

Exh. EMA-1T

WUTC DOCKET: UE-200900 UG-200901 UE-200894

EXHIBIT: EMA-1T

ADMIT W/D REJECT

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-20_____

DOCKET NO. UG-20_____

DIRECT TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

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1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with**
3 **Avista Corporation.**

4 A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as
5 Senior Manager of Revenue Requirements in the Regulatory Affairs Department. My
6 business address is 1411 East Mission, Spokane, Washington.

7 **Q. Would you please describe your education and business experience?**

8 A. I am a 1990 graduate of Eastern Washington University with a Bachelor of
9 Arts Degree in Business Administration, majoring in Accounting. That same year, I passed
10 the November Certified Public Accountant exam, earning my CPA License in August 1991.¹
11 I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in
12 August 1993. I served in various positions within the sections of the Finance Department,
13 including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I
14 was hired into the State and Federal Regulation Department, now Regulatory Affairs, as a
15 Regulatory Analyst until my promotion to Manager of Revenue Requirements in early 2007,
16 and later promotion to Senior Manager of Revenue Requirements. I have also attended
17 several utility accounting, ratemaking and leadership courses.

18 **Q. As Senior Manager of Revenue Requirements, what are your**
19 **responsibilities?**

20 A. Aside from special projects, I am responsible for the preparation of
21 normalized revenue requirement and ratemaking studies for the various jurisdictions in

¹ Currently I keep a CPA-Inactive status with regards to my CPA license.

1 which the Company provides utility services. Since 2000, I have led, or assisted in, the
2 Company's electric and/or natural gas general rate filings in Washington, Idaho and Oregon.

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

4 A. My testimony and exhibits in this proceeding will generally cover accounting
5 and financial data in support of the Company's electric and natural gas rate request and the
6 need for the proposed increase in base rates beginning October 1, 2021. I will explain pro
7 formed operating results, including expense and rate base adjustments made to actual
8 operating results and rate base. Included with the restating and pro forma adjustments are
9 certain adjustments sponsored by other witnesses, which I incorporate the Washington-share
10 of those adjustments in this case. The pro formed operating results reflect an electric and
11 natural gas base revenue requirement request of approximately \$44.18 million and \$12.79
12 million, respectively.

13 In addition to discussing the Company's needed rate relief, I will discuss the
14 Company's requests in this case associated with its Wildfire Resiliency Plan ("Wildfire
15 Plan"), including recapping the Company's Wildfire Petition, filed concurrently with this
16 GRC, requesting authorization to defer expenses associated with Avista's Wildfire Plan
17 beginning January 1, 2021 until new rates go into effect. I also discuss the Company's
18 proposal to establish a Wildfire expense balancing account to track wildfire expenses during
19 the 10-year Wildfire Plan.

20 Finally, I will discuss, along with Company witness Mr. Krasselt, the Company's
21 Tax Accounting Petition filed with this Commission (also filed concurrent with this general
22 rate case ("GRC")), requesting authorization to change its accounting for federal income tax
23 expense from a normalization method to a flow-through method for certain plant basis

1 adjustments, including tax Industry Director Directive No. 5 (“IDD #5”), and meters.²
2 Approval of the Company’s application would provide immediate benefits to customers,
3 which the Company is requesting approval to defer, and to begin amortization through
4 separate tariff of those benefits concurrent with the effective date of this GRC. As explained
5 later in my testimony, approval in all three of Avista’s jurisdictions (Washington, Idaho and
6 Oregon) to make this change is required, and any changes need to be adjusted concurrently
7 with a GRC, as it has significant impact on both tax credits and rate base. The proposed
8 amortization by the Company of these benefits, beginning October 1, 2021 through separate
9 “Tax Customer Credit” Tariff Schedules 76 (electric) and 176 (natural gas) of \$44.18
10 million for electric and \$12.79 million for natural gas, respectively, offset the Company’s
11 base electric and natural gas rate relief requested in its entirety. The result is no billed
12 impact to customers.

13 **Q. Would you please summarize your direct testimony?**

14 A. Yes. Below is a summary of the principal topics discussed in my direct
15 testimony:

- 16 • The Company is requesting electric base rate relief of \$44.18 million, or 8.31%,
17 and natural gas base rate relief of \$12.79 million, or 12.16%, effective October 1,
18 2021. The increase, on a billed basis, is 8.33% for electric operations, and 7.93%
19 for natural gas operations. This is before the effect of the Tax Customer Credit
20 Tariff Schedule 76 (electric) and 176 (natural gas).
- 21 • The Company has pro formed in this case specific 2020 capital additions through
22 December 31, 2020, along with four other specific large and distinct capital
23 projects planned for completion in 2021 including the Company’s investment in
24 its Advanced Metering Infrastructure (“AMI”), Western Energy Imbalance
25 Market (“EIM”), Wildfire Plan, and Colstrip Units 3 and 4. Also included are
26

² Discussed further below, IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than \$200.

1 specific “provisional” large and distinct capital projects planned for completion
 2 in 2022 (EIM and Colstrip Units 3 and 4, which reflect short or accelerated
 3 depreciable lives). These capital additions are the main driver of the Company’s
 4 request for rate relief.³
 5

- 6 • Concurrent with the filing of this GRC, the Company has filed its Wildfire
 7 Deferral Petition requesting authorization to defer expenses associated with
 8 Avista’s Wildfire Plan beginning January 1, 2021, until new rates go into effect,
 9 with the deferred balances set aside for an opportunity to recover these costs in a
 10 future rate proceeding. I also discuss the Company’s proposal to establish a
 11 Wildfire Balancing Account to track wildfire expenses over the 10-year life of
 12 the Wildfire Plan.
 13
- 14 • Concurrent with the filing of this GRC, the Company has filed its Tax
 15 Accounting Petition, requesting authorization to change its accounting for federal
 16 income tax expense from a normalization method to a flow-through method for
 17 certain plant basis adjustments, including Industry Director Directive No. 5 (IDD
 18 #5), and meters. If approved by the Washington, Idaho and Oregon
 19 Commissions, the Company would record an immediate accumulated deferred
 20 income tax (ADIT) benefit of approximately \$150.5 million on a system basis.
 21 That equates to \$58.1 million for Washington electric operations and \$28.2
 22 million for Washington natural gas operations. Beginning in 2021, the on-going
 23 annual incremental deferred Washington ADIT benefits to be deferred is
 24 estimated to be approximately \$6.1 million for Washington electric and \$3.1
 25 million for natural gas.
 26
- 27 • Concurrent with the effective date of this GRC, the Company proposes to return
 28 to customers the Tax ADIT benefit (if approved), beginning October 1, 2021
 29 through separate Tariff Schedules 76 (electric) and 176 (natural gas), titled “Tax
 30 Customer Credit” of \$44.18 million for electric and \$12.79 million for natural
 31 gas - offsetting the Company’s requested electric and natural gas base rate relief -
 32 resulting in no billed impact to customers.
 33

34 **Q. Are you sponsoring any exhibits to be introduced in this proceeding?**

35 A. Yes. I am sponsoring Exh. EMA-2 through EMA-5, which were prepared by
 36 me. Exh. EMA-2 (Electric) and Exh. EMA-3 (natural gas) present the results of the
 37 Company’s Electric and Natural Gas Pro Forma Studies, which show actual 2019 operating

³ As shown in Table No. 3 below, the pro forma level of net plant after AD and ADFIT included in this case, versus that expected during the rate effective period, will still result in regulatory lag of at least \$117.2 million electric and \$36.8 million natural gas during the rate effective period. The revenue requirement of this lag is \$11.5 million for electric and \$3.6 million for natural gas, related to the return on investment, alone.

1 results (twelve-month period ending December 31, 2019), pro forma, and proposed electric
2 and natural gas operating results and rate base for the State of Washington. The exhibits
3 also show the calculation of the general revenue requirement, the derivation of the
4 Company's overall proposed rate of return, the derivation of the net-operating-income-to-
5 gross-revenue-conversion factor, and the specific restating and pro forma adjustments
6 proposed in this filing.⁴ Exh. EMA-4 provides the service and jurisdiction allocation
7 methodologies used by the Company. Finally, Exh. EMA-5 provides electronic files of all
8 restating and pro forma adjustments. (Additional detailed calculations of the service and
9 jurisdiction allocation methodologies used by the Company, along with the native files of all
10 restating and pro forma adjustments, are provided within my workpapers filed with this
11 case.)

12

13 **II. SUMMARY OF PROPOSED ELECTRIC AND NATURAL GAS REQUEST**

14

15 **Q. Please summarize the proposed electric and natural gas revenue and**
16 **percentage increases proposed by the Company in this case.**

17 A. The proposed base electric increase, effective October 1, 2021, is \$44.18
18 million or 8.31% (8.33% on a billed basis, prior to the impact of Tariff 76). The base
19 natural gas increase, effective October 1, 2021, is \$12.79 million or 12.16% (7.93% on a
20 billed basis, prior to the impact of Tariff 176).

21 As noted above, with approval of the Company's proposed change in normalization
22 versus flow through accounting, deferral of associated tax credits, and amortization of the

⁴ Exh. EMA-2 and EMA-3 also show the impact of "Tax Customer Credit" Tariff Schedules 76 (electric) and 176 (natural gas), amortizing and returning to customers the proposed tax benefit concurrent with the effective date of this GRC, resulting in no bill impact for customers effective October 1, 2021.

1 accumulated tax credits beginning October 1, 2021 through separate Tax Customer Credit
2 Tariff Schedules 76 (electric) /176 (natural gas) of \$44.18 million for electric and \$12.79
3 million for natural gas, results in an overall \$0 bill impact to Avista's electric and natural gas
4 customers.

5 **Q. On what test period is the Company basing its need for additional**
6 **electric and natural gas revenue?**

7 A. The test period being used by the Company to base its need for additional
8 electric and natural gas revenue is the twelve-month period ending December 31, 2019,
9 presented on a pro forma basis. Current authorized rates were based upon the twelve-
10 months ending December 31, 2018 test year utilized in Docket Nos. UE-190334 and UG-
11 190335 (*Consolidated*), adjusted on a pro forma basis.

12 **Q. What are the Company's rates of return that were last authorized by**
13 **this Commission for its electric and natural gas operations in Washington?**

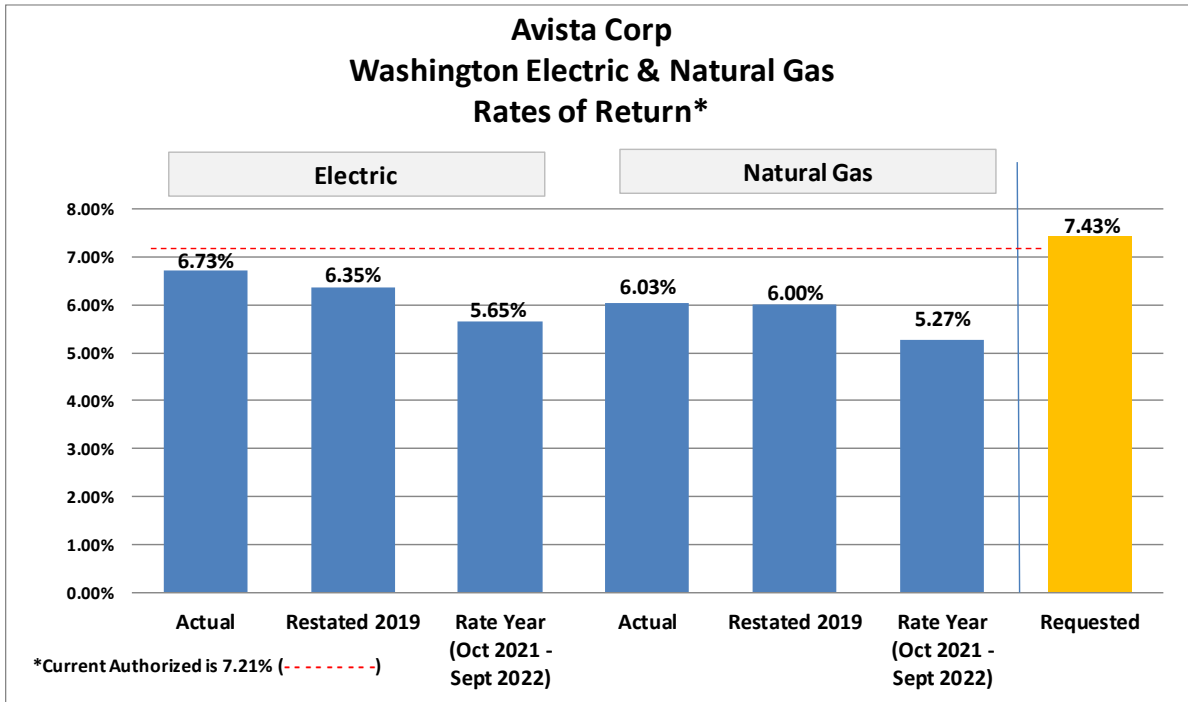
14 A. The Company's current authorized rate of return for its Washington
15 operations is 7.21%, effective April 1, 2020, for both our electric and natural gas systems,
16 approved in Dockets UE-190334 and UG-190335 (*Consolidated*).

