

Exh. DPV-1T

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EXHIBIT: DPV-1T

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-20 \_\_\_\_\_

DOCKET NO. UG-20 \_\_\_\_\_

DIRECT TESTIMONY OF

DENNIS P. VERMILLION

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Dennis P. Vermillion and I am employed as the President and  
4 Chief Executive Officer of Avista Corporation (Avista or Company). In that role I also serve  
5 as a member of Avista's Board of Directors. I also serve as the Chairman of the Board of  
6 Directors for Avista's subsidiary Alaska Electric Light and Power Company. My business  
7 address is 1411 East Mission Avenue, Spokane, Washington.

8 **Q. Would you briefly describe your educational background and professional  
9 experience?**

10 A. Yes. I received a Bachelor of Science degree in electrical engineering from  
11 Washington State University in 1985. I started working for Avista in 1985 and have held  
12 numerous positions in energy trading, marketing, risk management, power transmission  
13 contracting, and resource planning and coordination. I was appointed as President and Chief  
14 Operating Officer of Avista Energy in 2001. I was appointed Vice President of Energy  
15 Resources for Avista Utilities in 2007 at the close of the sale of Avista Energy. In 2009, I was  
16 appointed President of Avista Utilities, and later in January 2018 was appointed President of  
17 Avista Corporation and began serving on Avista Corporation's Board of Directors. On  
18 October 1, 2019, I was promoted to the role of President and Chief Executive Officer.

19 I currently serve as a board member for Western Energy Institute (WEI) and American  
20 Gas Association (AGA) and the Avista Foundation. I formerly served on the board of Spokane  
21 County United Way and was a past chairman of the Spokane County Campaign.

22 **Q. What is the scope of your testimony in this proceeding?**

23 A. In my testimony I provide an overview of Avista and provide why the

1 Company is filing a general rate case at this time given the COVID-19 pandemic. I will then  
 2 describe certain key transformational initiatives that the Company is undertaking which will  
 3 transform how we operate as a utility in the future. I summarize the Company's proposal in  
 4 this filing, and address our continuing capital investment, which continues to be the primary  
 5 driver behind the Company's most recent general rate cases. I will also discuss the Company's  
 6 proposal to offset the revenue requirement approved in this case with a Tax Customer Credit,  
 7 resulting in no bill change for customers. Later, I discuss our ongoing focus on cost  
 8 management and cost efficiencies which have been undertaken to help mitigate the overall  
 9 rate request, as well as our continued focus on communicating with customers, our overall  
 10 customer satisfaction, and our customer support programs. Finally, I introduce the other  
 11 Company witnesses who support this general rate case filing.

12 A table of contents for my testimony is as follows:

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25  
 26 **Q. Are you sponsoring exhibits in this proceeding?**

27 A. Yes. I am sponsoring Exh. DPV-2 which provides a diagram of Avista's  
 28 corporate structure, and maps showing Avista's electric and natural gas service areas,  
 29 including natural gas fields, trading hubs and major pipelines.

1 **II. OVERVIEW OF AVISTA**

2 **Q. Please briefly describe Avista Utilities.**

3 A. Avista Utilities serves approximately 392,000 retail electric and 362,000 retail  
4 natural gas customers in a 30,000 square mile service territory covering portions of  
5 Washington, Idaho and Oregon. As of December 31, 2019, Avista Utilities had total assets  
6 (electric and natural gas) of approximately \$6.1 billion (on a system basis), with electric retail  
7 revenues of \$800 million (system) and natural gas retail revenues of \$294 million  
8 (system). As of December 31, 2019, Avista had 1,800 regular and seasonal employees.<sup>1</sup>

9 **Q. Please describe Avista's current business focus for its utility operations.**

10 A. Our strategy continues to focus on our energy and utility-related businesses,  
11 with our primary emphasis on the natural gas and electric utility business. Our strategic  
12 initiatives are now aligned across four focus areas: our customers, our people, performance,  
13 and innovation. We are placing emphasis upon our customer focus as being central to all that  
14 we do to ensure our services are safe, responsible, and affordable.

15 **Q. Would you briefly describe efforts the Company is undertaking to drive a  
16 better customer experience when working with Avista.**

17 A. Yes. I am very proud of the Company's renewed focus on putting our  
18 customers at the center of our business in order to drive a better customer experience.  
19 Customer experience is an important concept that we take seriously, as it describes the  
20 experiences of our customers when they hear about us or they interact with us directly, via  
21 face-to-face interactions, phone calls, texts, online interactions, social media, etc. Customer  
22 experience is the sum of all interactions a customer has with Avista – both direct and indirect,

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<sup>1</sup> The Company has provided data as of December 31, 2019 to match with the test year utilized in this proceeding.

1 and their perception about us (what they see, hear, think, and feel). These interactions may  
 2 vary depending on who, when, or where they occur and the issue in general. Having clear  
 3 visibility to each of these interactions will allow us to provide a better customer experience  
 4 across all our service territories. Therefore, we are putting our customers at the center and  
 5 building on years of excellent customer satisfaction to provide the customer experience our  
 6 customers want, when they want it. Illustration No. 1 below provides a summary of how  
 7 Avista is showing care for our customers, the ease with which customers can interact with us,  
 8 how we continue to build trust, and the ownership each and every employee should have for  
 9 our customers.

10 **Illustration No. 1 – Customer at the Center**



21 To effectuate this goal, Avista has been continuing its investment in Customer Facing  
 22 and Customer Experience technologies, multiyear programs to improve Avista’s interaction  
 23 with all of our customers, and to provide employees a single reference point to meet the needs

1 of our customers. Further information about these investments are described by Company  
2 witness Mr. Magalsky.

3  
4 **III. COVID-19 PANDEMIC**

5 **Q. Would you please explain why Avista believes filing a general rate case**  
6 **now, during a pandemic, is a wise decision?**

7 A. Yes. As I will discuss in more detail in Section IV of my testimony, the  
8 Company has and continues to make significant investments in programs and technology that  
9 are transformational in nature and which we believe are necessary as we take Avista into the  
10 future, and we need to at this time include these costs in customer's rates. At the same time,  
11 we carefully considered the timing of this case, and when a "right time" might be. We believe  
12 that now is that time, both given the need to put into customer rates the costs associated with  
13 not only normal utility operations, but also the costs associated with the transformational  
14 initiatives undertaken on behalf of our customers. I say this because, as Company witnesses  
15 Mr. Thies and Mr. Krasselt will discuss, Avista has undertaken a tax review to see if there are  
16 measures we could undertake to mitigate our general rate requests on our customers. As I will  
17 detail later, the Company is proposing to fully offset the entire electric and natural gas general  
18 rate increases with these tax benefits, called "Tax Customer Credit". The timing of these  
19 benefits, coupled with the recent filing of Avista's federal tax return, in my mind makes now  
20 as opportune a time as any to file this case with the Commission.

21 **Q. Generally, what has Avista's response been to the COVID-19 pandemic?**

22 A. Avista continues to operate in a manner that sustains focus on critical  
23 functions. The policies, procedures and protocols that we developed as we quickly initiated

1 our response to this crisis have served us well. Following guidance from local, state, and the  
2 federal government, the CDC and local health organizations, we've reduced public  
3 interactions for all of our employees, moved the majority of employees to work from home,  
4 closed our buildings to the public, eliminated non-essential work travel, shifted the type of  
5 work being done in the field and more. Our approach is working. To date, we have had very  
6 few confirmed cases of COVID-19 amongst our employees, our customer service  
7 representatives continue to provide attentive and exceptional service to our customers, and  
8 we're appropriately staffed to keep the lights on and the natural gas flowing. We're grateful  
9 to our employees, customers and communities who have played a role in ensuring we're able  
10 to continue this important work safely.

11 As broader state and national efforts continue to identify how we'll move together  
12 through our stay-at-home orders and toward re-opening, we realize we cannot just flip a switch  
13 and return to "business as usual." As an essential service provider, we believe we have a  
14 unique responsibility to ensure our approach is measured, gradual and strategic.

15 We're ready for the next phase of response. As we look ahead, many things will stay  
16 the same, such as the majority of employees working remotely, while other things may begin  
17 to shift. While we remain committed to sustaining our focus on our critical functions, we've  
18 been hard at work assessing state guidelines and our projects to identify how we can safely  
19 and responsibly continue on with important work that supports our ability to provide our  
20 customers with safe, affordable, and reliable electricity and natural gas. This means our teams  
21 will continue to be out trimming trees, maintaining natural gas infrastructure, replacing or  
22 repairing wood poles, restoring service during recent storms, supporting construction projects  
23 and engaging in other work that can be completed safely.

1           **Q. Has the Company measured overall customer satisfaction during the**  
2 **pandemic?**

3           A. Yes. As I will discuss in more detail later, Avista's recent results from its  
4 Voice-of-the-Customer survey resulted in 99% satisfied customers in August 2020. These are  
5 the highest scores the Company has recorded in the 20 years of operating this survey.

6           **Q. What has Avista done during the pandemic to help its customers and**  
7 **communities during the pandemic?**

8           A. The Company has worked hard on a number of fronts to help our customers  
9 and communities during the pandemic. I am extremely proud of our quick, thorough, and  
10 wide-ranging level of support and activity undertaken at the first moments of this crisis.  
11 Provided below are just some of the activities undertaken, in general categories:

12           **Residential Customers**

- 13           • Suspended collections, disconnections, and requests for deposits;
- 14           • Filed with the Commission to allow for Low-Income Rate Assistance (LIRAP)
- 15           COVID-19 hardship grants, increased emergency grants, and mitigated
- 16           documentation requirements;
- 17           • Started outbound calls to regular customers who pay in our main lobby to discuss
- 18           service options;
- 19           • Revised/extended residential payment plans, allowing generous plans extending
- 20           out as long as 24 months;
- 21           • Applied deposits to account balances, with customer permission;
- 22           • Initiated proactive outreach to seniors and disabled customers for rate discount
- 23           program enrollment;
- 24           • Developed a multi-channel communication plan for customers to not only convey
- 25           empathy, but to provide tools and education regarding resources available to them
- 26           and our actions taken to keep customers and employees safe as we work in the
- 27           community; and
- 28           • Made technology investments in MyAvista.com and the Company's Integrated
- 29           Voice Response systems which enhanced self-service and online payment
- 30           arrangements.



**Non-Residential Customers**

- As with Residential customers, we suspended collections and disconnections;
- Developed the Small Business Concierge Service Program, where we proactively called small business customers to understand their concerns and needs, offer payment arrangements including application of any deposits to their account balances, offer energy efficiency kits, among other things;
- Led the development of InlandBizStrong.org, a tool for businesses to navigate the pandemic and inform them of federal, state, and regional resources that could help; and
- Virtual Energy Audits offered as a substitute for customers requesting physical audits, as well as virtual inspections for C/I verification of energy efficiency measures.

