned
13 projects.”⁵⁰ An aggregation of “many, small unplanned projects” is antithetical to the
14 very definition the Commission recently provided.

15
16 **Q. Are there other reasons to reject pro forma treatment for these blanket
17 projects?**

18 A. Yes. There are two other issues with including these blanket programs: (1) if these
19 are small and unplanned, then on an individual basis they would fail to meet any
20 reasonable definition of major; and (2) there is no insight or opportunity to review
21 any of the business decisions the Company made to proceed with these small,
22 unplanned projects. These are inherently reactive projects that occur due only to
23 external events. There is no process to assess the need and the plans for these small,
24 unplanned projects.

⁴⁸ Rosentrater, Exh. HLR-2 at 14.

⁴⁹ Rosentrater, Exh. HLR-1T at 85:21 - 86:4.

⁵⁰ Rosentrater, Exh. HLR-1T at 20:11, 47:8.

1 **Q. Are you recommending disallowing these programs?**

2 A. No. I am recommending that these two blanket programs not be included as pro
3 forma adjustments in this rate case. The Company still can propose including these
4 programs in the revenue requirement of a subsequent rate case.

5
6 **Q. Are there other major blanket programs in adjustment 3.13?**

7 A. There is one other blanket program that meets the major threshold, ER 3000 – Gas
8 Reinforce minor blanket. However, this ER program approaches natural gas capacity
9 reinforcements on capacity constrained areas to meet design day peak loads in a
10 systematic approach. Therefore, this program appears to meet the Commission’s
11 definition of a programmatic investment.

12
13 **Q. Are there non-major blanket programs that are problematic in adjustment
14 3.13?**

15 A. Yes. ER 2051 – Electric Transmission Plant - Storm is a program which covers
16 storm damage. This program consists of projects due to unplanned weather events
17 and therefore is subject to the same issues detailed earlier. As it did not meet Staff’s
18 major project threshold it has already been removed from Adjustment 3.13.

19
20 **Q. Please explain the increased burden of demonstrating prudence for
21 programmatic investments.**

22 A. In order to pro form programmatic investments, the Company should provide
23 evidence of the reevaluation of the programmatic investment at numerous points

1 along the life of the programmatic investment. This is important due to the ongoing
 2 and cyclical nature of programmatic investments. Business case information, such as
 3 the need for the investment, alternatives considered, and benefits and offsets of the
 4 investment should not occur only once. This should be reassessed and refreshed
 5 throughout the life of the on-going assessment in some systemic manner. This is in
 6 line with the Commission’s guidance on prudence for discrete projects.

7 Simply because the decision to begin a project is prudent does not mean the
 8 continuation or completion of the project is *ipso facto* prudent. The
 9 Commission believes that a company must continually evaluate a project as it
 10 progresses to determine if the project continues to be prudent from both the
 11 need for the project and its impact on the company’s ratepayers.⁵¹
 12

13 **Q. Please summarize the overall results after removing programmatic investments**
 14 **that are not in alignment with the recent Commission guidance.**

15 A. Staff removed one electric ER and one natural gas ER. Tables 7 and 8 show the
 16 remaining projects.

Table 7: Electric Projects that Do Not Meet the Commission Definition of Programmatic Investments

Adjustment	ER Description	Major Projects + Offsetting Factors	Is this a Programmatic Investment
3.11	ER_5040 - Customer Transactional Systems	\$ 823,488	
	ER_5151 - Customer Facing Technology	\$ 8,074,536	
	Total	\$ 8,898,023	\$ 8,898,023
3.12	ER_2618 - Rattlesnake Flat 115kV Wind Farm Project	\$ 6,346,087	
	Total	\$ 6,346,087	\$ 6,346,087
3.13	ER_2055 - Electric Distribution Minor Blanket	\$ 8,139,323	No
	ER_2060 - Wood Pole Mgmt.	\$ 8,006,581	
	ER_2204 - Substation Rebuilds	\$ 5,180,957	
	ER_2470 - Dist. Grid Modernization	\$ 3,907,006	
	Total	\$ 25,233,867	\$ 17,094,543

⁵¹ Wash. Utils. & Transp. Comm’n v. The Wash. Water Power Co., Cause No. U-83-26, Fifth Supplemental Order, 13 (Jan. 19, 1984).

3.14	ER_2056 - Distribution Line Relocations	\$	5,382,587		
	ER_2605 - Saddle Mountain Integration	\$	19,109,155		
	Total	\$	24,491,742	\$	24,491,742
3.15	ER_5016 - Endpoint Compute and Productivity Systems	\$	2,442,543		
	ER_5018 - Energy Delivery Op Efficiency & Shared Services	\$	1,594,355		
	ER_5019 - Energy Resources Modernization & Op Efficiency	\$	1,075,809		
	ER_5022 - Enterprise Communication Systems	\$	875,823		
	ER_5028 - Financial & Accounting Technology	\$	190,825		
	ER_5032 - Enterprise Security	\$	1,400,518		
	ER_5147 - Project Atlas	\$	1,130,296		
	ER_5155 - Data Center Compute and Storage Systems	\$	980,704		
	Total	\$	9,690,872	\$	9,690,872
	3.11-3.15 Total	\$	74,660,591	\$	66,521,268

Table 8: Natural Gas Projects that Do Not Meet the Commission Definition of Programmatic Investments

Adjustment	ER_Description	Major Projects + Offsetting Factors	Is this a Programmatic Investment
3.11	ER_5040 - Customer Transactional Systems	\$ 258,401	
	ER_5151 - Customer Facing Technology	\$ 2,285,701	
	Total	\$ 2,544,102	\$ 2,544,102
3.12	ER_3311 - Cheney HP Reinforcement	\$ 4,944,134	
	ER_7201 - Jackson Prairie Storage	\$ 1,463,625	
	Total	\$ 6,407,759	\$ 6,407,759
3.13	ER_3000 - Gas Reinforce-Minor Blanket	\$ 953,762	
	ER_3005 - Gas Distribution Non-Revenue Blanket	\$ 3,473,489	No
	Total	\$ 4,427,252	\$ 953,762
3.14	ER_3008 - Aldyl -A Pipe Replacement	\$ 9,308,542	
	Total	\$ 9,308,542	\$ 9,308,542
3.15	ER_5016 - Endpoint Compute and Productivity Systems	\$ 766,443	
	ER_5018 - Energy Delivery Op Efficiency & Shared Services	\$ 500,291	
	ER_5019 - Energy Resources Modernization & Op Efficiency	\$ 135,066	
	ER_5022 - Enterprise Communication Systems	\$ 274,823	
	ER_5028 - Financial & Accounting Technology	\$ 59,879	
	ER_5032 - Enterprise Security	\$ 427,277	
	ER_5147 - Project Atlas	\$ 354,674	

ER_5155 - Data Center Compute and Storage Systems	\$	270,618		
Total	\$	2,789,070	\$	2,789,070
3.11-3.15 Total	\$	25,476,725	\$	22,003,236

1 **Q. Does this conclude your testimony?**

2 A. Yes.