17 **Q. By way of summary, please explain the different rates of return that you**
18 **will be presenting in your testimony.**

19 A. There are four different rates of return that are provided. They are (1) the
20 actual ROR earned by the Company during the 2019 test period, (2) the Restated 2019
21 results for the 2019 test period (representing 2019 normalized Commission Basis (CB))

1 ROR⁵, adjusted to 2019 EOP Net plant basis), (3) the adjusted ROR for the Rate Year
 2 (October 1, 2021 – September 30, 2022) determined in my Exh. EMA-2 and Exh. EMA-3,
 3 and (4) the requested ROR. These returns are shown in Illustration No. 1 below:

4 **Illustration No. 1: Rates of Return**



15 After taking into account all standard Commission Basis adjustments, as well as
 16 additional pro forma and normalizing adjustments, the pro forma electric and natural gas
 17 rates of return (“ROR”) for the Company’s Washington jurisdictional operations for the
 18 proposed “Rate Year” are 5.65% and 5.27%, respectively. Both return levels are well below
 19 the Company’s requested rate of return of 7.43%. The incremental base revenue
 20 requirement necessary to give the Company an opportunity to earn its requested ROR is
 21 \$44.18 million for the electric operations and \$12.79 million for the natural gas operations.

⁵ Normalized Commission Basis reports filed with the Commission on April 29, 2020, reported CBR results of 6.54% for electric, and 6.13% for natural gas for the twelve-months ended December 31, 2019.

1 **Q. Please discuss the preparation of the Company’s Electric and Natural**
2 **Gas Pro Forma Studies.**

3 A. The Company is proposing an electric and natural gas rate increase effective
4 October 1, 2021.⁶ The Company has prepared traditional electric and natural gas pro forma
5 studies, including restating and pro forma adjustments beyond the historical test year (2019).
6 First, included with the electric and natural gas restating adjustments is an End-Of-Period
7 (EOP) 2019 Net Plant adjustment, adjusting net plant from an average-of-monthly-average
8 (AMA) 2019 historical test year balance to a 2019 EOP net plant historical test-year balance,
9 similar to that approved by the WUTC in Avista’s last litigated general rate case proceeding
10 (Dockets UE-170485 and UG-170486).

11 Additional normalizing and pro forma adjustments were then included to adjust the
12 Company’s restated results to reflect rate period results, including certain capital additions
13 complete and in service before 2020-year end. Lastly the Company included specific large
14 and distinct capital projects planned for completion in 2021 (AMI, EIM, Wildfire Plan and
15 Colstrip Units 3 and 4 capital projects), as well as specific large and distinct capital projects
16 planned for completion in 2022 (EIM and Colstrip Units 3 and 4).

17 As discussed later in my testimony, without inclusion of the EOP 2019 Net Plant
18 adjustment, as well as the capital additions in 2020 and the four specific large and distinct
19 projects (AMI, EIM, Wildfire and Colstrip) in 2021 and (EIM and Colstrip) in 2022, helping

⁶ Company witness Mr. Vermillion discusses the decision to propose a single-year rate request, rather than a multi-year rate plan, in light of significant issues included in the Company’s case, such as timing of completion of the Company’s AMI project in 2021, addressing power supply for the first time since the Commission ordered Avista, Commission Staff, and other parties to see if the form and calculation of power supply adjustments could be resolved by the parties, and the Company’s request to change its treatment of certain tax items, the results of which would mitigate the effects of this case on customers.

1 to reduce the regulatory lag experienced by the Company, the Company would have no
2 chance of earning its authorized rate of return proposed in this case for the rate effective
3 period October 1, 2021 through September 30, 2022. The results of the Electric and Natural
4 Gas Pro Forma Studies are provided as Exhibit Nos. EMA-2 and EMA-3.

5 As previously discussed, the Company is proposing a change in its tax methodology,
6 that if approved, provide substantial benefits to customers. Concurrent with the GRC, the
7 Company has proposed to return these benefits to customers through separate Tariff
8 Schedules 76 (electric) and 176 (natural gas). If approved as filed, the Tariff Schedules 76 /
9 176 and the amortization of these tax benefits, would be in place approximately one and one
10 quarter (1¼) years for electric and two (2) years for natural gas, or October 1, 2021
11 (concurrent with GRC effective date) through December 31, 2022 for electric and
12 September 30, 2023 for natural gas. The net effect of Tariff Schedule 76 / 176 for the base
13 rate period, offsets the proposed base rate increases, resulting in no billed impact to
14 customers.

15 III. COMMISSION RATEMAKING GUIDANCE

16 **Q. What guidance has the WUTC Commission provided in recent years as**
17 **to various “tools” available to it for determining the appropriate ratemaking**
18 **adjustments to achieve the objective of providing a utility the opportunity to recover its**
19 **costs and earn a fair return?**

20 A. First, this Commission provided guidance in Avista’s 2016 general rate case,
21 Dockets UE-160228/UG-160229, Order 06, at paragraph 79, where it noted that it is tasked
22 with determining an appropriate balance between the needs of the public to have safe and

1 reliable electric and natural gas services at reasonable rates, and the financial ability of the
 2 utility to provide such services on an ongoing basis.⁷

3 To accomplish this, the Commission identified (Order 06, para. 82) certain “tools” it
 4 may consider:

5 The Commission, for example:

- 6
- 7 • Approves pro-forma adjustments to test-year costs when the adjustments
 8 are adequately supported. The Commission retains significant discretion
 9 to apply flexibly the requirements that *pro forma* adjustments be known
 10 and measurable, used and useful, and matched to offsetting factors. The
 11 Commission has not established bright-line standards governing the
 12 timing or the number of adjustments that can be accepted in a given
 13 case, and has not established a minimum size for *pro forma* adjustments
 14 to be recognized.
 - 15
 - 16 • May allow new generation plant or other infrastructure in rate base even
 17 when the new facilities are placed in service subsequent to the end of the
 18 test period. The more certain the timing of infrastructure being in
 19 service, that is used and useful, and the more certain the costs, the more
 20 likely the post-test period rate base will be approved.
 - 21
 - 22 • May approve end-of-period rate base when this is shown to be
 23 appropriate.
 - 24
 - 25 • May approve hypothetical capital structures to improve a utility’s
 26 financial condition.
 - 27

28 More recently, the Commission on January 31, 2020, in Docket No. U-190531
 29 issued its “Policy Statement on Property That Becomes Used and Useful After Rate
 30 Effective Date” (“Policy Statement”). As noted in the Policy Statement at para. 6, p. 3:

31 ... In its 2019 session, the legislature clarified the Commission’s ratemaking
 32 authority by enacting E2SSB 5116, which provides, in relevant part, that:
 33

⁷ The governing statutes require the Commission to determine results that establish “fair, just, reasonable and sufficient” rates (RCW.80.28.010), which mean: “rates that are fair to customers and to the Company’s owners; just in the sense of being based solely on the record developed in a rate proceeding; reasonable in light of the range of possible outcomes supported by the evidence; and sufficient to meet the needs of the Company to cover its expenses and attract necessary capital on reasonable terms.” (emphasis added) (Order 06, para. 79)

1 (2) The commission has power upon complaint or upon its own motion to
 2 ascertain and determine the fair value for rate making purposes of the property
 3 of any public service company used and useful for service in this state by or
 4 during the rate effective period and shall exercise such power whenever it
 5 deems such valuation or determination necessary or proper under any of the
 6 provisions of this title. ...

7
 8 (3) The commission may provide changes to rates under this section for up to
 9 forty-eight months after the rate effective date using any standard, formula,
 10 method, or theory of valuation reasonably calculated to arrive at fair, just,
 11 reasonable, and sufficient rates. The commission must establish an
 12 appropriate process to identify, review, and approve public service company
 13 property that becomes used and useful for service in this state after the rate
 14 effective date. (footnotes omitted) (emphasis in original)

15
 16 In this Policy Statement the Commission also reaffirmed its current applicable
 17 principle and standards for setting rates:

18 ..the Commission’s longstanding ratemaking practice is to set rates using a
 19 modified historical test year with post-test-year rate-base adjustments using
 20 the known and measurable standard, the matching principle, and the used and
 21 useful standard, all while exercising considerable discretion under each of
 22 these standards in the context of individual cases. We intend to continue
 23 following these practices and standards as we implement the change to how
 24 and when we evaluate property as used and useful. It continues to be
 25 necessary within the context of a GRC to first develop a modified historical
 26 test year (*i.e.*, pro forma study) upon which requests to include property in
 27 rates will be considered. ...⁸ (para. 21, p. 8)

28
 29 The Commission’s longstanding interpretation of the property valuation
 30 provision of RCW 80.04.250 is that property or plant additions must be used
 31 and useful to serve Washington customers to be included in rates. “Used”
 32 means that the investment (plant) is in service, and “useful” means that a
 33 company has demonstrated that its investment benefits Washington
 34 ratepayers. With few exceptions, the Commission has required plant to be in

⁸ As described at Policy Statement page 8, para. 22-24: WAC 480-07-510(3)(c)(ii), defines the pro forma adjustments, remains unchanged, applicable, and relevant. This rule defines the known and measurable standard and the offsetting factors standard, both of which are elements of the matching principle, and both of which are necessary to ensure that costs and offsetting benefits are accounted for during the period in which they occur. The known and measurable standard continues to require that an event that causes a change to revenue, expenses, or rate base must be “known” to have occurred during or after the historical 12-months of actual results of operations. It must also be demonstrated (*i.e.*, known) that the effect of the event will be in place during the rate year. The actual amount of the change must also be “measurable.” This has historically meant that the amount cannot be an estimate, projection, product of a budget forecast, or some similar exercise of informed judgment concerning future revenue, expense, or rate base.