**Community**

- Made donations totaling over \$1.5 million, including \$1 million toward relief from the impacts of COVID-19. Donations include local food banks, propelling employee match dollars through increased employee match rate and annual maximums, early funding for United Way, World Relief for Emergency Health Response Planning, and Drive-In WIFI to rural communities;
- Committed through Avista Foundation to the COVID-19 Eastern Washington Community and North Idaho Response Fund hosted by Innovia Foundation;
- Advocated for approximately \$900 million in federal LIHEAP funding on behalf of all community action agencies to benefit customers in need;
- Partnered with the City of Spokane Project Share/U-Help drive to provide additional utility assistance;
- Customers and communities are looking to Avista to provide support beyond funding and the role of the ‘utility’ function. They are seeking advice and counsel in navigating through these uncertain times. Team members are engaging with the community and supporting customer requests for collaboration and knowledge sharing of work from home environment, COVID related safety precautions, technology constraints and other community initiatives;
- As a community leader in all of the jurisdictions we serve, we proactively engaged in response and recovery planning with regional leadership; and
- Provided for the early release of administrative funds to CAP agencies to support their vital work.

1 These are just a number of efforts the Company has undertaken to assist during this crisis, and  
2 we are committed to continuing to assist in every way possible as recovery takes shape.

3 **Q. Please address how the Company has continued to operate during the**  
4 **pandemic.**

5 A. I am so very proud of each and every member of the Avista team. They have  
6 shown a level of resiliency and flexibility throughout, especially because the pandemic has  
7 affected them on a personal level, just as with our customers. From the employees who had  
8 to start working at home with little notice, while at the same time become de facto educators  
9 given school shutdowns, to our crews in the field who willingly put themselves in harm's way  
10 to continue to provide our customers with our essential services. Early on there was little  
11 known about the spread of the virus, yet our crews willingly accepted that risk, modified their  
12 work practices, and delivered for our customers. It is important to note that in the first four  
13 months of the pandemic, not a single Avista employee contracted COVID-19. Working from  
14 home, as well as diligent health and safety practices for those that were required to work in  
15 the office or the field made all the difference, in my view.

16  
17 **IV. TRANSFORMATIONAL INITIATIVES**

18 **Q. Earlier you mentioned that the Company has undertaken a number of**  
19 **transformational initiatives which are included in this general rate case filing. Would**  
20 **you please describe what you mean by “transformational”?**

21 A. Yes. In past general rate cases, and in other forums, Avista has referenced “the  
22 utility of the future”, and what our industry, and Avista in particular must do to transform to  
23 meet ever changing customer needs as well as the changing environmental landscape as it

1 relates to carbon and climate change. We have a long history of innovation including the  
2 creation of businesses such as Itron and Ecova (now Engie Insight), as well as transformational  
3 utility programs including the first energy efficiency tariff rider, Smart City initiatives, and  
4 highly successful community solar programs. In this case I am really excited to discuss five  
5 significant initiatives Avista has undertaken to meet a changing utility environment, and  
6 which further supports our focus on keeping the Customer at the Center.

7 **Q. What is the first transformation initiative the Company has undertaken**  
8 **that you would like to highlight?**

9 A. By far the largest investment made by the Company on behalf of our  
10 customers, in nominal dollars, is our investment in Advanced Metering Infrastructure (AMI).  
11 Avista believes the new electricity and natural gas frontier will increasingly focus at the level  
12 of the individual customer, and on the local distribution grid where they receive service. We  
13 understand the long-term success of our business is founded on identifying and meeting our  
14 customers' evolving energy needs. We're working now to not only embrace this change but  
15 to incorporate these new realities into a more customer-centric and technology-enabled  
16 business model. We simply cannot ignore the changing role of the electric distribution system  
17 and must make the necessary investments now to ensure a seamless transition for our  
18 customers. Advanced metering is fundamental to addressing these challenges and  
19 opportunities.

20 **Q. Has the Company prepared a report detailing all of the specifics related**  
21 **to the decision to invest in AMI, the deployment of the technology, the costs and benefits,**  
22 **and related information?**

23 A. Yes. On August 28, 2020, the Company filed "Avista Utilities Advanced

1 Metering Infrastructure (AMI) Project Report”, hereafter referred to as the AMI Report. The  
2 AMI Report has been prepared by order of the Commission as a condition of approval of the  
3 Company’s amended accounting petition associated with our AMI project.<sup>2</sup> The purpose of  
4 the AMI Report was to provide an update on the capital costs of the project to date, the  
5 expected final capital investment and long-term operating costs (O&M), and the current and  
6 expected financial and non-financial customer benefits provided by the AMI system,  
7 including the current degree of its used and useful capabilities. The format of this Report, and  
8 in particular, the reporting of costs and benefits, follows closely the structure of the  
9 Company’s initial business case for the advanced metering project filed as part of our 2016  
10 general rate case in Washington,<sup>3</sup> which facilitates a comparison for previously-estimated net  
11 benefits and current results. The AMI Report has been provided in this case as Exh. JDD-2,  
12 sponsored by Company witness Mr. DiLuciano.<sup>4</sup>

13 **Q. Ignoring all of the qualitative benefits related to AMI, is the Company’s**  
14 **investment in AMI beneficial for customers, from a quantitative cost-benefit standpoint?**

15 A. Yes. As detailed in the testimony of Company witnesses Ms. Rosentrater and  
16 Mr. DiLuciano (and expanded upon in the AMI Project Report provided as Exh. JDD-2), the  
17 project will provide an overall net benefit over the project life. Illustration No. 2 below  
18 demonstrates that net benefit:

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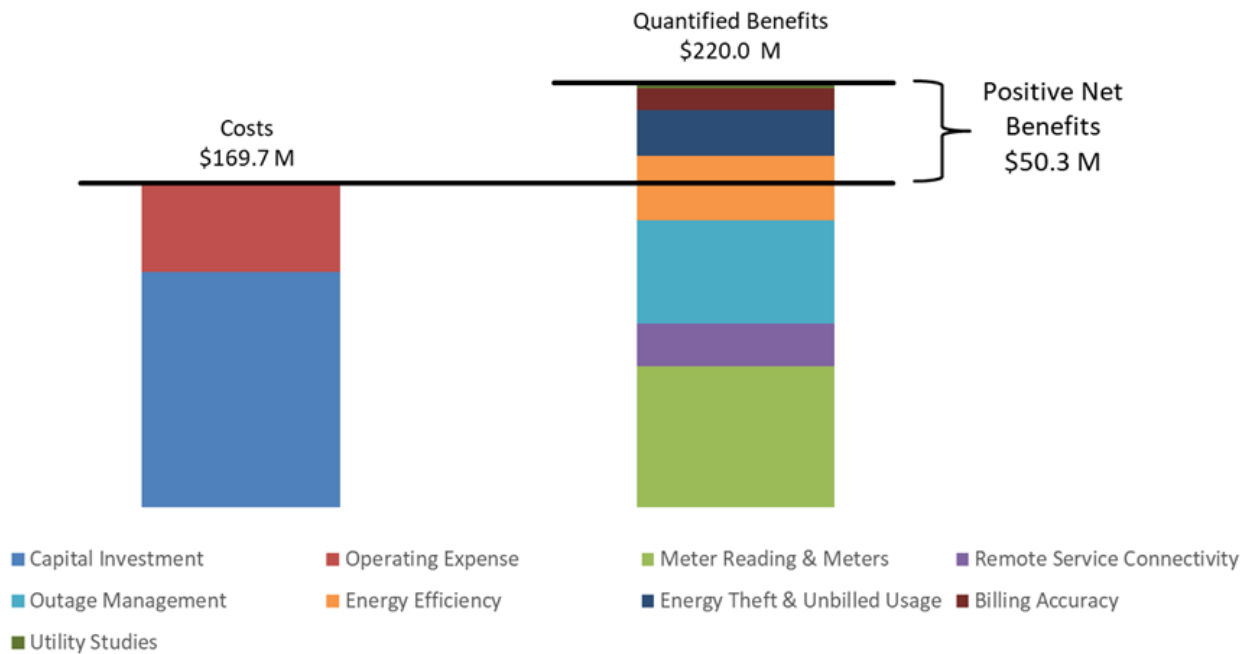
<sup>2</sup> See Commission Final Order pertaining to Avista’s petition to defer the undepreciated net book value of its electric meters being replaced as part of the Company’s advanced metering infrastructure project (Docket UE-160100).

<sup>3</sup> Exhibit HLR-3 in Dockets UE-160228 and UG-160229, Consolidated.

<sup>4</sup> After filing the Report in August 2020, and as the Company was accounting for revenue requirement offsets for avoided costs, Avista found an inadvertent error overstating the amount of savings achieved for manual meter reading in 2018. Financial benefits in the Report (on a nominal and net present value basis) have been adjusted accordingly, in addition to making several non-substantive grammatical edits. Those edits were filed in Dockets UE-170327 and UG-170328 on or about October 30, 2020 and are reflected in Exh. JDD-2.

**Illustration No. 2**

Estimated (NPV) Lifecycle Costs and Benefits for Avista's Washington Advanced Metering Infrastructure Project, August 2020



As Ms. Rosentrater and Mr. DiLuciano discusses in their testimony and as noted above, in our 2016 business case we estimated net financial benefits of \$26.6 million, compared with our current estimate of \$50.3 million. We also completed sensitivity analysis on currently estimated financial benefits. Even if Avista were to only achieve the extreme lower end of the range in variability, which is now highly unlikely, the project would still produce positive net benefits of \$33 million, not including any new financial benefits, such as those described for demand response through variable peak pricing and time of use rates. Though we believe the prudence of our investment in advanced metering should be judged on the merits of all customer benefits provided by the system (both quantitative and qualitative benefits), our current case clearly demonstrates the cost-effective value delivered for our customers based

1 on existing quantifiable financial net benefits alone.

2 **Q. What is the second initiative you would like to highlight?**

3 A. In April 2019, the Company announced a 100% clean electricity goal by 2045,  
4 with carbon neutral electricity supply by the end of 2027. Our initiative bolsters Avista's  
5 long-standing history of, and well-established approach to, providing clean, reliable and  
6 affordable energy to the customers and communities we serve. We believe that the 100%  
7 clean electricity goal is an important step forward in caring for our environment while  
8 continuing to meet the energy needs of our customers and communities today and well into  
9 the future.

10 Since Avista's founding on clean, renewable hydro power in 1889, we've served our  
11 customers with an electric generation resource mix that is more than half renewable, allowing  
12 us to keep our carbon emissions among the lowest in the nation. Just in the last five years,  
13 we've implemented three renewable energy projects on behalf of our customers. Our  
14 Community Solar project in Spokane Valley, Solar Select project in Lind (the only utility-  
15 scale solar project in Washington State), and the Rattlesnake Flat Wind project in Adams  
16 County together have allowed us to add to the clean electricity we already provide, meet the  
17 energy needs of our customers without increasing their bills and drive economic vitality in  
18 these communities.

19 **Q. Is the Company's clean energy goal limited to just its electric generation**  
20 **resource mix?**

21 A. No, Avista's clean energy focus is not limited to the electric generation  
22 resource mix. We view clean energy as a key element in driving economic development and  
23 shaping the sustainable communities of the future. Avista has created companies like Itron,

1 Ecova and Relion that play a role in supporting clean energy and the efficient use of electricity.  
2 We serve as a founding partner of Urbanova, Spokane's Smart City living laboratory that is  
3 testing smart city concepts, and we're creating an EcoDistrict in Spokane that will allow the  
4 Company to not only shape how the grid of the future will operate, but also define how  
5 buildings can be developed to operate and utilize energy in the most efficient manner.

6 **Q. How does natural gas fit with the Company's clean energy goal?**

7 A. Natural gas has been a key energy choice for Avista's customers for nearly 70  
8 years. It is an affordable and less expensive heating option for customers, especially for many  
9 large commercial and industrial customers who rely on it to run their business, provide jobs  
10 for their employees and serve their communities. Natural gas is one of the cleanest burning  
11 fuels and is an essential part of reducing carbon emissions, particularly when used directly by  
12 customers in their homes and businesses rather than used to generate electricity to meet the  
13 same need. Compared to wood, heating oil and other fuels, natural gas improves air quality.  
14 Additionally, the use of compressed natural gas (CNG) to fuel vehicles reduces carbon  
15 emissions in the transportation sector, which is a leading contributor of emissions. Company  
16 witness Mr. Thackston provides further information related to the Company's electric and  
17 natural gas clean energy goals.

18 **Q. What is the third initiative you would like to highlight?**

19 A. As those of us who live in the Western United States have experienced in recent  
20 years, the threat of wildfires has increased tremendously. Recent wildfires have galvanized  
21 our commitment to public safety, emergency preparedness, and to protect our regional  
22 economy. Wildfires represent a growing threat to homes, businesses, and our way of life. As  
23 such, Avista created a Wildfire Resiliency Plan, sponsored by Company witness Mr. Howell.

1 The Wildfire Resiliency Plan represents Avista's commitment to mitigating potential wildfire  
2 risk associated with the delivery of electricity. It also affirms our commitment to working  
3 closely with community leaders, with property owners, and emergency first responders. The  
4 Plan leverages the Company's experience with responding to adverse weather and  
5 environmental conditions including wildland fires. It also represents the knowledge of  
6 Avista's employees, that of peer utilities, together with fire protection and land management  
7 agencies.

8 **Q. Avista recently faced a number of wildfires in its service territory. Is there**  
9 **any update that you can provide on those?**

10 A. Yes. In our service territory, and throughout the Northwest, a substantial  
11 windstorm in early September caused significant outages, as well as a number of fires that  
12 spread rapidly. These fires devastated communities in our service territory, including the  
13 towns of Malden, Pine City, and impacted others. Avista's investigation has determined that  
14 the primary cause of the fires in its region was extreme high winds, a weather event that  
15 triggered wildfires and affected electric utilities throughout the Pacific Northwest. To date,  
16 the Company has not found any evidence that the fires were caused by any deficiencies in its  
17 equipment, maintenance activities or vegetation management practices, although it has  
18 become aware of instances where, during the course of the storm, otherwise healthy trees and  
19 limbs, located in areas outside its maintenance right-of-way, broke under the extraordinary  
20 wind conditions and caused damage to our energy delivery system. Parallel investigations by  
21 the Department of Natural Resources are ongoing, and Avista is fully cooperating with their  
22 efforts.

23 As I stated at the time, we are deeply saddened by the devastation in numerous



1 communities throughout our region in the wake of the unprecedented windstorm. From the  
2 outset of this storm, our focus has been, and will continue to be, to look for ways to help  
3 support affected communities as they begin to assess and repair the damage. We will continue  
4 to communicate with the Department of Natural Resources to support one another in fire  
5 suppression and other response efforts, and as well as with local fire departments, community  
6 leaders and other important stakeholders as we collectively work fires as they occur.

7 **Q. What are the general elements of the Wildfire Resiliency Plan?**

8 A. The Wildfire Resiliency Plan includes 28 individual recommendations  
9 grouped into four categories:

- 10 • Grid Hardening – by replacing infrastructure in fire prone areas, the likelihood of  
11 a spark-ignition source is mitigated, and critical infrastructure is protected from  
12 the impacts of fire.
- 13 • Vegetation Management – by identifying potential conflicts on an annual basis and  
14 prioritizing those risks from highest to lowest, Wildfire Resiliency aligns resources  
15 with risk metrics.
- 16 • Situational Awareness – by adding line and monitoring equipment, system  
17 operators can respond quickly to variable weather and fire threat conditions.
- 18 • Operations & Emergency Response – through training and simulation, Avista  
19 personnel will be better prepared to work with fire professionals during an event.

20  
21 The recommendations included in the Wildfire Resiliency Plan also reflect cost prudence and  
22 were adopted on their basis to:

- 23 • Leverage existing asset programs and operating practices;
  - 24 • Promote public safety; and
  - 25 • Mitigate financial risk.
- 26

27 In addition to information provided by Mr. Howell, Company witness Ms. Andrews provides  
28 testimony outlining the Company's proposal as to the treatment of the costs associated with  
29 this initiative.

1           **Q.     What is the fourth initiative you would like to highlight?**

2           A.     Avista has actively monitored the operation and expansion of the California  
3 Independent System Operator (CAISO) Western Energy Imbalance Market (EIM). Avista  
4 has been continuously evaluating the operational benefits associated with EIM participation,  
5 and the associated risks of not participating in the market. One of the largest operational  
6 benefits for current EIM participants is the ability to balance and regulate load and renewable  
7 resources by leveraging available market resources, instead of relying on only internal Avista  
8 resources to provide regulation and flexible ramping.

9           Avista has also closely monitored the impacts to the bi-lateral trading market as more  
10 entities join the EIM. The recent integration of Idaho Power and Powerex into the EIM has  
11 had an impact on short term hourly market liquidity. In addition, the commitment of Seattle  
12 City Light, NorthWestern Energy, and the recent notice of intent of the Bonneville Power  
13 Administration to join the market in the next few years, will continue to put a stress on near  
14 term hourly market liquidity. With over 75% of the load in the western interconnection  
15 committed to joining the EIM by 2022, non-participating utilities will face growing market  
16 liquidity risk and will therefore need to hold more reserves to minimize exposure to in-hour  
17 fluctuations or extended non-planned generation outages. Holding additional reserves will  
18 lead to higher overall power supply costs since excess available resources can't be fully  
19 optimized or additional resources may need to be purchased.

20           In addition, Avista's renewable resource mix is changing as the price of renewable  
21 resources continue to decline, our customer's interest in purchasing cleaner energy increases,  
22 and the implementation of new carbon emission policies in the West. As additional variable  
23 resources are integrated into the Avista Balancing Authority Area, it becomes more efficient

1 and cost-effective for Avista to rely on the EIM to help meet the in-hour variability, instead  
2 of holding back and dispatching Avista-owned resources to meet the flexible ramping  
3 requirements.

4 Based on the short-term market liquidity risks associated with being a non-EIM  
5 participant, and Avista's changing resource portfolio, Avista decided it was time to join the  
6 Western EIM. Avista signed an EIM Implementation Agreement with the CAISO on April  
7 25, 2019 with a planned go-live date of April 1, 2022. Company witness Mr. Kinney provides  
8 further information related to joining the EIM, and Ms. Andrews provides testimony on how  
9 the costs associated with EIM have been included in the case.

10 **Q. What is the fifth and final initiative you would like to highlight?**

11 A. I am proud of our leadership as it relates to transportation electrification. As  
12 the Commission recently acknowledged, the Company carried out its Electric Vehicle Supply  
13 Equipment (EVSE) Pilot from 2016 through 2019, seeking to understand costs, benefits and  
14 impacts of electric vehicles (EV), customer needs, testing utility program models, and to begin  
15 supporting beneficial EV adoption. Among many things, the EVSE Pilot demonstrated cost-  
16 effective utility programs that were well received by customers and correlated with  
17 significantly increased adoption rates. It also highlighted the value of workplace charging, a  
18 need for more public charging infrastructure, and industry improvements necessary in  
19 networked charger costs and reliability. Based on what we learned, this direct experience  
20 along with ongoing research and customer feedback has positioned the Company to propose  
21 informed strategies and programs as outlined in a new Transportation Electrification Plan,  
22 which the Commission acknowledged on October 15, 2020 (Docket UE-200607). This plan  
23 has five aspirational goals:

- 1 1. Achieve sustained entry in the mass market for light-duty EVs, resulting in 15%  
2 of annual vehicle sales by 2030 or earlier;
- 3
- 4 2. Support electrification of commercial and public fleets, including implementation  
5 of a commercial EV time-of-use (TOU) rate starting in 2021;
- 6
- 7 3. By 2025, achieve net benefits from load management and EV TOU rates resulting  
8 in a 50% reduction of EV peak load;
- 9
- 10 4. Monitor new technologies and markets, implement pilot projects starting with  
11 mass transit and school buses in 2022 - 2023; and
- 12
- 13 5. Expand utility fleet electrification with 5% or more of annual fleet budgets, install  
14 EVSE at Avista facilities and by 2025 raise employee EV adoption 300%.
- 15

16 **Q. In summary, why are those five initiatives important to highlight?**

17 A. In short, the Company is transforming and undertaking a number of really  
18 fantastic programs. These initiatives affect how the Company and customer will interact now  
19 and to the future (AMI), how the Company will source clean energy for its customers (EIM  
20 and 100% Carbon Neutral), to protecting our environment and customers from the dangers of  
21 wildfire, to helping lead the change toward clean transportation, these initiatives are truly a  
22 shift in how the traditional utility operated in the past, to what our role must be to the future.  
23 These are all initiatives that help to continue our focus on keeping the customer at the center  
24 of all that we do!

25

26 **V. SUMMARY OF GENERAL RATE CASE**

27 **Q. Would you please summarize the Company's proposals included in this**  
28 **electric and natural gas general rate case filing?**

29 A. Yes. In this filing, the Company is proposing a traditional general rate case,  
30 which would begin with new base rates effective October 1, 2021, but which would be fully

1 offset through the use of a Tax Customer Credit. The proposed base electric and natural gas  
 2 revenue increases are shown in Table No. 1 below:

3 **Table No. 1 –Electric and Natural Gas Revenue Increases**

4		<b><u>Proposed</u></b>	<b><u>Base %</u></b>	<b><u>Billed %</u></b>
5		<b><u>Revenue Increase</u></b>	<b><u>Increase</u></b>	<b><u>Increase</u></b>
6				
7	Electric Operations	\$44.2 million	8.3%	0.0%
8				
9	Natural Gas Operations	\$12.8 million	12.2%	0.0%
10				

11 The Company’s electric and natural gas requests are based on a proposed rate of return  
 12 of 7.43%, with a capital structure comprised of 50% equity and 50% debt, a 4.97 cost of debt,  
 13 and a 9.9% return on equity (ROE).