1 service no later than the suspended effective date to be included in rate base.
2 (emphasis added) (footnotes omitted) (para. 26, pp. 9 - 10)

3
4 With the changes to RCW 80.04.250(3), we find that the requirements for pro
5 forma adjustments discussed above hold true for requests for rate-effective
6 period property, although they cannot be reviewed completely prior to rates
7 going into effect. Accordingly, we must replace the traditional prospective
8 review with a retrospective review for rate-effective period property requests.
9 (emphasis added) (para. 27, p. 10)

10
11 Furthermore, the Commission’s Policy Statement establishes a “process” for the
12 provisional recovery in rates of rate-effective period property, subject to refund, where the
13 property, investment or project in question does not meet the current standards for inclusion
14 in rates prior to rates becoming effective. Under this process, the Commission will make a
15 final decision on rate recovery in a future period after sufficient information about the
16 property in question has become available.⁹ This process, per the policy statement, does not
17 guarantee recovery of these costs, but gives utilities an opportunity to begin recovering costs
18 sooner, while still ensuring fair, just, and reasonable rates.

19 **Q. Did this Commission also recently provide guidance with regards to the**
20 **use of “end-of-period rate base” and “materiality thresholds” when considering pro**
21 **forma capital investments for inclusion in rates?**

22 A. Yes, it did. In Order 08 of the recently concluded Puget Sound Energy (PSE)
23 general rate case, Dockets UE-190529 and UG-190530, the Commission provided guidance
24 relating to use of “end-of period rate base,” as well as the use of “thresholds” or the “size” of
25 an investment appropriate for recovery in a utility’s pro forma study.

26

⁹ Docket U-190531, Policy Statement para. 20, p. 7.

1 **Q. What specifically did the Commission state with respect to end-of-period**
 2 **rate base?**

3 A. With regards to end-of-period rate base, although PSE’s historical test period
 4 utilized in its request for recovery was calendar 2018, this Commission extended recovery of
 5 certain assets to December 31, 2019 on an end-of-period basis. As noted by the
 6 Commission at para. 112 – 114, pp. 37-38 of PSE Order 08:

7 ... the Commission has considerable discretion and authority to select from a
 8 wide range of ratemaking tools, including adjusting the length of the post-test
 9 year pro forma period. Prior to the statutory amendments made to RCW
 10 80.04.250, granting pro forma adjustments beyond a few months after the end
 11 of the test year was considered “exceptional.” The statute’s new language,
 12 however, provides the Commission may include in rates “property that is used
 13 and useful for service in this state by or during the rate effective period,” and
 14 further that:

15
 16 (3) The Commission may provide changes to rates under this section
 17 for up to forty-eight months after the rate effective date using any
 18 standard, formula, method, or theory of valuation reasonably
 19 calculated to arrive at fair, just, reasonable, and sufficient rates.
 20

21 As a result, extending the pro forma period beyond a few months after the
 22 end of the test year is no longer “exceptional.” To the contrary, it is a method
 23 we expect to employ as a tool to address regulatory lag and particularly when
 24 a utility proposes a multi-year rate plan. This use of an extended pro forma
 25 period is not a one-size fits all solution, and thus will be determined on a
 26 case-by-case basis.

27
 28 Here, we need not rely on projections or estimates. Each of the investments
 29 we approve meets the used and useful standard because it is currently being
 30 used to provide service to customers, and their associated costs are known
 31 and measurable. We find that allowing these adjustments through December
 32 31, 2019, is a reasonable means to address regulatory lag by ensuring more
 33 timely recovery for investments – some of which are short-lived and
 34 particularly vulnerable to regulatory lag – that are already benefitting
 35 customers. (footnotes omitted) (emphasis added)
 36
 37

1 **Q. What specifically did the Commission state with respect to the use of**
 2 **“thresholds” or “materiality” of rate base it will consider?**

3 A. With regards to the use of “thresholds” or “materiality” of an investment the
 4 Commission will consider for inclusion in rates, this Commission summarized its position as
 5 follows at page 4-5 of PSE order 08:

6 We decline to adopt Staff’s proposed materiality threshold, instead examining
 7 each proforma adjustment individually and allowing or disallowing recovery
 8 on the basis of established standards of prudence, including whether the
 9 individual capital additions are used and useful, and whether the costs are
 10 known and measurable prior to the rate effective date. We also consider the
 11 life of the asset to appropriately capture investments that are at risk of under-
 12 recovery. (emphasis added)
 13

14 They also specifically noted in PSE Order 08 that they decline adopting a broad
 15 standard or “bright-line” threshold, and do not establish a number of projects or “minimum
 16 size” acceptable for pro forma adjustments in a given case:

17 We find that applying a strict materiality threshold as Staff proposes would
 18 unnecessarily limit the Commission’s flexibility, particularly in light of recent
 19 changes to RCW 80.04.250 that clarify the Commission’s discretion for
 20 determining how, when, and by which methods utilities may recover
 21 investments ... we ultimately determine that adopting a bright-line threshold
 22 is not an appropriate solution. (para. 556, p. 162)
 23

24 ... we decline to adopt any broad standard for establishing materiality, instead
 25 evaluating pro forma adjustments on a case-by-case basis for inclusion in
 26 rates. As Staff’s analysis of its proposed materiality threshold highlights,
 27 materiality is a regulatory concept that has become increasingly arbitrary and
 28 less relevant over time. Because technology evolves rapidly, adopting any
 29 broad standard would likely require constant exceptions to effect just results.
 30 The Commission prefers to remain flexible so that when unique circumstances
 31 arise, our evaluation is not unnecessarily constrained by self-imposed
 32 restrictions. (emphasis added) (para. 444, p. 128)
 33

34 From an historical standpoint, PSE correctly observes the Commission “has
 35 not established bright-line standards governing the timing or the number of
 36 adjustments that can be accepted in a given case, and has not established a

1 minimum size for pro forma adjustments to be recognized.” (emphasis added)
 2 (para. 557, p. 162)
 3

4 Finally, this Commission noted in PSE Order 08, para. 558, p. 163, its plan to
 5 address on a case-by case basis the impact of short-lived assets on regulatory lag:

6 ...We decline to adhere to one particular formula prior to endeavoring to
 7 develop jurisprudence under the new law. Instead, the Commission intends to
 8 focus on forging new paths forward. To that end, we anticipate that the
 9 Commission will address on a case-by-case basis the relationship between
 10 short-term investments and regulatory lag in the larger context of how and
 11 when we include for later recovery post-test year expenses.
 12

13 Therefore, as will be discussed further in my testimony, as well as other Company
 14 witnesses (i.e. Ms. Schultz, Mr. Thies and Mr. Vermillion), the Company has included
 15 various “tools” which are recognized by this Commission and are based on recent guidance
 16 by the Commission, to reduce regulatory lag and ensure the opportunity (not a guarantee) for
 17 the Company to earn its proposed rate of return. Primarily, the Company has:

- 18 1) adjusted historical test year results to EOP 2019 net plant;
- 19 2) used a hypothetical capital structure of 50% equity and 50% long-term debt;¹⁰
- 20 3) included specific pro forma 2020 capital projects that are “used and useful” as of
 21 December 31, 2020, nine months prior to new rates going into effect;¹¹
- 22 4) included four specific large and distinct pro forma projects with additions in 2020
 23 and 2021 (AMI, Wildfire, EIM, Colstrip Units 3 and 4), that will be “used and
 24 useful” prior to new rates going into effect; and
 25
 26
 27
 28

¹⁰ Short-term debt was excluded from the debt component, resulting in a capital structure of 50% equity / 50% debt. This is consistent to the approach used in Avista’s Idaho and Oregon jurisdictions, where short-term debt is excluded to determine the appropriate capital structure. Both Idaho and Oregon currently employ a 50% equity component for Avista.

¹¹ Discussed later in my testimony I describe the Company’s use of the Used and Useful Policy Statement to establish the five pro forma capital adjustments (sponsored by Ms. Schultz) including 2020 capital additions only for the following categories of capital projects: 1) Pro Forma 2020 Customer At Center (PF 3.11); 2) Pro Forma 2020 Large and Distinct (PF 3.12); 3) Pro Forma 2020 Programmatic (PF 3.13); 4) Pro Forma 2020 Mandatory and Compliance (PF 3.14); and 5) Pro Forma 2020 Short-Lived (PF 3.15).

1 5) included limited specific “provisional” capital projects completed in 2022 (Colstrip
2 Units 3 and 4¹² and EIM¹³), specifically related to accelerated or short-lived assets.
3 (Below I discuss the Company’s proposal for providing information and reporting
4 on these “provisional” capital additions.)
5

6 As discussed further below, for the specific large and distinct 2021 pro forma
7 projects included (AMI, EIM, Wildfire and Colstrip), the Company is proposing to
8 supplement the record by providing additional information for any 2021 electric projects
9 included in this case that have not transferred to plant by the time Staff and other parties
10 have completed their review. Specifically for 2021 select projects (associated with EIM,
11 Wildfire Plan, and Colstrip Units 3 and 4 capital additions) that have not transferred to
12 service, or are not complete by the time Staff and other party testimony is due in this case,
13 but prior to new rates going into effect, Avista will supplement the record by providing an
14 updated transfers-to-plant for these projects, which will be subject to review.

15 For projects completed after the rate effective date (“provisional” rate base
16 adjustments), associated with EIM and Colstrip Units 3 and 4 capital additions, Avista
17 requests they be approved as a part of base rates in this proceeding. Avista however, will
18 provide an updated transfers-to-plant for these projects, which will be subject to review and

¹² Per Docket No. UE-190334 the Company’s investment in Colstrip Units 3 and 4 depreciable life was accelerated to year 2025. Colstrip capital additions occurring after October 1, 2021 through September 30, 2022 are considered “provisional” rate base adjustments. Due to their accelerated life, it is imperative to include these assets at this time in order to allow a longer recovery period (approximately three to four-year depreciable rate October 2021-December 2025). Delaying recovery of these assets would mean an even shorter period (two to three-year depreciable rate 2023-2025) to depreciate these assets in the next general rate case. Due to the acceleration of these assets and including net rate base after A/D and ADFIT on an AMA basis for the rate effective period, the net Colstrip rate base adjustment reduces Colstrip net rate base.

¹³ As discussed later in my testimony, the specific EIM “provisional” adjustment is the capital addition that transfers to plant in March 2022 of \$4.1 million and is required for the planned “go-live” date of the EIM project. This asset has a useful life of five years. Delay in its recovery would significantly impair the overall recovery of this project. The revenue requirement associated with the March 2022 asset (return of and return on) is approximately \$1.268 million for electric.

1 subject-to-refund in the Company's next general rate case.

2 This additional support, will serve to validate that such plant is, in fact, in-service,
3 and will provide the Commission assurance that the pro forma capital included prior to the
4 rate effective period is serving customers prior to new rates going into effect. For
5 provisional capital adjustments going into service during the rate year, since these projects
6 are limited an actual prudence determination on such plant, can either occur immediately
7 after the projects are complete, or can wait until the next general rate case.

8

9 **IV. PRIMARY FACTORS DRIVING NEED FOR RATE RELIEF**

10 **Q. What are the primary factors driving the Company's requested electric**
11 **and natural gas revenue increases?**

12 A. The increase in overall costs to serve customers is driven primarily by the
13 continuing need to replace and upgrade the facilities and technology we use every day to
14 serve our customers¹⁴, while revenue growth remains low. In particular, the Company's
15 request includes the Company's electric and natural gas investment in AMI and related
16 regulatory deferred balances, which will be completed during 2021, totaling of \$92.2
17 million and \$35.4 million, respectively. The Company has also included other major
18 distinct electric projects related to the Company's 2020 and 2021 Wildfire Plan and EIM¹⁵
19 investments totaling \$22.5 million. The Company has also pro formed certain electric and

¹⁴ As discussed by Mr. Thies, for the five-year period ending December 31, 2024, the capital expenditure level is expected to remain constant at approximately \$405 million annually, for utility generation, transmission and distribution facilities and other requirements.