14 **Q. In light of the Commission’s Policy Statement that would allow for, and**  
 15 **even encourages, multi-year rate plans, why did Avista choose not to do so at this time?**

16 A. The Company struggled with the choice as to whether to file a multiyear rate  
 17 plan in this proceeding. In the end, Avista believed that there are a number of significant  
 18 issues in this case for the parties to review and the Commission to consider, that also adding  
 19 in a multi-year rate plan could complicate the case. We are including in this case not only the  
 20 more “normal” restating and pro forma adjustments, but we are including recovery of our  
 21 investment in AMI as well as addressing power supply for the first time since the Commission  
 22 ordered Avista, Commission Staff, and other parties to see if the form and calculation of power  
 23 supply adjustments could be resolved by the parties. Finally, the Company is also proposing  
 24 an important change in methodology as to the treatment of certain tax items, the results of  
 25 which would mitigate the effects of this case on customers. Again, there are some very

1 significant issues, and layering in a multi-year rate plan, the first filed under the Commission’s  
2 Policy Statement that we are aware of, could unnecessarily complicate this case.

3 **Q. As discussed by Mr. Thies and Ms. Andrews, the Company is proposing**  
4 **to offset the Company’s base electric and natural gas rate relief requests with a “Tax**  
5 **Customer Credit.”<sup>5/6</sup> Why is the Company proposing such a credit?**

6 A. The Company felt it was important to find ways to offset base rate increases  
7 for our customers during the COVID-19 pandemic. We realize that the Company’s request  
8 to recover its costs in this case related to providing safe and reliable energy service would  
9 have an impact on our customers. As I stated earlier, we understand that our customers have  
10 been impacted, and that we have sought to assist in a number of ways. This holds true for this  
11 case as well. We desired to find a way to mitigate our request – in effect deferring for a period  
12 of time the impact of this rate case on our customer’s bills.

13 **Q. Would you please provide more details on what the Company is proposing**  
14 **in this regard?**

15 A. Yes. Based on the proposed Washington deferred tax benefit available, and  
16 the base rate increases proposed in this case, the Company is proposing to offset the electric  
17 base increase by amortizing the tax benefit through electric Schedule 76, effective October 1,  
18 2021 through December 31, 2022, approximately one-and-one-quarter (1¼) years, fully

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<sup>5</sup> Mr. Krasselt explains that concurrent with the filing of this GRC, the Company has filed with this Commission its Tax Accounting Petition, requesting authorization to change its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant basis adjustments, including Industry Director Directive No. 5 (“IDD #5”) and meters (See Exh. RLK-1T for explanation). Approval of the Company’s application would provide immediate benefits to customers, which the Company is requesting approval to defer, and to begin amortization through separate tariff of those benefits, concurrent with the effective date of this GRC.

<sup>6</sup> These witnesses describe important parameters related to the amount ultimately returned to customers as well as the timeframe under which this should occur, so as to not negatively impact the Company’s rating agency credit metrics.

1 amortizing the balance of \$58.1 million as provided by Mr. Krasselt. For natural gas  
 2 customers, the deferred tax benefit balance is \$28.2 million. This balance allows an offset of  
 3 the natural gas base increase of \$12.8 million over two years (\$25.6 million) through natural  
 4 gas Schedule 176, amortizing the \$25.6 million balance from October 1, 2021 through  
 5 September 30, 2023, with a balance remaining for a future amortization. The annualized  
 6 amount would be \$44.2 million for electric and \$12.8 million for natural gas - offsetting the  
 7 Company's requested electric and natural gas base rate relief - **resulting in no billed impact**  
 8 **to customers.**

9 **Q. Has Avista proposed to update power supply costs as a part of this case?**

10 A. Yes. As explained further by Company witness Mr. Kalich, in Avista's 2017  
 11 general rate request (Docket No. UE-170485), the Commission stated in its Final Order 07  
 12 that baseline adjustments to power supply costs should only be made "in extraordinary  
 13 circumstances." More specifically, the Commission stated:<sup>7</sup>

14 ... the Commission believes the number of recent baseline adjustments is excessive.  
 15 ...Moving the baseline upward or downward in each general rate case results in  
 16 distorted results. Going forward, the Commission will consider carefully any  
 17 adjustments to the power cost baseline and change it **only in extraordinary**  
 18 **circumstances.** (emphasis added)  
 19

20 In this case, we view that power supply costs have changed due to "extraordinary"  
 21 circumstances. First, Mr. Kalich provides testimony on the very constructive power supply  
 22 workshops help by Avista, Commission Staff, Public Counsel, and Alliance of Western  
 23 Energy Consumers which has led, in our view, to an agreed-upon methodology for the  
 24 calculation of base power supply costs. Second, as discussed by Mr. Kalich the resulting  
 25 calculation of base power supply costs, using the agreed-upon methodologies, results in an

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<sup>7</sup> Dockets UE-170485 and UG-170486, Order 07, ¶160.

1 approximate \$15.3 million reduction in the base revenue request (the overall reduction in  
2 Power Supply and Transmission costs included in the case is \$16.4 million).

3 **Q. How is the Company proposing to spread the base electric increase to each  
4 of the customer rate schedules?**

5 A. The proposed electric increase to each customer rate schedule effective  
6 October 1, 2021, is shown in Table No. 2 below.<sup>8</sup>

7 **Table No. 2 – Proposed % Electric Increase by Schedule (October 1, 2021)**

8		Increase in	Increase in
9	<u>Rate Schedule</u>	<u>Increase in Base</u>	<u>Increase in</u>
		<u>Rates</u>	<u>Billing Rates</u>
			<u>before Offset</u>
			<u>with Offset</u>
10	Residential Schedules 1/2	8.3%	0.0%
	General Service Schedules 11/12	8.3%	0.0%
11	Large General Service Schedules 21/22	8.3%	0.0%
	Extra Large General Service Schedule 25	8.3%	0.0%
12	Pumping Service Schedules 31/32	8.3%	0.0%
	Street & Area Lights Schedules 41-48	<u>8.3%</u>	<u>0.0%</u>
13	<b>Overall</b>	<b><u>8.3%</u></b>	<b><u>0.0%</u></b>

14 **Q. What is the monthly bill change for a residential electric customer with  
15 average consumption?**

16 A. After combining the base rate increase with the proposed tax benefit offset, the  
17 proposed monthly bill change for a residential customer using an average of 914 kWhs per  
18 month is \$0.00 per month, or a 0.0% change in their electric bill. The present bill for 914  
19 kWhs is \$82.33, and that would be unchanged.

20 **Q. How is the Company proposing to spread the October 1, 2021 natural gas  
21 increases to each of the customer rate schedules?**

<sup>8</sup> Company witness Mr. Miller provides details of the proposed spread of the electric base rate increase, and tax offset to each customer rate schedule.



1 A. The proposed natural gas increase to each customer rate schedule effective  
2 April 1, 2020, is shown in Table No. 3 below.<sup>9</sup>

3 **Table No. 3 - Proposed % Natural Gas Increase by Schedule (October 1, 2021)**

<b><u>Rate Schedule</u></b>	<b>Increase in Margin Rates</b>	<b>Increase in Billing Rates before Offset</b>	<b>Increase in Billing Rates with Offset</b>
General Service Schedules 101/102	12.4%	8.3%	0.0%
Large General Service Schedules 111/112/116	12.4%	6.6%	0.0%
Interrupt. Sales Service Schedules 131/132	12.4%	5.9%	0.0%
Transportation Service Schedule 146	12.4%	12.6%	0.0%
Special Contracts Schedule 148	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
<b>Overall</b>	<b>12.2%</b>	<b>7.9%</b>	<b>0.0%</b>

9 **Q. What is the monthly bill change for a residential natural gas customer  
10 with average consumption?**

11 A. After combining the base rate increase with the proposed tax benefit offset, the  
12 proposed monthly bill increase change for a residential customer using an average of 67  
13 therms of natural gas per month would be \$0.00 per month, or 0.0%. The present bill for 67  
14 therms per month is \$56.53, and that would remain unchanged.

15 **Q. How have customers' electric and natural gas bills changed in recent years  
16 as Avista has continued to make necessary investments in its utility systems?**

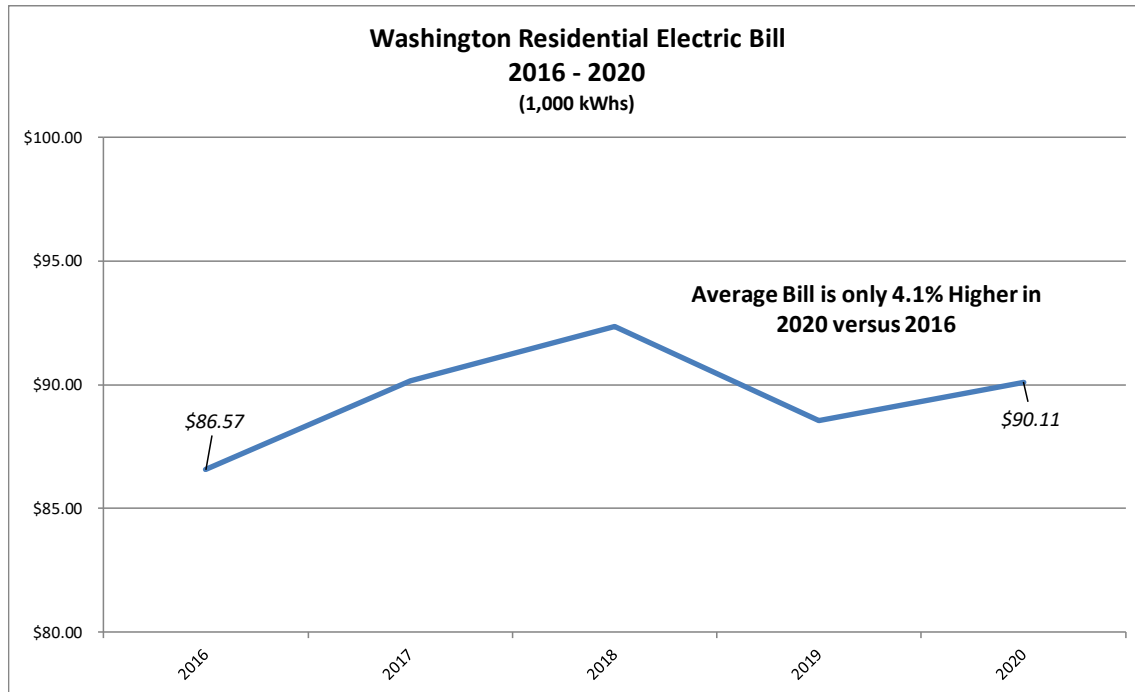
17 A. The line graph in Illustration No. 3 below shows the change in the monthly  
18 bill, from January 2016 through August 2020, for a Washington residential electric customer  
19 using an average of 1,000 kilowatt-hours per month. The graph shows that the total increase  
20 over that timeframe has only been 4.1% - less than 1% per year on average. There are many  
21 factors that of course affect the components of a customer's bill. What is important to note,

<sup>9</sup> Company witness Mr. Miller provides details of the proposed spread of the natural gas base rate increase, and tax offset to each customer rate schedule.

1 however, is that overall the average bill for customers has actually trended generally below  
 2 the overall rate of inflation.

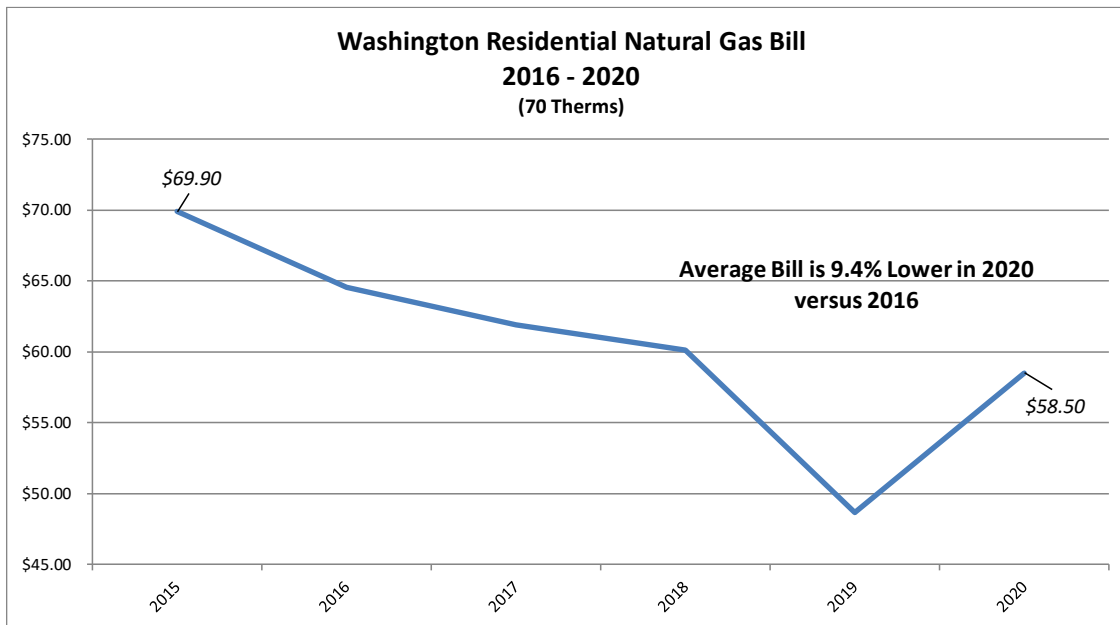
3 **Illustration No. 3 – Washington Residential Electric Bill (January 2016 – August 2020)**

4



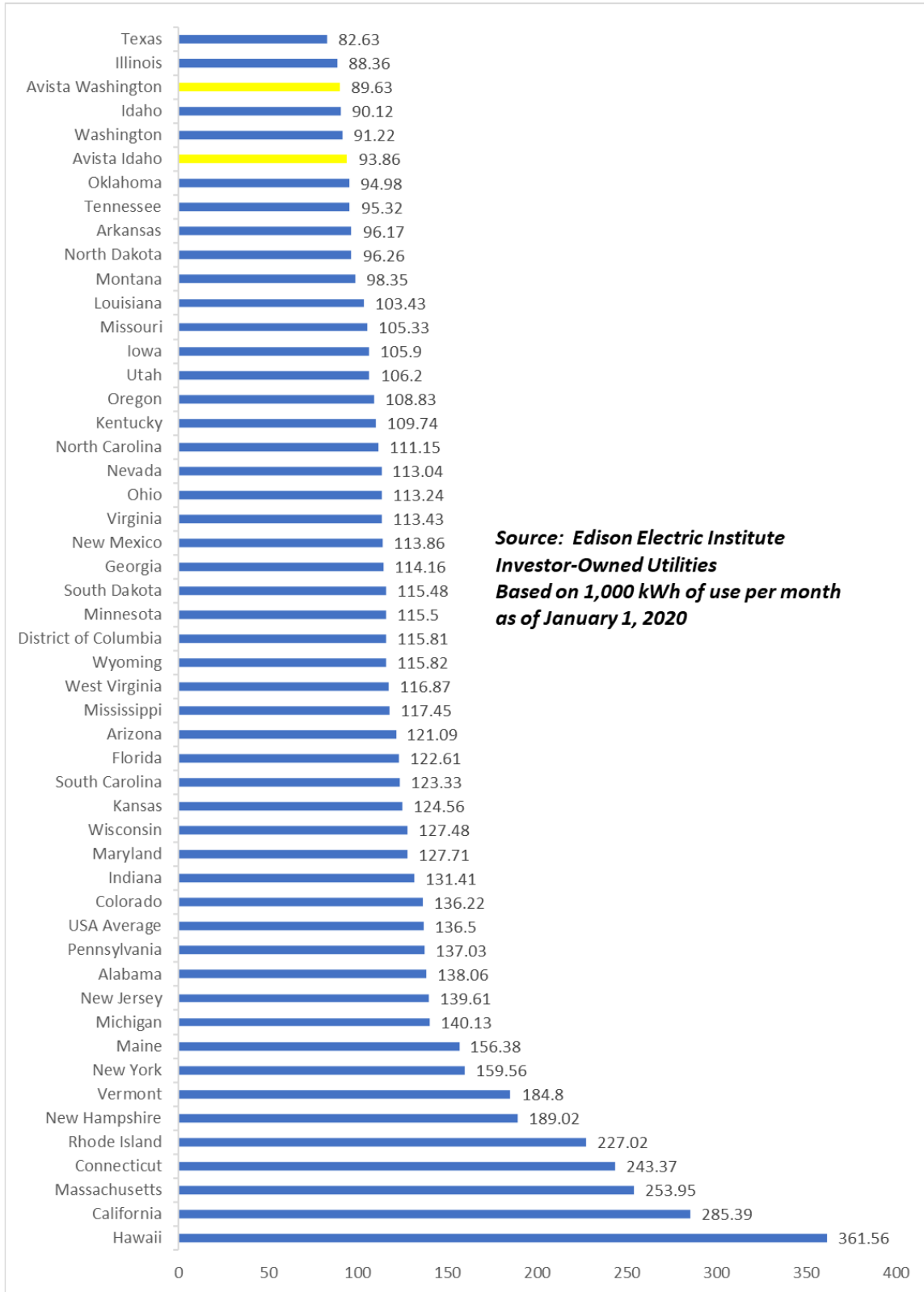
15 With regard to natural gas, the line graph in Illustration No. 4 below shows the change  
 16 in the monthly bill, from January 2016 through August 2020, for a Washington residential  
 17 natural gas customer using an average of 70 therms per month. The graph shows that customer  
 18 bills have dropped from approximately \$69.90 per month in 2016, to approximately \$58.50  
 19 per month in 2020. The graph shows that bills have decreased significantly for this time  
 20 period, even as Avista has continued to make the necessary investments to maintain its  
 21 delivery system and invest in new technology. Again, we are cognizant that the primary  
 22 reasons for the continued decline in natural gas bills is related to the reduction in wholesale  
 23 natural gas costs, as well as the impact of federal tax reform.

**Illustration No. 4 – Washington Residential Natural Gas Bill (January 2016 – August 2020)**



With regard to Avista’s retail rates compared to other investor-owned utilities, Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 5 below provides a comparison of an Avista residential customer’s monthly bill in Washington and Idaho with utility bills in other states. The illustration shows that Avista’s residential customers’ rates are among the lowest in the Country for investor-owned utilities.

**Illustration No. 5 – Average Residential Monthly Electric Bill**



1           Our relatively low retail rates are due in large part to a history of our Company  
2 aggressively pursuing the acquisition and preservation of a diversified portfolio of low-cost  
3 resources for the benefit of our customers. They are also a result of Avista’s efforts to control  
4 its capital investment costs and utility operating costs, in order to keep retail rates as low as  
5 reasonably possible.

6           **Q.     In your view, is the Company taking advantage of the guidance provided**  
7 **by the Commission related to pro forma capital adjustments?**

8           A.     In short, yes, we considered the Commission’s guidance in prior Avista general  
9 rate cases<sup>10</sup>, the Policy Statement<sup>11</sup>, and even learnings from the recent Puget Sound Energy<sup>12</sup>  
10 general rate case final order. As Ms. Andrews discusses in her testimony, the Company has  
11 included various “tools” which are recognized by this Commission and are based on recent  
12 guidance by the Commission, to reduce regulatory lag and ensure the opportunity (not a  
13 guarantee) for the Company to earn its proposed rate of return. Primarily, the Company has:

- 14           1) adjusted historical test year results to EOP 2019 net plant;
- 15           2) used a hypothetical capital structure of 50% equity and 50% long-term debt;
- 16           3) included specific pro forma 2020 capital projects that are “used and useful” as of  
17           December 31, 2020, nine months prior to new rates going into effect;
- 18           4) included four specific large and distinct pro forma projects with additions in 2020  
19           and 2021 (AMI, Wildfire, EIM, Colstrip Units 3 and 4), that will be “used and  
20           useful” prior to new rates going into effect; and  
21           5) included limited specific “provisional” capital projects completed in 2022 (Colstrip  
22           Units 3 and 4 and EIM), specifically related to accelerated or short-lived assets.  
23  
24  
25  
26

---

<sup>10</sup> Dockets UE-160228 and UG-160229, Order 06.

<sup>11</sup> Docket U-190531 - Policy Statement on Property That Becomes Used and Useful After Rate Effective Date

<sup>12</sup> Dockets UE-190529 and UG-190530, Order 08.

1           **Q.     Does there continue to be protections for Washington customers should**  
2 **the Commission order rates that result in the Company earning in excess of its**  
3 **authorized return?**

4           A.     Yes. First, as discussed by Ms. Andrews, even with recent rate relief, the  
5 Company continues to substantially underearn, especially in our natural gas operations. Were  
6 the Company still somehow to earn in excess of its authorized return, ratepayers will  
7 participate in a 50/50 sharing of any returns in excess of the authorized rate of return – a  
8 component of the Company’s decoupling mechanisms. This is a sharing of the risks and  
9 rewards, albeit in an asymmetrical way, because the Company is required to absorb 100% of  
10 any shortfall in earned returns. All of this translates into a real incentive for the Company to  
11 manage its costs.

12  
13   **VI.     GENERAL RATE CASE DRIVERS**

14           **Q.     What are the primary factors driving the Company’s requested electric**  
15 **and natural gas revenue increases?**

16           A.     As discussed by Ms. Andrews, the increase in overall costs to serve customers  
17 is driven primarily by the continuing need to replace and upgrade the facilities and technology  
18 we use every day to serve our customers, while revenue growth remains low. In particular,  
19 the Company’s request includes the Company’s electric and natural gas investment in AMI  
20 and related regulatory deferred balances, which will be completed in 2021.<sup>13</sup> AMI represents  
21 42% of the Company’s overall electric request, and 54% of its natural gas request. The  
22 Company has also included other major distinct electric projects related to the Company’s

---

<sup>13</sup> The Company will update this information during the pendency of this case.