¹⁵ The capital addition for Wildfire and EIM include capital additions in 2020 and 2021. An additional amount of \$7.6 million capital addition (\$4.1 million on an AMA basis included in the case), planned to be in service in March 2022, was also included associated with the Company's investment in EIM because it is a short-lived five-year asset, as discussed by Mr. Kinney.

1 natural gas gross plant additions for 2020, totaling \$130.6 million and \$33.8 million,
2 respectively. After reflecting the net rate base adjustment associated with the Company's
3 investment in Colstrip units 3 and 4, reducing net rate base \$15.6 million¹⁶, the overall
4 increase in net rate base above the 2019 restated levels for these specific capital additions, is
5 is \$229.6 million for electric and \$69.3 million for natural gas. The revenue requirement
6 requested in this case associated with these net capital additions alone, total \$44.9 million
7 electric and \$12.0 million natural gas.^{17/18}

8 **Q. In addition to capital investment, would you please identify the main**
9 **changes in expenses impacting the Company's filed request?**

10 A. Although the Company has a series of increases in expenses, mainly
11 associated with labor and benefits, increases in informational technology costs associated
12 with contractual agreements (necessary to support such costs as cyber and general security,
13 emergency operations readiness, operations support, for example), as well as, the significant
14 increases in insurance premiums, due to the impact globally of wildfires, these net increases
15 in costs for electric are more than offset by the proposal to reduce base net power supply and
16 transmission costs by \$16.4 million.

¹⁶ The Company has included the incremental capital investment above the 2019 test period associated with its investment in its 15% ownership of Colstrip Units 3 and 4 for the period January 1, 2020 through September 30, 2022 of approximately \$12.0 million. However, after reflecting the impact of A/D and ADFIT which reduces net plant by \$23.7 million as a result of the acceleration of Colstrip Units 3 and 4 to 2025, and the reduction of the Colstrip regulatory asset of \$4.3 million, overall net rate base is a reduction of \$15.6 million.

¹⁷ The net impact of all other restating and pro forma adjustments, including the reduction related to the new proposed authorized net power supply / transmission reset of approximately \$16.9 million electric, reduces the electric revenue request \$0.7 million to \$44.18 million, and increases natural gas by \$0.79 million, to \$12.79 million.

¹⁸ The revenue requirement included here for the pro forma capital additions include all costs, including the impact on O&M associated with these capital projects (such as labor and other expenses for EIM, wildfire operating expenses, and AMI net offsets).

1 **Q. Please explain the major components of the increased electric and**
 2 **natural gas gross plant investment included in this filing.**

3 A. The majority of the change in gross plant from the historical 2019 test period
 4 as noted above, relates to the 2020 and 2021 capital additions pro formed into this case, with
 5 a small portion associated with 2022 “provisional” capital additions. The table below,
 6 provides a recap of the “gross plant additions from January 1, 2020 through September 30,
 7 2022, offset by 2019 retirements reflected in the pro forma 2020 adjustments.

8 Looking at the changes to “gross” plant in service proposed in this filing,
 9 Washington electric “gross” plant pro forma 2020 capital additions increases by
 10 approximately \$105.7 million as discussed by Ms. Schultz. I discuss the increases in gross
 11 plant additions for the remaining specific electric capital projects (AMI, EIM, Wildfire and
 12 Colstrip Units 3 and 4) occurring between January 2020 and September 2022 (totaling
 13 \$117.9 million), for a grand total of \$223.6 million as shown in Table No. 1 below:

14 **Table No. 1: Electric “Gross” Plant Additions – Net of 2019 Retirements**

Electric Gross Plant Additions - Net of Retirements (000s)						
	Sponsored by Ms. Schultz	Sponsored by Ms. Andrews				Total
	2020 (1)	AMI (2)	Wildfire (3)	EIM (4)	Colstrip (5)	
Generation/Transmission	\$ 51,685		\$ 4,729	\$ 4,180	\$ 12,361	\$ 72,955
Distribution	\$ 33,531	\$ 34,773	\$ 8,807			\$ 77,111
General & Intangible	\$ 20,490	\$ 46,424		\$ 6,595		\$ 73,509
Total Gross Rate Base	\$ 105,706	\$ 81,197	\$ 13,536	\$ 10,775	\$ 12,361	\$ 223,575

(1) 2020 is net of 2019 retirements reflected in the 2020 pro forma capital adjustments, reducing gross plant. Retirements equally reduce gross plant and Accumulated Depreciation.
 (2) AMI includes pro forma capital investment through early 2021.
 (3) Wildfire includes pro forma capital investment through 2021.
 (4) EIM includes pro forma capital investment through 2021, and “provisional” capital of \$4.1 million in 2022 on an AMA basis.
 (5) Colstrip additions include pro forma and provisional capital investment through September 2022. However due to the net impact of A/D and ADFTT, Colstrip’s net plant overall, including these additions, declines during the rate-effective period due to its accelerated depreciable life to 2025.

22 Changes to “gross” plant in service proposed in this filing for Washington natural
 23 gas pro forma 2020 capital additions results in an increase of approximately \$27.3 million as

1 discussed by Ms. Schultz. I discuss the increases in natural gas gross plant additions for the
 2 remaining specific capital projects (AMI) occurring in 2020 and 2021 (totaling \$33.3
 3 million), for a grand total of \$60.5 million as shown in Table No. 2 below.

4 **Table No. 2: Natural Gas “Gross” Plant Additions – Net of 2019 Retirements**

Natural Gas Gross Plant Additions - Net of Retirements (000s)			
	Sponsored by Ms. Schultz	Sponsored by Ms. Andrews	
	2020 (1)	AMI (2)	Total
Distribution	\$ 19,493	\$ 20,038	\$ 39,531
General & Underground Storage	\$ 7,758	\$ 13,233	\$ 20,991
	\$ 27,251	\$ 33,271	\$ 60,522
(1) 2020 is net of 2019 retirements reflected in the 2020 pro forma capital adjustments, reducing gross plant. Retirements equally reduce gross plant and Accumulated Depreciation.			
(2) AMI includes capital investment in 2021. The Company will update this information during the pendency of the case.			

11 As noted above, Ms. Schultz and I sponsor the restating and pro forma capital
 12 adjustments which incorporate the effects of all capital additions in this case.¹⁹ Other
 13 Company witnesses, (i.e. Mr. Thackston regarding production assets, including Colstrip
 14 assets; Mr. Kinney regarding EIM assets; Ms. Rosentrater regarding transmission,
 15 distribution and general assets, including AMI; Mr. Howell regarding Wildfire assets; Mr.
 16 Magalsky regarding the Customer At Center projects, and Mr. Kensok regarding the costs
 17 associated with Avista’s Information Service/Information Technology (IS/IT) projects and
 18 short-lived assets) provide more specific information on certain capital projects during the
 19 historical periods 2018 and 2019, as well as the 2020 pro forma capital projects, and large
 20 specific projects including 2021 and 2022 capital additions included in this case, describing

¹⁹ Table Nos. 1 and 2 above reflect “gross” plant additions, net of retirements. Ms. Schultz also discusses the specific 2020 capital additions for which she sponsors on a “net plant base” basis at Exh. KJS-1T, Table Nos. 1 and 2, as well as 2020 calendar “transfers-to-plant” balances in Table No. 3 of Exh. KJS-1T, which are prior to the effect of retirements reflected in 2020, reducing overall gross plant as shown in my numbers above.

1 the need for and timing of these capital projects.

2 **Q. Taking into consideration these gross plant additions, net of accumulated**
3 **depreciation (AD) and accumulated deferred federal income taxes (ADFIT), what is**
4 **the pro forma level of Net Plant After AD and ADFIT?**

5 A. After considering the effect of AD and ADFIT, the pro forma net plant
6 balances, as shown on Exh. EMA-2 and Exh. EMA-3, page 11, column “Pro Forma Total”,
7 rows 46 for electric and 42 for natural gas, result in electric and natural gas balances of
8 \$1.79 billion and \$416.4 million, respectively.

9 **Q. Mr. Thies provides an overview of the Company’s history and need for**
10 **new capital investment, as well as the Company’s planned investment through 2024.**
11 **Could you please briefly describe the conclusions drawn by Mr. Thies regarding the**
12 **increased capital investment?**

13 A. Yes. As described in Mr. Thies’ testimony, the Company is making
14 substantial capital investments in our natural gas distribution system, electric generation,
15 transmission and distribution facilities, and new technology to better serve the needs of our
16 customers. These investments are focused on, among other things, the preservation and
17 enhancement of safety, service reliability and the replacement of aging infrastructure.

18 As Avista removes old equipment and replaces it with new, the depreciation
19 component currently included in retail rates generally covers a very small amount of the new
20 facilities and equipment placed into service, especially for the long-lived assets. Avista’s
21 retail rates are cost-based, which means the prices customers are paying today for natural
22 gas pipe, gate stations, transformers, distribution poles, substations, and transmission lines,
23 among other facilities, are based on the cost to install those facilities, in some cases, 40, 50,

1 and even 60 years ago. The costs of the same equipment and facilities today are many times
2 more expensive. The depreciation component built into retail rates today is based on the
3 much lower cost to install those facilities many years ago. Therefore, the depreciation
4 component in retail rates covers only a small fraction of the annual costs associated with the
5 new investment in facilities.

6 It is important, therefore, for this new investment to be reflected in retail rates in a
7 timely manner, or this new investment, causing significant regulatory lag, will have a
8 negative impact on Avista's earnings, particularly because the new plant is typically far
9 more costly to install than the cost of similar plant that was embedded in rates decades
10 earlier. As plant is completed and is providing service to customers, it is appropriate for the
11 Company to receive timely recovery of the costs associated with that plant.

12 **Q. How do the Company's pro forma electric and natural gas net plant**
13 **balances compare with that expected during the rate effective period, after considering**
14 **additional planned investment over the next few years?**

15 A. The balances shown in Table No. 3 below provide the expected net plant
16 after AD and ADFIT balances as of December 31, 2021 on an end-of-period basis. Since
17 the rate effective period is October 1, 2021 through September 30, 2022, and the Company
18 pro formed capital additions through December 31, 2021, and limited 2022 capital
19 investment, this period is more representative to the rate effective period on an AMA basis,
20 if not understated.

21

Table No. 3 – Pro Forma Net Plant After AD & ADFIT vs Forecasted 12.31.2021

Washington Net Plant After AD and ADFIT (000s)			
Service	Pro Forma (1) 10.01.2021 - 09.30.2022	Forecasted EOP @ 12.31.2021	Expected Regulatory Lag as of 12.31.2021
Electric	\$ 1,790,811	\$ 1,908,012	\$ 117,201
Natural Gas	\$ 416,431	\$ 453,249	\$ 36,818
(1) Balances per Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas), page 11, column "Pro Forma Total," rows 46 for electric and 42 for natural gas.			

As shown in Table No. 3 above, by the end of calendar 2021 we expect to have net plant (offset by AD and ADFIT) balances of \$1.91 billion electric and \$453.3 million natural gas. Comparing these balances to the pro forma levels included in this case, the Company is still understating its expected Washington net plant balances by \$154.0 million, or \$117.2 million Washington electric and \$36.8 million Washington natural gas, resulting in regulatory lag during the rate effective period (an approximate year and half (1½) regulatory lag). The revenue requirement on this regulatory lag, of the return on this investment alone, is approximately \$15.1 million for Washington, or \$11.5 million electric and \$3.6 million natural gas.

**V. CAPITAL PROJECT CATEGORY DESIGNATIONS
AND PROVISIONAL PROJECT REPORTING**

Q. The Company included specific capital projects or categories of projects within its request for rate relief. Would you please explain how the capital projects included in this proceeding were decided on?

A. Yes. As noted in the Company's previous general rate cases, the Company typically has approximately 150 plus projects (business cases) completed on an annual basis

1 which represent the approximate \$405 million of capital spending for any given year. In
2 order to minimize the projects requested in this case for calendar 2020 to reduce the burden
3 of review by Staff and other stakeholders, the Company used the Commission’s recent Used
4 and Useful Policy Statement, as well as the recent PSE Order 08 in Dockets UE-190529 and
5 UG-190530, for guidance in establishing the projects it selected for inclusion in this
6 proceeding. This guidance was also used with regards to the very limited “provisional”
7 adjustments proposed in this case for the few additional EIM and Colstrip Units 3 and 4
8 short-lived additions.²⁰

9 First, as noted above, the Commission made it quite clear they were not reliant on a
10 “materiality threshold”, the timing, or the number of projects when considering what
11 projects will be included in rates, but rather if the projects proposed for recovery were “used
12 and useful,” “known and measurable” and prudently incurred. The Commission also noted
13 it would consider the impact of short-lived assets on regulatory lag when deciding capital
14 projects to include for recovery in rates. Finally, the Commission noted it would not
15 establish a one-size-fits-all approach, but rather review projects proposed by a utility in each
16 GRC on a case-by-case basis.

17 Considering this guidance, first the Company looked for a balance between the
18 burden on parties to review and the Company’s need to recover 2020 capital additions that
19 were already largely in-service serving customers at the time of filing the Company’s case
20 (or would be within two months of filing be in-service through December 31, 2020), nine

²⁰ The wildfire capital additions in 2021 include additions through November 2021, just two months of trailing costs into the beginning of the rate effective period. This portion represent a minimal amount of revenue requirement after considering the impact of AD and ADFIT included by adjusting the total balance to an AMA basis for the rate effective period.

1 months or more prior to the October 1, 2021 effective date of this case.

2 Second, the Company considered the guidance provided by the Commission in its
3 recent Used and Useful Policy Statement around types of projects it would consider for
4 inclusion in rates, albeit for “provisional” capital adjustments (projects completed during the
5 rate-effective period). In particular, the Commission defined proposals related to three
6 broad types of investments: 1) specific - clearly defined, identifiable or discrete investments
7 (e.g., generating asset); 2) programmatic - investments by their very nature are made
8 according to a schedule, plan or method (such as the replacement of power poles or other
9 small distribution system investments necessary to provide safe and reliable service to
10 Washington ratepayers); and 3) projected - examples include but are not limited to: the use
11 of a k-factor, an attrition adjustment, or a growth analysis.²¹

12 Using this guidance, the Company focused on specific projects (identifiable and
13 distinct), as well as programmatic investments (on-going programs or scheduled
14 investments). In addition, the Company included certain short-lived assets. This is due to
15 the impact on the Company’s earnings if the 2020 short-lived assets were not included, as
16 Avista would otherwise absorb approximately 40% to 60% of those investments before its
17 inclusion in the next GRC. The Company did not include “projected” projects for
18 consideration in this proceeding, as all “categorized” project actual transfer-to-plant data
19 would be available by year-end 2020.

²¹ Used and Useful Policy Statement, para. 11, p. 5.

1 Third, the Company then grouped its selected types of assets into either “large and
2 distinct” or “programmatic” groupings or categories. This resulted in the following grouped
3 pro forma adjustments for 2020 capital additions, sponsored by Ms. Schultz, as follows:²²

4 1) Pro Forma 2020 Customer At Center (PF 3.11) – this adjustment includes the
5 investment in large and distinct projects specific to the Company’s focus on its customers at
6 the center of our business and priorities;

7 2) Pro Forma 2020 Large and Distinct (PF 3.12) – this adjustment includes large and
8 distinct projects, such as the electric Rattlesnake Flat Wind Farm project; the electric Labor
9 Day 2020 Storm Damage project (replacing Avista’s Chelan-Stratford 115kV transmission
10 line), or the natural gas Cheney High-Pressure Reinforcement project;

11 3) Pro Forma 2020 Programmatic (PF 3.13) – this adjustment includes projects
12 associated with on-going, reoccurring annual projects, such as Wood Pole Management,
13 substation rebuilds, and distribution grid modernization;

14 4) Pro Forma 2020 Mandatory and Compliance (PF 3.14) – this adjustment includes
15 projects that are mainly associated with on-going, reoccurring annual projects that are
16 required to meet regulatory and other mandatory obligations, such as compliance with
17 mandatory federal standards for transmission planning and operations. Examples of these
18 projects include Isolated Steel Replacement, Aldyl -A Pipe Replacement, and the Spokane
19 River and Clark Fork PM&E implementation agreement projects; and

²² As discussed by Ms. Schultz, to reduce the projects selected for recovery in this case she eliminated smaller projects that were less than \$500,000 for electric and \$200,000 for natural gas.

1 5) Pro Forma 2020 Short-Lived (3.15) – this adjustment includes short-lived projects
2 (mainly five-year lives), such as Endpoint Compute and Productivity Systems, Project Atlas,
3 and Enterprise Security System projects.

4 Ms. Schultz sponsors these five Pro Forma Adjustments (3.11 – 3.15) and provides
5 the complete listing of projects included within in each category, including which Company
6 witness discusses each individual project. Other Company witnesses, i.e., Mr. Thackston
7 regarding production assets; Ms. Rosentrater regarding transmission, electric and natural gas
8 distribution and general assets; Mr. Kensok regarding the costs associated with Avista’s
9 Information Service/Information Technology (IS/IT) projects, including Short-Lived assets;
10 and Mr. Magalsky regarding the Customer facing technology (Customer at the Center),
11 provide more specific information on each project.

12 Lastly, the Company included four additional pro forma adjustments for individual
13 specific large and distinct capital projects planned for completion in 2021: AMI (PF 3.16),
14 Wildfire Plan (PF 3.17), EIM (PF 3.18) and Colstrip Units 3 and 4 (3.19). EIM (PF 3.18)
15 and Colstrip (PF 3.19) adjustments also include the limited 2022 “provisional” portions
16 included in this case. I sponsor these adjustments (PF 3.16 – PF 3.19), while other
17 Company witnesses: Mr. Kinney (EIM), Mr. Howell (Wildfire Plan), Ms. Rosentrater and
18 Mr. DiLuciano (AMI), and Mr. Thackston (Colstrip Units 3 and 4) provide more specific
19 information on each of these projects.

20 Inclusion of the capital additions in 2020, the four specific large and distinct projects
21 (AMI, EIM, Wildfire and Colstrip) in 2021, and (EIM and Colstrip) in 2022 help to reduce
22 the regulatory lag experienced by the Company today and in the rate effective period.
23 Without inclusion, the Company would have no chance of earning its authorized rate of

1 return proposed in this case for the rate effective period October 1, 2021 through September
2 30, 2022.

3 **Q. What is the Company proposing with regards to the specific capital**
4 **additions that will not be available for review, either prior to their testimony due date**
5 **or prior to new rates going into effect?**

6 A. Because there are a limited number (4) of specific large and distinct 2021 pro
7 forma projects included (AMI, EIM, Wildfire and Colstrip), the Company believes it is
8 reasonable to provide additional information during the pendency of the case for any
9 monthly balances that have not transferred to plant by the time Staff and other parties have
10 completed their review and filed their respective responsive testimony. For these projects,
11 prior to new rates going into effect, Avista will supplement the record by providing an
12 updated transfers-to-plant for these projects, which will be subject to review. This
13 additional support, will serve to validate that such plant is, in fact, in-service, and will
14 provide the Commission assurance that the pro forma capital included prior to the rate
15 effective period is serving customers prior to new rates going into effect.

16 For projects completed after the rate effective date (“provisional” rate base
17 adjustments), associated with EIM and Colstrip Units 3 and 4 capital additions, Avista
18 requests they be approved as a part of base rates in this proceeding. Avista however, will
19 provide an updated transfers-to-plant for these projects, which will be subject to review and
20 subject-to-refund in the Company’s next general rate case.

21 For the provisional capital adjustments going into service during the rate year, since
22 these projects are limited, an actual prudence determination on such plant, can either occur
23 immediately after the projects are complete, or can wait until the next general rate case.

1 **Q. Since the Company specifically limited this case mainly to 2020 capital**
2 **additions, and the four projects in 2021 (AMI, EIM, Wildfire, and Colstrip), for the**
3 **most part complete prior to new rates going into effect, why did the Company include**
4 **additions that went beyond the effective date and into 2022?**

5 A. First for EIM, the project included in 2022 is the last project planned for
6 completion prior to the EIM go-live date in March of 2022. Second, this project is a short-
7 lived asset, and if it were not to be included, Avista would absorb a significant portion of the
8 cost of the investment (which is being made for our customer's benefit). And lastly, the need
9 for this asset can be reviewed during the pendency of the case along with all other EIM
10 projects, with the final actual cost of this project reviewed at a later date. The electric
11 revenue requirement associated with the March 2022 asset (return of and return on) is
12 \$1.268 million.

13 For Colstrip, as discussed further below, due to the accelerated depreciable life to
14 2025, any delay in including capital additions between now and 2025, only increases the
15 annual costs included in customers rates over a shorter period to recover the assets. The
16 revenue requirement associated with the 2022 Colstrip additions (return of and return on) is
17 approximately \$0.9 million for electric.

18 Finally, these limited 2022 capital additions clearly fall within the guidance provided
19 in the Commission's Policy Statement for provisional adjustments, as well as their recent
20 guidance in the recent PSE general rate case on consideration of short-lived assets.

21 **Q. Again, although the Company has pro formed certain 2021 and 2022**
22 **capital additions into its case which will need additional review, how much has the**
23 **Company not included by way of net plant through the rat effective period?**

1 A. As discussed above and shown in Table No. 3, by the end of calendar 2021
2 alone, we expect to have net plant (offset by AD and ADFIT) balances of \$1.91 billion
3 electric and \$453.3 million natural gas. Comparing these balances to the pro forma levels
4 included in this case for electric and natural gas of \$1.79 billion and \$416.4 million,
5 respectively, the Company expects regulatory lag during the rate effective period of
6 approximately \$117.2 million electric and \$36.8 million natural gas, or more. The revenue
7 requirement on this regulatory lag, of the return on this investment alone, is approximately
8 \$11.5 million electric and \$3.6 million natural gas.

9
10 **VI. DERIVATION OF ELECTRIC AND NATURAL GAS PRO FORMA STUDIES**

11 **Q. Please explain what is shown in the Electric and Natural Gas Pro Forma**
12 **Studies, provided as Exh. EMA-2 and Exh. EMA-3.**

13 A. Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas) shows actual and pro
14 forma electric and natural gas operating results and rate base for the pro forma test period
15 for the State of Washington. Exh. EMA-4 provides the service and jurisdiction allocation
16 methodologies used by the Company in preparation of its Washington jurisdiction Electric
17 and Natural Gas Pro Forma studies.

18 Specifically, page 1, of both Exh. EMA-2 and Exh. EMA-3, Column (b), shows 2019
19 actual operating results and components of the average-of-monthly-average rate base as
20 recorded²³; column (c) is the total of all adjustments to net operating income and rate base;

²³ Actual plant rate base (cost, accumulated depreciation and associated DFIT) uses the 2019 AMA balances. Plant rate base is first restated (restated adjustment) to a 2019 End-of-Period (EOP) rate base, and then further adjusted (pro forma adjustment) to include certain 2020 capital projects completed and transferred to plant during 2020, as well as a small handful of projects planned for completion in 2021 (Wildfire, EIM, AMI, Colstrip) and 2022 (EIM and Colstrip).