1 2020 and 2021 Wildfire Plan and EIM investments (21% of the electric request), and pro  
2 formed certain electric and natural gas gross plant additions for 2020.

3 Provided below in Table Nos. 4 and 5 are general summaries showing the major  
4 drivers of the Company's overall revenue requirement and are meant to show generally how  
5 the requested base revenue increase is categorized. Ms. Andrews provides more granular  
6 details related to the Company's revenue requirement in this case.

7 **Table No. 4 – Electric Drivers (Summarized)**

	<b><u>Electric</u></b>	<b><u>Revenue Impact</u></b>	<b><u>% of Ask</u></b>
9	AMI	\$18.5	42%
10	Wildfire / EIM	\$9.5	21%
11	Power Supply / Transmission	-\$16.4	-37%
12	Other Net Capital Additions	\$20.1	45%
	O&M/A&G/Misc.	<u>\$12.5</u>	<u>28%</u>
	<b>Total</b>	<b><u>\$44.2</u></b>	<b><u>100%</u></b>

13 **Table No. 5 – Natural Gas Drivers (Summarized)**

	<b><u>Natural Gas</u></b>	<b><u>Revenue Impact</u></b>	<b><u>% of Ask</u></b>
15	AMI	\$6.9	54%
16	Other Net Capital Additions	\$3.2	25%
17	O&M/A&G/Misc.	<u>\$2.7</u>	<u>21%</u>
	<b>Total</b>	<b><u>\$12.8</u></b>	<b><u>100%</u></b>

18 **Q. Would you please identify the main changes in expenses impacting the**  
19 **Company's filed request?**

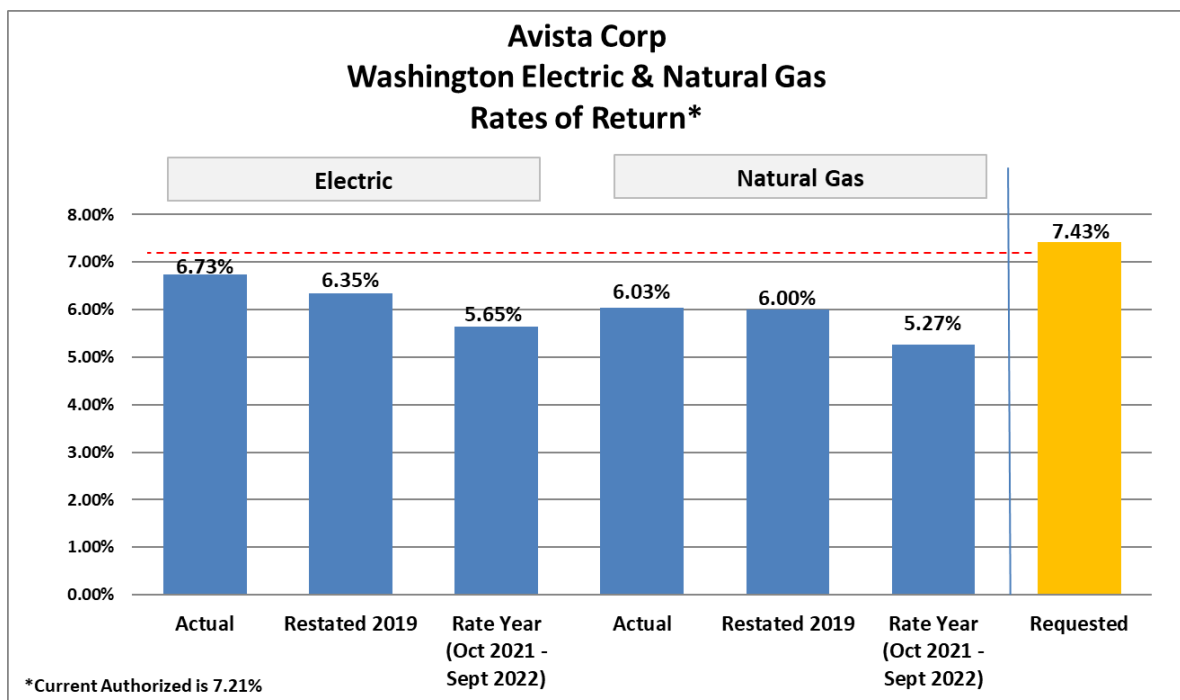
20 A. The Company has a series of increases in expenses, mainly associated with  
21 labor and benefits, increases in informational technology costs associated with contractual  
22 agreements (necessary to support such costs as cyber and general security, emergency  
23 operations readiness, operations support, for example), as well as significant increases in

1 insurance premiums, due to the impact globally of wildfires. However, these net increases in  
 2 costs specifically for electric operations are more than offset by the proposal to reduce base  
 3 net power supply and transmission costs by \$16.4 million.

4 **Q. What were the Company’s electric and natural gas earned returns in**  
 5 **2019?**

6 A. In 2019, Avista achieved an electric rate of return of 6.5% and 6.1% for natural  
 7 gas, on a Commission Basis (see. Exh EMA-1T). This is compared to the authorized level of  
 8 7.21% as set by the Commission in the Company’s last general rate case. On an actual basis,  
 9 Avista’s Washington electric results were 6.73% and for natural gas were 6.03%. As Ms.  
 10 Andrews demonstrates, absent rate relief, the Company will not have a reasonable opportunity  
 11 to earn its allowed rate of return in the rate effective period. As Ms. Andrews shows in  
 12 Illustration No. 6 (excerpted from Exh. EMA-1T), absent rate relief in this case, the rates of  
 13 return for the “Rate Year” would be 5.65% (electric) and 5.27% (natural gas).

14 **Illustration No. 6**





1           After considering all standard Commission Basis adjustments, as well as additional  
2 pro forma and normalizing adjustments, the pro forma electric and natural gas rates of return  
3 (“ROR”) for the Company’s Washington jurisdictional operations for the proposed “Rate  
4 Year” are 5.65% and 5.27%, respectively. Both return levels are well below the Company’s  
5 requested rate of return of 7.43%. The incremental base revenue requirement necessary to  
6 give the Company an opportunity to earn its requested ROR is \$44.2 million for the electric  
7 operations and \$12.8 million for the natural gas operations.

8           **Q.     What is driving the need for continued capital investment?**

9           A.     Exh. MTT-4, sponsored by Company witness Mr. Thies, is a copy of Avista’s  
10 “Infrastructure Investment Plan”, a plan that provides an overview of our capital investment  
11 prioritization process and the six key “investment drivers”, which are:

- 12           1. Respond to customer requests for new service or service enhancements;
  - 13           2. Meet our customers’ expectations for quality and reliability of service;
  - 14           3. Meet regulatory and other mandatory obligations;
  - 15           4. Address system performance and capacity issues;
  - 16           5. Replace infrastructure at the end of its useful life based on asset condition; and
  - 17           6. Replace equipment that is damaged or fails, and support field operations.
- 18

19           An explanation of each of these drivers, as well as examples of specific capital projects under  
20 these drivers, is provided in the Infrastructure Investment Plan. Mr. Thies provides further  
21 details on our capital planning process, which is used to identify and prioritize capital  
22 investment, in the appropriate time frame, in a manner that best meets the future needs and  
23 expectations of our customers. Company witnesses Mr. Thackston, Ms. Rosentrater, Mr.  
24 Kensok, Mr. DiLuciano, Mr. Howell, Mr. Kinney and Mr. Magalsky provide details of our  
25 completed capital projects, including the projects reflected in Ms. Schultz’s and Ms. Andrews’  
26 pro forma capital adjustments. Those witnesses address why they need to be done in the

1 planned time frame, and what the risks and consequences are of not completing the projects  
2 in that time frame.

3

4 **VII. COST MANAGEMENT AND EFFICIENCIES**

5 **Q. Is Avista continuing to pay particular attention to controlling its costs in**  
6 **order to mitigate the level of price increases to its customers?**

7 A. Yes. We recognize that increases in costs will result in bills that will be more  
8 difficult for some of our customers to pay. I can assure you that we are not just sitting on the  
9 sidelines as our costs go up. We continue to aggressively manage costs to achieve the  
10 appropriate balance in providing safe and reliable service at cost-effective rates, and a high  
11 level of customer satisfaction, while preserving the financial health of the utility. We are  
12 focused on long-term sustainable savings to continuously improve our service to customers  
13 and manage costs into the future. Some of the measures from the last couple of years that we  
14 are continuing, are briefly explained below, as well as a number of more recent initiatives.

15 **Q. How is a focus on cost management instilled throughout the organization?**

16 A. I believe that all of us at Avista strive to provide safe, responsible and affordable  
17 electric and natural gas service. One way to keep our employees focused on these goals is to  
18 have a portion of their compensation be at-risk, payable only with the achievement of certain  
19 customer-centered metrics. This at-risk component, in the form of our Short-Term Incentive  
20 Plan, keeps our employees focused on:

- 21 • Cost management through the O&M Cost per Customer metric;  
22 • Customer satisfaction through our Voice-of-the-Customer survey;  
23 • Service reliability through the Reliability Index; and

- 1           • Appropriate response time through the Dispatched Response Time metric.

2 We believe these metrics are somewhat intertwined in that effective cost management aid in  
3 keeping our costs reasonable for our customers, which in concert with reliable service and  
4 appropriate response to disruptions in service, results in a positive experience for our customers  
5 as measured in part in the Company's Voice-of-the-Customer survey. In the end, we were very  
6 purposeful to choose metrics we believe incentivizes our employees to diligently execute cost  
7 management and efficiencies throughout the organization, while keeping their focus on safe  
8 and reliable electric and natural gas service.

9           **Q. Earlier you mentioned continuous improvement. What initiatives has the**  
10 **Company employed in this area?**

11           A. Avista is constantly looking for improvements in the way it provides services  
12 to its customers, as well as ways to reduce the costs of those services. Beginning early last  
13 decade, Avista has actively engaged in Business Process Improvement (BPI). The goal of  
14 BPI is to give our employees the tools that allow for a mindset of continuous improvement  
15 through the elimination of waste. In BPI, waste is defined as defects, overproduction, waiting,  
16 nonstandard processes, transportation, inventory, motion and extra processing. Illustration  
17 No. 7 below shows the "8 Central Wastes" that the tools of BPI are attempting to cure:

1 **Illustration No. 7 – BPI 8 Central Wastes**

2 **“DOWNTIME”**

3 **Eliminating the “8 Central Wastes”**

4 5 6 7	<b>D</b> efects – Work that contains errors or lacks something of value .	Late work, incorrect information, partially complete work, missing or lost files
8 9	<b>O</b> verproduction – Batching, Pushing.	Overproducing and pushing additional work downstream
10 11	<b>W</b> aiting - Idle time created when people, information, equipment or materials are not at hand.	Waiting for information, waiting on responses to questions
12 13	<b>N</b> on-Standard Processes - Processes that vary in style for the same result and are not documented.	Processes by different departments for the same result
14 15	<b>T</b> ransportation – Moving of people, materials, and information which do not bring value to the customer.	Multiple handoffs, multiple electronic file transfers- Leads to other wastes such as, defects, overproduction, etc.
16 17	<b>I</b> nventory – Work that is waiting to be processed.	Customers, Email in-boxes, to do lists, product pipelines, stacks and batches.
18 19	<b>M</b> otion – Unnecessary walking, carrying, retrieving of items in a process.	Meetings, moving files, file searches, mouse clicks
20	<b>E</b> xtra Processing - Activities that do not add value from the customers perspective.	Multiple report formats with same information, using outdated formats, outdated or inappropriate software, paperwork and duplicate forms

21 **Business Process Improvement**

22 There are many tools taught to those who have gone through BPI, and it is the intent  
23 of the program that graduates will continue the use of those tools and incorporate them into their work areas. In the past, BPI Leader training was a year-long program, with 15 days of

1 training, an additional five-day workshop, and was project management heavy. Given the  
2 volume of training and other work constraints, typically only six BPI Leaders were trained in  
3 one year.