1 and column (d) is pro forma results of operations, all under existing rates. Column (e)
2 shows the revenue increase required which would allow the Company to earn a 7.43% rate
3 of return. Column (f) reflects pro forma operating results with the requested increase of
4 \$44,183,000 for electric and \$12,790,000 for natural gas.

5 Page 2 of Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas) shows the
6 calculation of the electric and natural gas revenue requirements of \$44,183,000 and
7 \$12,790,000, respectively, at the requested 7.43% rate of return. This page also shows the
8 percentage base revenue increase for electric of 8.31% and natural gas of 12.16%, as well as
9 the percentage on a billed basis of 8.33% for electric and 7.93% for natural gas, prior to the
10 impact of Tax Customer Credit Tariff Schedules 76 (electric) and 176 (natural gas),
11 resulting in a 0% overall increase in billed electric and natural gas customer rates.

12 **Q. What does page 3 of Exhs. EMA-2 and EMA-3 show?**

13 A. Page 3 shows the Cost of Capital and Capital Structure included in the Pro
14 Forma Studies, including: 1) 50% Common Equity / 50% Debt capital structure²⁴; 2) Return
15 on Equity of 9.9%; and 3) cost of debt of 4.97%, resulting in an overall Rate of Return
16 (weighted average cost of capital) of 7.43%. Mr. Thies discusses the Company's proposed
17 rate of return and the pro forma capital structure utilized in this case, while Company
18 witness Mr. McKenzie provides additional testimony related to the appropriate return on
19 equity for Avista.

20 **Q. Please explain further the Company's proposed capital structure of 50%**
21 **equity and 50% debt.**

²⁴ As discussed further by Mr. Thies, the Company has requested an adjusted capital structure of 50% Equity / 50% Debt, which results in the proposed cost of capital of 7.43%.

1 A. The Company is proposing an adjusted capital structure of 50% common
2 equity and 50% debt. This is revised from the current authorized common equity level of
3 51.5% total debt (long-term and short-term), and 48.5% common equity. The 50% equity
4 also impacts the pro forma weighted cost of debt, reducing the tax benefit of debt interest
5 and reducing net operating income. The overall result of using a 50% equity ratio increases
6 the electric revenue requirement requested in this case for electric by \$2.16 million, and
7 natural gas by \$515,000.

8 **Q. Why is Avista proposing to exclude short-term debt from the capital**
9 **structure calculation in this case?**

10 A. As explained above, the results from the electric and natural gas Pro Forma
11 Studies, without certain adjustments (i.e., adjusted historical 2019 test year results to EOP
12 net plant, and use of a hypothetical capital structure of 50% equity and 50% long-term debt),
13 will not yield the rate relief necessary to provide the Company the opportunity to earn the
14 proposed rate of return requested in this case. As discussed earlier, one of the ratemaking
15 “tools” identified by this Commission that can be used to arrive at an end result that provides
16 sufficient revenues, is the use of an adjusted capital structure.²⁵

17 Furthermore, as explained by Mr. Thies, maintaining a 50% common equity ratio,
18 excluding short-term debt, has several benefits for customers. As the Company accesses the
19 debt capital market to raise funds, a solid financial profile will assist us in accessing funds
20 on reasonable terms in both favorable financial markets and when there are disruptions in

²⁵ The WUTC acknowledged at page 181 of its Order 08 in Docket No. UE-111048 and UG-111049 of Puget Sound Energy’s rate proceeding, the consideration of adjustments to rate base beyond the historical test period by stating they were open to considering “Use of plant accounts (rate base) measured at the end, or subsequent to the end of the test-year rather than the test-year average,” and their openness to consider an “upward adjustment to the equity share in the capital structure.” (emphasis added)

1 the financial markets. The Company's proposed 50% equity ratio solidifies our current
2 credit ratings and moves us closer to our long-term goal of moving our corporate credit
3 rating from BBB to BBB+, consistent with the natural gas and electric industry average,
4 providing more stability for the Company, and an equity layer that appropriately balances
5 safety and economy for customers.

6 **Q. Is this approach used in other jurisdictions?**

7 A. Yes. In both Avista's Idaho and Oregon jurisdictions the Commissions for
8 many years have approved a capital structure calculated excluding short-term debt. This
9 approach improves Avista's opportunity to earn its allowed ROR in those jurisdictions. Mr.
10 Thies provides this calculation in his testimony.

11 **Q. Would you now please explain page 4 of Exh. EMA-2 and Exh. EMA-3?**

12 A. Yes. Page 4 shows the derivation of the net-operating-income-to-gross-
13 revenue-conversion factor. The conversion factor reflects uncollectible accounts receivable,
14 Commission fees and Washington State excise taxes. Federal income taxes are reflected at
15 21%.

16 **Q. Now turning to pages 5 through 12 of Exh. EMA-2, and pages 5 through
17 12 of Exh. EMA-3, would you please explain what those pages show?**

18 A. Yes. Page 5 of both Exh. EMA-2 and Exh. EMA-3 begins with actual
19 operating results and rate base for the twelve-months-ending December 31, 2019 test period
20 on an AMA basis in column (1.00). Individual normalizing and restating adjustments that
21 are standard components of our annual reporting to the Commission begin in column (1.01)
22 on page 5 and continue through column (2.19) on page 7 for electric, and column (2.15) on
23 page 7 for natural gas. For electric, individual pro forma adjustments begin in column

1 (3.00P) on page 8 and continue through column (3.21) on page 10. For natural gas,
2 individual pro forma adjustments begin in column (3.01) on page 8 and continue through
3 column (3.18) on page 10.

4 Turning to page 11 of Exh. EMA-2 and Exh. EMA-3, the first column, labeled “Base
5 Pro Forma Total,” is the total electric and natural gas pro forma operating results and rate
6 base for the pro forma test period, and provides the final revenue requirement proposed in
7 this case. Finally, the last two columns on page 11 for both electric and natural gas, show
8 for illustrative purposes, the impact of the Tax Customer Credit Tariff Schedules 76
9 (electric) and 176 (natural gas), returning the Tax benefit dollars to customers over time.

10 **Q. Before moving on to the final page 12 of Exh. EMA-2 and EMA-3, and**
11 **describing the individual Commission Basis, restating and pro forma adjustments,**
12 **please state the overall impact to customers including the impact of Tariff Schedules 76**
13 **and 176.**

14 A. As shown in the final column on page 11 of Exh. EMA-2 and EMA-3 for
15 both electric and natural gas, the overall bill impact to customers of the proposed base
16 increase, offset by the return of the proposed tax benefit through the separate Tax Customer
17 Credit Tariff Schedules 76 and 176, both effective October 1, 2021, will result in no bill
18 impact to customers.²⁶

19 **Q. Please now turn to page 12 of Exh. EMA-2 and EMA-3, and describe this**
20 **page.**

²⁶ As discussed above, if approved as filed, the Tariff Schedules 76 / 176 and the amortization of these tax benefits, would be in place approximately one and one quarter (1¼) years for electric and two (2) years for natural gas, or October 1, 2021 (concurrent with GRC effective date) through December 31, 2022 for electric and September 30, 2023 for natural gas.

1 A. The last page of Exh. EMA-2 and Exh. EMA-3, page 12, provides a one-page
2 summary list of all restating and pro forma adjustments by adjustment number and
3 description, with individual NOI and rate base amounts, as well as overall NOI and rate base
4 balances, and the rates of return on an actual, restated and pro forma levels, for ease of
5 reference.

6 The testimony that follows explains the reason and theory for each of the electric and
7 natural gas Commission Basis, restating and pro forma adjustments, as well as the
8 calculation, where appropriate. Exh. EMA-5 provides electronic files of each of the
9 Commission Basis, restating and pro forma adjustments. These adjustments were prepared
10 consistent with current regulatory principles and the manner in which they have been
11 addressed in recent cases (i.e., Dockets UE-170485/UG-170486 and UE-190334/UG-
12 190335), unless otherwise noted. The Company has also provided workpapers, both in hard
13 copy and electronic formats, which include additional details and calculations related to each
14 of these adjustments.

15

16 **VII. STANDARD COMMISSION BASIS AND RESTATING ADJUSTMENTS**

17 **Q. Please explain each of the Commission Basis and restating adjustments**
18 **included, starting on page 5 of both Exh. EMA-2 and Exh. EMA-3, the reason for the**
19 **adjustment and its effect on the Washington electric and natural gas net operating**
20 **income and/or rate base for the historical test period.**

21 A. Starting on page 5 of Exh. EMA-2 and Exh. EMA-3, Column **(1.00)** the
22 **Results of Operations** reflect the Company's actual operating results and total net rate base
23 experienced by the Company for year ending December 2019 on an AMA basis. Columns

1 following the Results of Operations column (1.00), (columns (1.01) – (2.19) for electric and
2 columns (1.01) – (2.15) for natural gas) mainly reflect normalizing and restating adjustments
3 necessary to restate the actual results based on prior Commission orders, reflect appropriate
4 annualized expenses, correct for errors, or remove prior period or non-recurring amounts
5 reflected in the year ending December 2019.²⁷ A summary of each adjustment follows:

6 The first column on page 5, Electric Adjustment (1.01) and Natural Gas Adjustment
7 (1.01), entitled **Deferred FIT Rate Base**, adjusts the electric and natural gas accumulated
8 deferred federal income tax (ADFIT) rate base balance included in the Results of Operations
9 column (1.00) to the adjusted ADFIT balance reflected on an AMA basis, as shown within
10 my workpapers provided with the Company’s filing. ADFIT reflects the deferred tax
11 balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or
12 ACRS, and Modified Accelerated Cost Recovery, or MACRS) and bond refinancing
13 premiums.

14 The effect of these adjustments on Washington rate base is an increase of \$47,000
15 for electric and a reduction of \$994,000 for natural gas. There is no effect of this change on
16 Washington electric net operating income (NOI), whereas the change to NOI due to the
17 Federal Income Tax (FIT) expense on the restated level of interest on the change in rate base
18 for natural gas is a reduction of \$5,000.²⁸

²⁷ Included with the electric and natural gas restating adjustments is an End-Of-Period (EOP) 2019 Net Plant adjustment, adjusting net plant from an average-of-monthly-average (AMA) 2019 historical test year balance to a 2019 EOP net plant historical test-year balance, similar to that approved by the WUTC in Avista’s last litigated general rate case proceeding (Docket Nos. UE-170485 and UG-170486).

²⁸ The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within each individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on line 28 of Exhs. EMA-2 and EMA-3.

1 The next column on page 5, Electric Adjustment (1.02) and Natural Gas Adjustment
2 (1.02) - **Deferred Debits and Credits**, is a consolidation of previous Commission Basis or
3 other restating rate base adjustments and their net operating income (NOI) impact. The net
4 impact on a consolidated basis of this adjustment increases Washington electric rate base by
5 \$1,000 and decreases NOI by \$45,000. For Washington natural gas, this adjustment
6 decreases rate base by \$1,000, and decreases NOI by \$12,000.

7 Adjustments included in the Deferred Debits and Credits consolidated adjustment are
8 those necessary to reflect restatements from 2019 actual results (included in column 1.00
9 “Per Results of operations”), based on prior Commission orders, and are explained below.

10 The following items are included in the consolidated adjustment:

11 • **Colstrip 3 AFUDC Elimination (electric)** reflects the reallocation of rate
12 base and depreciation expense between jurisdictions. In Cause Nos. U-81-15 and U-
13 82-10, the UTC allowed the Company a return on a portion of Colstrip Unit 3
14 construction work in progress (“CWIP”). A much smaller amount of Colstrip Unit 3
15 CWIP was allowed in rate base in Case U-1008-144 by the Idaho Public Utilities
16 Commission (“IPUC”). The Company eliminated the AFUDC associated with the
17 portion of CWIP allowed in rate base in each jurisdiction. Since production facilities
18 are allocated on the Production/Transmission formula, the allocation of AFUDC is
19 reversed and a direct assignment is made. The rate base adjustment reflects the
20 average-of-monthly-averages amount for the test period. No adjustment from that
21 recorded within results of operations is necessary.

22
23 • **Colstrip Common AFUDC (electric)** is associated with the Colstrip plants
24 in Montana and impacts rate base. Differing amounts of Colstrip common facilities
25 were excluded from rate base by this Commission and the IPUC until Colstrip Unit 4
26 was placed in service. The Company was allowed to accrue AFUDC on the Colstrip
27 common facilities during the time that they were excluded from rate base. It is
28 necessary to directly assign the AFUDC because of the differing amounts of
29 common facilities excluded from rate base by this Commission and the IPUC. In
30 September 1988, an entry was made to comply with a Federal Energy Regulatory
31 Commission (“FERC”) Audit Exception, which transferred Colstrip common
32 AFUDC from the plant accounts to Account 186. These amounts reflect a direct
33 assignment of rate base for the appropriate average-of-monthly-averages amounts of
34 Colstrip common AFUDC to the Washington and Idaho jurisdictions. Amortization
35 expense associated with the Colstrip common AFUDC is charged directly to the

1 Washington and Idaho jurisdictions through Account 406 and is a component of the
 2 actual results of operations. The rate base amount included in the results of
 3 operations accurately reflects the average-of-monthly-averages amount for the test
 4 period. No adjustment from that recorded within results of operations is necessary.
 5

6 • **Kettle Falls Disallowance (electric)** In Cause No. U-83-26 the Commission
 7 disallowed a portion related to the Kettle Falls generating plant. Amortization of the
 8 disallowed investment (accumulated depreciation and accumulated deferred FIT),
 9 previously recorded on an AMA basis, expired on December 2018. The final impact
 10 to expense was recorded in January of 2019. No adjustment from that recorded
 11 within results of operations is necessary.
 12

13 • **Settlement Exchange Power (electric)** reflects the rate base associated with
 14 the recovery of 64.1% of the Company's investment in Settlement Exchange Power.
 15 The 64.1% recovery level was approved by the Commission's Second Supplemental
 16 Order in Cause No. U-86-99 dated February 24, 1987. Amortization expense and
 17 deferred FIT expense recorded during the test period are accurately reflected in
 18 results of operations. The production rate base and accumulated deferred FIT
 19 amounts within results of operations are reflected on a twelve-month ending
 20 December 31, 2019 test period AMA basis. No adjustment from that recorded within
 21 results of operations is necessary.²⁹
 22

23 • **Restating CDA Settlement Deferral (electric)** reflects the net assets and
 24 DFIT balances associated with the 2008/2009 past storage and §10(e) charges
 25 deferred for future recovery are reflected on a twelve-months ending December 31,
 26 2019 test period AMA basis within results of operations. A ten-year amortization
 27 expense, as approved in Docket UE-100467, of the CDA Settlement Deferral is
 28 accurately reflected in results of operations. No adjustment from that recorded within
 29 results of operations is necessary.³⁰
 30

31 • **Restating CDA/SRR (Spokane River Relicensing) CDR Deferral**
 32 **(electric)** the net assets associated with the CDA Tribe settlement 4(e) Spokane
 33 River relicensing conditions deferred for future recovery are reflected on a twelve-
 34 months ending December 31, 2019 test period AMA basis within results of
 35 operations. A ten-year amortization expense of the CDA/SRR CDR Deferral, as
 36 approved in Docket UE-100467 is accurately reflected in results of operations. No
 37 adjustment from that recorded within results of operations is necessary.³¹
 38

39 • **Restating Spokane River Deferral** reflects the net asset and DFIT balances
 40 related to the Spokane River deferred relicensing costs deferred for future recovery

²⁹ This deferred item is fully amortized as of August 31, 2019. See pro forma adjustment 3.02 discussion below for the removal of this deferred item.

³⁰ This deferred item is fully amortized as of November 2020. See pro forma adjustment 3.02 discussion below for the removal of this deferred item.

³¹ *Ibid.*

1 are reflected on a twelve-months ending December 31, 2019 test period AMA basis
 2 within results of operations. A ten-year amortization expense of the Spokane River
 3 Deferral, as approved in Docket UE-100467, is accurately reflected in results of
 4 operations. No adjustment from that recorded within results of operations is
 5 necessary.³²
 6

7 • **Restating Spokane River PM&E Deferral (electric)** reflects the net asset
 8 and DFIT balances related to the Spokane River deferred PM&E costs deferred for
 9 future recovery are reflected on a twelve-months ending December 31, 2019 test
 10 period AMA basis within results of operations. A ten-year amortization expense of
 11 the Spokane River PM&E Deferral, as approved in Docket UE-100467, is accurately
 12 reflected in results of operations. No adjustment from that recorded within results of
 13 operations is necessary.³³
 14

15 • **Restating Montana Riverbed Lease (electric)** reflects the costs associated
 16 with the Montana Riverbed lease settlement. In this settlement, the Company agreed
 17 to pay the State of Montana \$4.0 million annually beginning in 2007, with annual
 18 inflation adjustments, for a 10-year period for leasing the riverbed under the Noxon
 19 Rapids Project and the Montana portion of the Cabinet Gorge Project. The first two
 20 annual payments were deferred by Avista as approved in Docket UE-072131. In
 21 Docket UE-080416 (see Order No. 08), the Commission approved the Company's
 22 accounting treatment of the deferred payments, including accrued interest, to be
 23 amortized over the remaining eight years of the agreement starting on January 1,
 24 2009. The 10-year amortization of the first two annual payment deferral expired on
 25 December 31, 2016, therefore there is no rate base balance. The lease continues on a
 26 year-to-year basis adjusted for annual inflation, with payments being paid into
 27 escrow until resolution of pending litigation. To correctly record the annual lease
 28 expense, lease expense was increased \$5,000.
 29

30 • **Customer Advances (electric and natural gas)** decreases rate base for
 31 money advanced by customers for line extensions, as they will be recorded as
 32 contributions in aid of construction at some future time. To reflect the normalized
 33 balance as of December 31, 2019, rate base was increased \$1,000 for electric and
 34 decreased \$1,000 for natural gas.
 35

36 • **Customer Deposits (electric and natural gas)** reduces electric and natural
 37 gas rate base by the average-of-monthly-averages of customer deposits held by the
 38 Company, as ordered by this Commission in Dockets UE-090134 and UG-090135.
 39 The reduction to rate base is accurately reflected in results of operations. Therefore,
 40 no adjustment is necessary to rate base. The corresponding interest paid on customer
 41 deposits is reclassified to utility operating expense, at the current UTC interest rate

³² *Ibid.*

³³ *Ibid.*

1 of 2.57%. The effect on Washington is an increase in expense of \$51,000 for electric
2 and \$15,000 for natural gas.

3
4 In summary, as noted above, the net impact on a consolidated basis of the
5 adjustments described above decreases Washington net operating income for electric and
6 natural gas by \$45,000 and \$12,000, respectively. Rate base was increased by \$1,000 for
7 Washington electric, while Washington natural gas rate base decreased by \$1,000. (Electric
8 and Natural Gas Adjustment (3.02) Pro Forma Deferred Debits, Credits & Regulatory
9 Amortizations, explained below, adjusts certain items listed above to reflect pro forma
10 (October 1, 2021 – September 30, 2022) levels of deferred debits and credit balances and
11 amortization expense as ordered in prior cases.)

12 Continuing on page 5 of Exh. EMA-2 and EMA-3, column (1.03) **Working Capital**
13 - electric and natural gas working capital is included in the Company's Results of
14 Operations column (1.00) on a twelve-months ending December 31, 2019 test period AMA
15 basis. The Company uses the Investor Supplied Working Capital (ISWC) methodology to
16 calculate the amount of working capital reflected in its actual results of operations. This
17 method is consistent with that approved by the Commission in the Company's last electric
18 and natural gas litigated general rate cases, Dockets UE-170485 and UG-170486. To
19 properly reflect the working capital balance based on the method approved in Dockets UE-
20 170485 and UG-170486, an adjustment to electric and natural gas working capital rate base
21 is necessary from that recorded within results of operations. The impact of this adjustment
22 reduces rate base \$3,752,000 for electric and \$1,144,000 for natural gas. The impact to NOI
23 is a reduction of \$20,000 for electric and \$6,000 for natural gas.

1 **Remove AMI Rate Base**, column (1.04) electric and natural gas, reflects the
2 removal of rate base and expense included in the Company's Results of Operations column
3 (1.00) on a twelve-months ending restated December 31, 2019 test period AMA basis,
4 associated with the Company's investment in its Advanced Meter Infrastructure (AMI)
5 project. Per Order 01 in Dockets UE-170327 and UG-170328, the Commission approved
6 the deferral of depreciation expense for the Company's investment in its AMI project. The
7 effect of these adjustments on Washington rate base is a reduction of \$48,288,000 for
8 electric and \$18,403,000 for natural gas. The effect on Washington net operating income
9 (NOI) is a reduction of \$251,000 for electric and a reduction of \$96,000 for natural gas.

10 Balances deferred, and the Company's investment in AMI, as described below, have
11 been included in Pro Forma AMI Capital Additions Adjustment 3.16 (electric and natural
12 gas), with the completion of the project planned in early 2021, several months prior to new
13 rates in effect October 1, 2021.

14 **Eliminate B & O Taxes**, column (2.01) electric and natural gas, eliminates the
15 revenues and expenses associated with local business and occupation (B & O) taxes, which
16 the Company passes through to its Washington customers. The adjustment eliminates any
17 timing mismatch that exists between the revenues and expenses by eliminating the revenues
18 and expenses in their entirety. B & O taxes are passed through on a separate schedule,
19 which is not part of this proceeding. The effect of this adjustment is to decrease Washington
20 electric and natural gas net operating income by \$63,000 and \$9,000, respectively.

21 **Restate Property Tax**, column (2.02) electric and natural gas, restates accrued
22 property tax during the test period to actual property tax paid during 2019. Property tax
23 expense for 2019 was based on actual plant balances as of December 31, 2018. The effect

1 of this adjustment decreases Washington electric net operating income by \$791,000, and
2 Washington natural gas net operating income by \$189,000. Adjustment (3.09) Pro Forma
3 Property Tax, explained below, increases property tax expense to reflect the levels of
4 expense expected during the rate year, based on plant balances as of December 31, 2020, at
5 existing tax rates.

6 **Uncollectible Expense**, column (2.03) electric and natural gas, restates accrued
7 expense to the actual level of net write-offs for the test period. The effect of this adjustment
8 decreases Washington electric net operating income by \$1,135,000, and Washington natural
9 gas net operating income by \$131,000.

10 **Regulatory Expense**, the last adjustment on page 5, column (2.04) electric and
11 natural gas, restates recorded regulatory expense for twelve-months ended December 31,
12 2019, to reflect the UTC assessment rates applied to revenues for the test period, and for
13 electric, the actual levels of FERC fees paid during the test period. The effect of this
14 adjustment increases Washington electric net operating income by \$294,000, and
15 Washington natural gas net operating income by \$46,000.