4 **Q. Has BPI been effective in driving efficiencies?**

5 A. Absolutely. Between 2016 and 2018, approximately twenty-two projects were  
6 deployed throughout the organization. However, what we found was that once a leader was  
7 done with a significant project which required a lot of time and effort, graduates tended to  
8 revert back to their regular roles without infusing the learning into their work.

9 The heart of BPI is small, incremental improvements, by taking small steps instead of  
10 drastic rigorous change. With that in mind, in 2019 the BPI Green Belt was created. In  
11 contrast to the traditional BPI program, BPI Green Belt is a three-month program, with four  
12 days of training, a three-day workshop, and is project management light. In 2019, 12 Green  
13 Belts were trained and completed projects (as opposed to just six BPI candidates that  
14 traditionally would have been trained under the old program in one year). Anecdotally, we  
15 are seeing the benefit that once the Green Belts are complete, the trained employees are  
16 integrating the tools in their daily work.

17 **Q. What other measures has the Company undertaken in recent years to**  
18 **drive cost efficiencies?**

19 A. First, the Company continues to operate under a hiring policy which requires  
20 approval by the President and CEO, the Chief Financial Officer, and the Vice President for  
21 Human Resources for all replacement or new hire positions. In an effort to keep medical  
22 office visits down, we offer access to phone or web-based 24/7 telemedicine and we have an  
23 on-site medical clinic. In 2017, Avista began offering a self-insured High Deductible Health

1 Plan (“HDHP”) in addition to the current self-insured plan. The HDHP requires plan  
2 participants to pay all costs of medical care up to defined deductible limits. Over time we  
3 expect this plan to result in lower overall medical costs to the Company.

4 As discussed in greater detail in Avista’s 2020 “Infrastructure Investment Plan”  
5 sponsored by Mr. Thies, our process to identify and prioritize capital investment is designed  
6 to meet the overall need for investment, in the appropriate time frame, in a manner that best  
7 meets the future needs and expectations of our customers, in both the short-term and long-  
8 term. The Company’s practice has been to constrain the level of capital investment each year,  
9 such that not all of the prioritized projects and programs will be funded in a given year at the  
10 level requested. Avista believes that holding capital spending below the level requested  
11 accomplishes several important objectives, including:

- 12 • **Promotes Innovation** – Encourages ways to satisfy the identified investment needs in  
13 a manner that may identify potential cost savings, defer implementation, or other  
14 creative options or solutions.
- 15
- 16 • **Balances Cost and Risk** – Captures the customer benefits of deferring needed  
17 investments by prudently managing the cost consequences and risks associated with  
18 such deferrals.
- 19
- 20 • **Efficiently Allocates Capital** – Ensures that the highest-priority needs are adequately  
21 funded in the most efficient and effective way.
- 22
- 23 • **Reduces Variability** – Moderates the magnitude of year-to-year variability to avoid  
24 excessive rate impacts, and more efficiently optimizes the number and cost of  
25 personnel necessary to carry out the capital projects.
- 26

27 Avista currently has chosen to stabilize the level of annual capital spending at what  
28 can be described as a constrained level of \$405 million (system), in an effort to accomplish  
29 the objectives described above.

1           The Company’s “Work Digitization Effort” prioritized opportunities that have a cost  
2 savings potential by digitizing the remaining back office, work processes, inventory or other  
3 areas where we might be able to achieve efficiencies. This presented a chance to think about  
4 how we might continue to streamline our processes using technology and ultimately create an  
5 inventory of opportunities. Avista assembled a team of 40 individuals from across the  
6 organization and requested they poll their respective business units for possible ideas to  
7 achieve efficiencies and find cost savings. The team collected the ideas and brought them in  
8 for review and analysis to determine if they were being addressed in another forum, or if they  
9 had merit for future sequencing, planning and implementation efforts. This activity allowed  
10 our project planning team an opportunity to ensure that efforts known to create efficiencies  
11 were being appropriately sequenced for action. We are continuing to sequence these efforts  
12 for planning and implementation as we have funding to do so, and as they make prudent sense  
13 to complete.

14           Another example where the Company has successfully managed its expenses, is  
15 related to our Fleet Asset Management Program which includes optimizing our maintenance  
16 schedule to reduce repairs and ensure peak performance, idle-reduction programs to reduce  
17 fuel consumption, “right-sizing” engines to maximize fuel efficiency and using recycled  
18 motor oil.

19           Finally, the Company’s Investment Recovery Department receives materials from the  
20 field and inspects these materials for reassignment, reuse, recycling or scrapping. This work  
21 in 2019 resulted in a total savings of \$586,000 (system). Both of these examples are  
22 continuous improvement practices to manage expenses over time.

1 **VIII. COMMUNICATIONS WITH CUSTOMERS**

2 **Q. How is Avista communicating with its customers to explain what is driving**  
3 **increased costs for the Company?**

4 A. The Company proactively communicates with its customers about a range of  
5 subjects through a variety of channels: Avista's website [www.myavista.com](http://www.myavista.com), electronic and  
6 print newsletters, Avista Connect [www.myavista.com/Connect](http://www.myavista.com/Connect), social media, customer  
7 forums, one-on-one customer interactions through field personnel and account  
8 representatives, bill inserts, direct email, media contacts, group presentations, through our  
9 employees' involvement in community, business and civic organizations, and more (of course  
10 prior to the pandemic as it relates to in-person meetings). We believe our communications  
11 help our customers and the communities we serve to better understand the utility business as  
12 well as issues faced by the Company that contribute to their energy rates, such as increased  
13 and ongoing infrastructure investment and improvement, environmental mitigation and  
14 security.

15 Our employees provide excellent customer service, and this focus on communicating  
16 with our customers includes providing our employees messaging and new tools and training  
17 to make it easier to communicate with friends, family and customers. We are finding that  
18 once a customer talks with our employees and voice their concerns and receive answers to  
19 their questions, their satisfaction level increases.

20 We are also continuing our focus on informing customers of the many programs we  
21 offer to aid in managing their energy bills and ensuring that our employees are equipped to  
22 engage in these conversations. As I discussed earlier in my testimony, that communication  
23 related to energy assistance is even more important now.



1 **IX. CUSTOMER SATISFACTION**

2 **Q. What kind of feedback are you receiving from customers related to**  
3 **customer satisfaction?**

4 A. Our customer service surveys indicate that customer satisfaction remains high.  
5 Our overall customer satisfaction from our Voice-of-the-Customer (VOC) surveys for August  
6 2020 was 99% in our Oregon, Washington, and Idaho operating divisions, our highest ever  
7 rating since the Company began tracking VOC over twenty years ago. Year-to-date, overall  
8 satisfaction is 97%. The purpose of the VOC Survey is to measure and track customer  
9 satisfaction for Avista Utilities' "contact" customers – i.e., customers who have contact with  
10 Avista through the Contact Center and/or work performed through an Avista construction  
11 office. This rating reflects a positive experience for customers who have contacted Avista  
12 related to the customer service or field service they received. These results can be achieved  
13 only with very committed and competent employees.

14  
15 **X. CUSTOMER SUPPORT PROGRAMS**

16 **Q. Please summarize briefly the customer support programs that Avista**  
17 **provides for its customers in Washington.**

18 A. Avista Utilities offers a number of programs for its Washington customers,  
19 such as energy efficiency programs, the Low-Income Rate Assistance Program (LIRAP),  
20 Project Share for emergency assistance to customers, the Customer Assistance Referral and  
21 Evaluation Service (CARES) program, level pay plans, and payment arrangements. Some of  
22 these programs will serve to mitigate the impact that COVID-19, in particular, is having on  
23 our customers and the affordability of their energy bill.

1 In the 2018/2019 heating season, nearly 32,000 Washington customers received  
2 approximately \$9.8 million in various forms of energy assistance (Federal LIHEAP program,  
3 LIRAP, Project Share, and local community funds). Some of the key programs that we offer,  
4 or support, are as follows:

- 5 1. **Low-Income Rate Assistance Program (LIRAP).** Avista’s Low Income Rate  
6 Assistance Program in Washington collects approximately \$9.0 million per year  
7 through electric and natural gas tariff surcharges. The Company, with the  
8 assistance of community action agencies, directs these funds to customers least  
9 able to pay for electric and natural gas service. The purpose of the LIRAP program  
10 is to reduce the energy cost burden among those customers least able to pay energy  
11 bills through energy assistance grants or discounted rates. In the 2017/2018  
12 heating period, for example, the LIRAP funds supplied 18,341 grants to Avista  
13 customers.  
14
- 15 2. **Project Share.** Project Share is a community fuel fund that is supported by a  
16 partnership of utilities and community action agencies; it provides “emergency”  
17 energy assistance to qualified households that have exhausted all other energy  
18 assistance resources. Avista employees and customers voluntarily donate to  
19 Project Share; in 2019 this group donated \$134,970 to the program. Additionally,  
20 during the same year the Company contributed \$128,060 to Project Share to help  
21 individuals stay connected to essential services. In 2019, 446 Avista customers  
22 were assisted by Project Share.  
23
- 24 3. **Customer Assistance Referral Evaluation Services (CARES) Program.**  
25 Avista’s CARES Department works with customers experiencing circumstances  
26 such as medical crisis, unemployment, family hardships, or other special  
27 conditions that may impact the customer’s ability to pay their utility bill. CARES  
28 works with the customer to connect them with energy assistance, provide  
29 specialized payment arrangements, and often delays disconnect to accommodate  
30 this process.  
31
- 32 4. **Comfort Level Billing.** The Company offers the option for residential customers  
33 to pay the same bill amount each month of the year by averaging their annual  
34 usage. Under this program customers can avoid unpredictable winter heating bills.  
35
- 36 5. **Multiple Payment Methods.** The Company offers a number of no-cost  
37 payment methods for residential customers. In addition to making a payment at  
38 pay stations, drop boxes, or paying by cash at pay stations or the Company’s office,  
39 Avista also offers customers online payment through the Company’s  
40 website whether it is ACH, credit and debit card and pay-by-telephone  
41 payment options which provide almost immediate account updating and the  
42 customer can make these payments without leaving their home.



1 needs adequate cash flow from operations to fund these requirements, together  
 2 with access to capital from external sources under reasonable terms, on a  
 3 sustainable basis.

4  
 5 2. We are proposing an overall rate of return of 7.43%, which includes a 50%  
 6 common equity ratio, a 9.9% return on equity, and a cost of debt of 4.97%. We  
 7 believe our proposed overall rate of return of 7.43% and the proposed capital  
 8 structure provide a reasonable balance between safety and economy.

9  
 10 3. Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB  
 11 and Baa2 from Moody's Investors Service. Avista must operate at a level that will  
 12 support a solid investment grade corporate credit rating in order to access capital  
 13 markets at reasonable rates. A supportive regulatory environment is an important  
 14 consideration by the rating agencies when reviewing Avista. Maintaining solid  
 15 credit metrics and credit ratings will also help support a stock price necessary to  
 16 issue equity under reasonable terms to fund capital requirements.

17  
 18 Mr. Adrien McKenzie, as President of Financial Concepts and Applications  
 19 (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of  
 20 common equity. He concludes that:

- 21 • In order to reflect the risks and prospects associated with Avista's jurisdictional  
 22 utility operations, his analyses focus on a proxy group of 22 utilities with  
 23 comparable investment risks.
- 24 • Because investors' required return on equity is unobservable and no single method  
 25 should be viewed in isolation, he applies the DCF, CAPM, ECAPM, and risk  
 26 premium methods to estimate a fair ROE for Avista, as well as referencing the  
 27 expected earnings approach.
- 28 • Based on the results of these analyses, and giving less weight to extremes at the  
 29 high and low ends of the range, he concludes that the cost of equity for the proxy  
 30 group of utilities is in the **9.3% to 10.7%** range, or **9.4% to 10.8%** after  
 31 incorporating an adjustment to account for the impact of common equity flotation  
 32 costs.
- 33 • As reflected in the testimony of Mark T. Thies, Avista is requesting a fair ROE of  
 34 **9.9%**, which is below the **10.1%** midpoint of my recommended range.  
 35 Considering capital market expectations, the exposures faced by Avista, and the  
 36 economic requirements necessary to maintain financial integrity and support  
 37 additional capital investment even under adverse circumstances, it is his opinion  
 38 that 9.9% represents a reasonable ROE for Avista.

1           Mr. Ryan Krasselt, Vice President, Controller and Principal Accounting Officer, will  
2 address the Company's application filed with the Commission, concurrent with this GRC,  
3 requesting authorization to change the Company's accounting for federal income tax expense  
4 from the normalization method to a flow-through method for certain plant basis adjustments,  
5 including Industry Director Directive No. 5 (IDD #5) and meters. Approval in all three of  
6 Avista's jurisdictions (Washington, Idaho and Oregon) to make this change is required, and  
7 any changes need be adjusted concurrent with a GRC, as it has significant impact on rate base.  
8 He will specifically address the IRS normalization requirements versus flow-through  
9 requirements related to these plant basis adjustments, also referred to as non-protected assets.  
10 Avista is currently calculating federal income taxes utilizing the normalization method for the  
11 majority of plant-related temporary book-to-tax differences. He will describe the proposal by  
12 Avista to utilize the flow-through method on certain plant basis adjustments, which will  
13 provide immediate benefits to customers.

14           Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, will generally  
15 cover accounting and financial data in support of the Company's need for the proposed electric  
16 and natural gas rate relief requested in the Company's filing. In addition, she will, discuss the  
17 Company's application, filed concurrent with this general rate case, requesting authorization  
18 to change its accounting for federal income tax expense as described by Mr. Krasselt. As  
19 discussed by Ms. Andrews, approval of the Company's application, providing immediate tax  
20 benefits to customers, and approval to return these tax credits to customers through separate  
21 Schedules 76 (electric) and (176 natural gas) concurrent with the effective date of this GRC,  
22 would offset the Company's base electric and natural gas rate relief requested in its entirety -  
23 resulting in no billed impact to customers. Finally, she will also discuss the Company's

1 requests in this case associated with its Wildfire Resiliency Plan, including recapping the  
2 Company's deferral application, filed concurrent with this GRC, requesting authorization to  
3 defer expenses associated with Avista's Wildfire Resiliency Plan in 2021 until new rates go  
4 into effect, as well as the Company's proposal to establish a Wildfire expense balancing  
5 account to tracking wildfire expenses during the 10-year Wildfire Resiliency Plan.

6 Mr. Kelly Magalsky, Director of Products, Services, and Customer Technology,  
7 provides an overview of the Company's "Customer at the Center" initiative and address the  
8 rationale for the projects that we have included in this rate case. Second, in this case Avista is  
9 seeking to recover the costs associated with our Electric Vehicle Supply Equipment (EVSE)  
10 Pilot program (EVSE Pilot). He provides an overview of the EVSE Pilot, the report that was  
11 filed with the Commission detailing the outcomes of the pilot, and the costs included in this  
12 general rate case.

13 Mr. Jason Thackston, Senior Vice President of Energy Resources and Environmental  
14 Compliance Officer, provides an overview of the Company's recently announced 100% Clean  
15 Electricity goal by 2045, carbon neutral electricity supply by the end of 2027, and why it is  
16 important to our Company. He also provides an overview of Avista's resource planning and  
17 power supply operations, including summaries of the Company's current and future resource  
18 plans and overview of the Company's Energy Resources Risk Policy. In addition, he will  
19 address the generation-related capital projects included in this case, including capital additions  
20 associated with the Company's investment in Colstrip Unit Nos. 3 and 4 for the periods 2018-  
21 2022, as well as the prudence of its SmartBurn investments in 2016 and 2017. Finally, he  
22 will conclude with a discussion of the Rattlesnake Flat Wind Power Purchase Agreement.

1           Mr. Scott Kinney, Director of Power Supply, provides an overview of Avista's  
2 evaluation and decision to join the Western Energy Imbalance Market (EIM) operated by the  
3 California Independent System Operator (CAISO). This includes preliminary and updated  
4 costs associated with market integration and on-going operational support along with  
5 anticipated benefits associated with market operations.

6           Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, provides  
7 an overview of the ongoing Power Supply Workshops required as part of Order No. 07 in  
8 Docket UE-170485 et. al., and how this effort has informed development of the proposed  
9 authorized level of power supply expense included in this case. He explains efforts the  
10 Company has undertaken to simplify our power supply adjustment in order to provide for  
11 better transparency and ease discovery for the Parties, while at the same time providing a  
12 reasonable level of expense in this case. His testimony will include documentation and  
13 functionality of the rationale for key inputs and assumptions driving power supply cost values  
14 including loads, natural gas and electricity prices and a comparison to the current level of  
15 authorized power supply expense. Finally, he will identify and explain the proposed proforma  
16 adjustments to the 2019 test period power supply revenues and expenses, including the Retail  
17 Revenue Credit used in Energy Recovery Mechanism (ERM) deferral calculations.

18           Mr. Jeff Schlect, Senior Manager, FERC Policy and Transmission Services, presents  
19 Avista's transmission revenues and expenses included in the Company's request for rate relief  
20 effective October 1, 2021.

21           Ms. Heather Rosentrater, Senior Vice President of Energy Delivery and Shared  
22 Services, provides an overview of the Company's electric and natural gas energy delivery  
23 facilities, electric reliability trends and areas of focus, and explain the factors driving our

1 continuing investment in electric distribution infrastructure. She explains how our efforts to  
2 maintain the asset health and performance of our electric transmission system, including  
3 compliance with mandatory federal standards for transmission planning and operations, is  
4 driving a continuing demand for new investment. Further, Ms. Rosentrater will describe why  
5 our investments in natural gas distribution are necessary in the time frames completed and  
6 why each capital investment in our operations facilities and fleet operations is needed to  
7 support the efficient delivery of service to our customers, today and into the future. In addition,  
8 along with Company witness Mr. DiLuciano, she provides an overview of the Company's  
9 investment in Advanced Metering Infrastructure.

10 Mr. Joshua DiLuciano, Director of Electrical Engineering, will address the details  
11 contained within the "Avista Utilities Advanced Metering Infrastructure (AMI) Project  
12 Report". As such, he will address the history of our AMI Project deployment, its rationale,  
13 and refinements made over time. Finally, he will speak to the net benefits to customers over  
14 time, even under the most conservative of assumptions.

15 Mr. David Howell, Director of Electric Operations and Asset Maintenance, details the  
16 Company's response to the increasing threat of wildfires within Avista's service territories by  
17 proactively implementing its Wildfire Resiliency Plan. Avista's Wildfire Resiliency Plan  
18 reflects the Company's 130-year operating history combined with recent efforts to quantify and  
19 respond to the financial, safety-related, and service reliability risks associated with wildfires.

20 Mr. James Kensok, Vice President and Chief Information and Security Officer,  
21 provides an overview of, and discusses costs associated with, the Company's Information  
22 Service/Information Technology (IS/IT) programs, projects and security. These costs are  
23 comprised of the capital investments for a range of IS/IT projects that support systems used



1 by the Company, as well as cyber and physical security projects and costs. He explains why  
2 our information technology and security investments are necessary in the time frames  
3 indicated and why investments in technology are necessary.

4 Ms. Jody Morehouse, Director of Gas Supply, discusses Avista's natural gas resource  
5 planning and procurement process, as well as provides an overview of the Company's 2018  
6 Natural Gas Integrated Resource Plan.

7 Ms. Kaylene Schultz, Manager of Regulatory Affairs, describes the Company's  
8 restated twelve-months ended December 31, 2019 net plant from average-of-monthly-  
9 averages (AMA) to end-of-period (EOP) adjustment, as well as explain how specific 2020  
10 pro forma capital additions through December 31, 2020, are incorporated into the proposed  
11 electric and natural gas revenue requirements sponsored by Ms. Andrews.

12 Ms. Tara Knox, Manager of Regulatory Accounting Initiatives, covers the Company's  
13 electric cost-of-service study performed for this proceeding. Additionally, she is sponsoring  
14 the electric revenue normalization adjustments to the test year results of operations.

15 Mr. Joel Anderson, Regulatory Analyst, covers the Company's natural gas cost-of-  
16 service study performed for this proceeding. Additionally, he is sponsoring the natural gas  
17 revenue normalization adjustments to the test year results of operations.

18 Mr. Joseph Miller, Senior Manager of Rates and Tariffs, discusses the spread of the  
19 proposed annual electric base revenue increase of \$44,185,000, or 8.3%, among the  
20 Company's electric general service schedules and the spread of the proposed annual base  
21 revenue increase of \$12,790,000, or 12.2%, among the Company's natural gas service  
22 schedules. He describes that, on a total billed revenue basis, after incorporating the proposed  
23 Tax Customer Credit Schedule 76 and 176 offsets, the Company is proposing no change to

1 customer billed rates. He also discusses the continuation of the current LIRAP funding plan  
2 for an additional three-year period, among other items.

3 **Q. Does this conclude your pre-filed direct testimony?**

4 A. Yes.