16 **Q. Please turn to page 6 of Exh EMA-2 and Exh. EMA-3 and explain the**
17 **adjustments shown there.**

18 A. Turning to page 6 of Exh. EMA-2 and Exh. EMA-3, the first adjustment in
19 column (2.05) **Injuries and Damages**, restates electric and natural gas accrued injuries and
20 damages expense with a six-year rolling average of injuries and damages payments not
21 covered by insurance. As a result of the Commission's Order in Docket U-88-2380-T, the
22 Company changed to the reserve method of accounting for injuries and damages not covered

1 by insurance. The effect of this adjustment decreases Washington electric net operating
2 income by \$40,000 and increases Washington natural gas net operating income by \$7,000.

3 **FIT/DFIT/ITC Expenses**, column (2.06) electric and natural gas, reflects the
4 appropriate level of FIT and DFIT calculated at 21% within Results of Operations for the
5 year ending December 31, 2019. For electric, this adjustment also reflects the appropriate
6 level of investment tax credits (ITC) on qualified generation. The FIT and DFIT adjustment
7 required for electric increases net operating income by \$3,000. Natural gas FIT is
8 appropriately reflected in results of operations; however, the DFIT adjustment required
9 decreases net operating income by \$53,000.

10 **Office Space Charged to Non-Utility**, column (2.07) electric and natural gas,
11 removes a portion of electric and natural gas office space costs³⁴ based on the relationship of
12 labor hours charged to subsidiary/non-utility activities by employee compared to total labor
13 hours by employee. These percentages are applied to the employees' office space
14 (expressed in square feet) and multiplied by office space costs/per square foot. This
15 restating adjustment is made as a result of the Commission's Third Supplemental Order in
16 Docket U-88-2380-T. This adjustment removes the portion of electric and natural gas
17 expense that has not already been reflected in the test period as non-utility. The effect of
18 this adjustment increases Washington electric and natural gas net operating income by
19 \$41,000 and \$13,000, respectively.

20 **Restate Excise Taxes**, column (2.08) electric and natural gas, removes the effect of
21 a one-month lag between collection and payment of electric and natural gas taxes. The

³⁴ Office space is comprised of office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.

1 effect of this adjustment decreases Washington electric and natural gas net operating income
2 by \$27,000 and \$1,000, respectively.

3 **Net Gains/Losses**, column (2.09) electric and natural gas, reflects a ten-year
4 amortization of net gains realized from the sale of real property disposed of between 2010
5 and December 31, 2019. This restating adjustment is made as a result of the Commission's
6 Order in Dockets UE-050482 and UG-050483. The effect of this adjustment increases
7 electric and natural gas net operating income by \$46,000 and \$9,000, respectively.

8 **Weather Normalization (electric)**, column (2.10) for electric, normalizes weather
9 sensitive kWh sales by eliminating the effect of temperature deviations above or below
10 historical norms. Company witness Ms. Knox is sponsoring this adjustment. The effect of
11 this particular adjustment decreases net operating income by \$619,000.

12 **Weather Normalization & Gas Cost Adjustment (natural gas)**, column (2.10),
13 normalizes weather sensitive gas therm sales by eliminating the effect of temperature
14 deviations above or below historical norms. This adjustment also restates therms sold to
15 reflect the weather normalized therms and then reprices the adjusted therms sold based upon
16 the authorized weighted average cost of gas. Company witness Mr. Anderson is sponsoring
17 this adjustment. The effect of this adjustment decreases net operating income by \$5,000.

18 **Eliminate Adder Schedule Adjustments**, column (2.11) electric and natural gas,
19 removes the impact of the electric and natural gas adder schedule revenues and related
20 expenses which are recovered/rebated by separate tariffs and, therefore, are not a part of
21 base rates. For electric, rate schedules such as Schedule 59 Residential Exchange credit,
22 Schedule 74 Tax Reform Temporary rebate, Schedule 75 Decoupling Rebate/Surcharge,
23 Schedule 91 Tariff Rider (DSM), Schedule 92 Low Income Rate Assistance Program Rate,

1 Schedule 93 ERM rebate, Schedule 94 BPA rebate, Schedule 95 Optional Renewable and
2 Schedule 98 REC Revenue Surcharge/Rebate are removed. For natural gas, rate schedules
3 such as Schedule 174 Tax Reform Temporary rebate, Schedule 175 Decoupling
4 Rebate/Surcharge, Schedule 189 Fixed-Income Senior & Disabled Residential Service
5 Discount Rate Adjustment, Schedule 191 Tariff Rider (DSM), Schedule 192 Low Income
6 Rate Assistance Program Rate and Schedule 155 Gas Cost surcharge/rebate are removed. In
7 addition, various accounts associated with the cost of natural gas managed through the PGA
8 deferral mechanism are consolidated into City Gate Purchases in this adjustment.

9 Ms. Knox (electric) and Mr. Anderson (natural gas) sponsor these two adjustments.
10 There is no effect of this adjustment on Washington natural gas net operating income, as the
11 adjustment to expense is equal to the adjustment to revenue. For electric, the removal of
12 most schedules reflect expense that is equal to the adjustment to revenue, however, the
13 removal of the decoupling deferral has the effect of decreasing electric net operating income
14 by \$1,104,000.

15 **Miscellaneous Restating Non-Utility/Non-Recurring Expenses**, column (2.12)
16 electric and natural gas, is the final adjustment on page 5 of Exh. EMA-2 and Exh. EMA-3.
17 This adjustment removes a number of non-operating or non-utility expenses associated with
18 dues and donations, etc., included in error in the Company's electric and natural gas test
19 period actual results, and removes, reclassifies or restates other expenses incorrectly charged
20 between service and or jurisdiction. The Company has removed or restated certain Director
21 and Officer related expenses per Dockets UE-090134 and UG-090135. For instance,
22 director fees and director meeting expenses were reduced by \$391,000 electric and \$119,000
23 natural gas expense to reflect 50% of overall expenses in utility operations, and the

1 Company has also removed 10% of total Directors' and Officers' insurance expense to
2 reflect the non-utility/subsidiary portion. Finally, for expenses, the Company has also
3 removed the utility-portion of the Company's Long-Term Incentive Plan (LTIP) related to
4 restricted shares expense, as ordered in Dockets UE-150204 and UG-150205 in the amount
5 of \$772,000 electric and \$235,000 natural gas expense. The net reduction of these expenses
6 for electric and natural gas is approximately \$1,224,000 and \$400,000, respectively. Lastly,
7 in this adjustment the Company removes from "other revenue" amounts associated with the
8 prior year natural gas 2018 earnings test true-up adjustment (required per our Decoupling
9 Mechanisms) recorded in 2019. Therefore, the overall net impact of this adjustment is an
10 increase to electric NOI of \$967,000 and a decrease to natural gas NOI of \$35,000.

11 **Q. Please continue an explanation for adjustments on page 7.**

12 A. The first adjustment on page 7, **Restating Incentive Expense**, column (2.13)
13 electric and natural gas, restates actual O&M incentive compensation expense recorded in
14 2019 to reflect a six-year average (2014-2019) of actual payouts. The use of a six-year
15 average of payouts is consistent with Staff's methodology approved by the Commission in
16 Dockets UE-170485 and UG-170486.

17 For executive officers, the six-year average expense payout of O&M metrics related
18 to efficiencies in cost management (O&M cost-per-customer), customer service and
19 reliability have averaged approximately \$1.19 million (system) in operating expenses.
20 Incentive compensation related to financial metrics are excluded from the Company's filing
21 with expenses borne by shareholders. For non-executive officers, the six-year average of
22 incentive compensation expense payout is \$6.1 million (system) for O&M metrics designed
23 to drive cost-control, and delivery of safe, reliable service with a high level of customer

1 satisfaction. The net effect of this adjustment, including both executive and non-executive
2 changes, decreases Washington NOI by approximately \$595,000 for electric and \$173,000
3 for natural gas.

4 **Restate Debt Interest**, column (2.14), restates electric and natural gas debt interest
5 using the Company's pro forma weighted average cost of debt included in the pro forma
6 studies of 2.48%, on the Results of Operations level of rate base shown in column (1.00)
7 only, resulting in a revised level of tax deductible interest expense on actual test period rate
8 base. The Federal income tax effect of the restated level of interest for the test period
9 decreases Washington net operating income by \$934,000 for electric and \$222,000 for
10 natural gas.

11 The Federal income tax effect of the restated level of interest on all other rate base
12 adjustments included in the Company's filing are included and shown as an income impact
13 of each individual rate base adjustment described elsewhere in this testimony.

14 **Eliminate WA Power Cost Deferral (electric)**, column (2.15), removes the effects
15 of the financial accounting for the Energy Recovery Mechanism (ERM.) The ERM
16 normalizes and defers certain net power supply and transmission revenues and expenses
17 pursuant to the Commission-approved deferral and recovery mechanism. The adjustment
18 removes the ERM rebate revenue as well as the deferral and amortization amounts and
19 certain directly assigned power costs and net transmission costs associated with the ERM.
20 The effect of this adjustment increases net operating income by \$1,074,000.

21 **Nez Perce Settlement Adjustment (electric)**, adjustment column (2.16), reflects a
22 decrease in production operating expenses. An agreement was entered into between the
23 Company and the Nez Perce Tribe in 1999 to settle certain issues regarding previously

1 owned hydroelectric generating facilities of the Company. This adjustment directly assigns
2 the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions. This is
3 necessary due to differing regulatory treatment in Idaho (Case No. WWP-E-98-11) and
4 Washington (Docket UE-991606). This restating adjustment is consistent with prior dockets
5 since Docket UE-011595. The effect of this adjustment increases net operating income by
6 \$4,000.

7 **Normalize CS2/Colstrip Major Maintenance (electric)**, column (2.17), includes
8 an adjustment to normalize major maintenance expense associated with Avista's
9 Colstrip/Coyote Springs II (CS2) thermal projects. In Order 05, page 56, paragraph 153 of
10 Docket UE-150204, the Commission ordered the Company, for regulatory purposes, to
11 normalize and recover its major maintenance expense associated with these plants over a
12 three-year period for Colstrip and four-year period for CS2 to match the major maintenance
13 cycles for each plant.

14 In 2017 through 2019, Colstrip major maintenance occurred totaling approximately
15 \$3.2 million system.³⁵ For regulatory purposes consistent with Docket UE-150204, the
16 regulatory amortization expense level for Colstrip to include in 2019 totals \$1.07 million on
17 a system basis (which is one-third of 2017 - 2019 Colstrip major maintenance).

18 For CS2, 2019 major maintenance occurred totaling approximately \$3.2 million
19 system.³⁶ For regulatory purposes consistent with UE-150204, the regulatory amortization
20 expense level to include in 2019 totals \$690,000 on a system basis. To adjust to the current

³⁵ For Colstrip, major maintenance typically occurs two out of every three years.

³⁶ For CS2, major maintenance can vary, typically occurring every four years for a major overhaul, as is the case for the T3 Transformer (\$2.2 million). This amount was amortized over 4-years. However, in the case of the major maintenance on the steam turbine (\$958,000), this work will not be completed again for approximately seven years. This amount was therefore amortized over 7-years.

1 level of amortization (\$1.76 million), Adjustment 2.16 reflects an increase in expense for
2 Washington's share (65.64%) totaling \$1.16 million. The net effect of this adjustment
3 increases NOI by approximately \$732,000.

4 **Authorized Power Supply (electric)**, column (2.18). This adjustment restates the
5 actual power supply costs for the test year ending December 31, 2019 to the level currently
6 authorized in Case No. UE-170485. This adjustment results in a reduction in Washington
7 operating net income of \$4,633,000. See adjustment 3.00P (Pro Forma Power Supply) and
8 3.00T (Pro Forma Transmission Revenues) for the Company's proposed change in power
9 supply net expense and base power supply costs.

10 **Restate 2019 AMA Rate Base to EOP**, column (2.19) electric and column (2.15)
11 natural gas, the final adjustment on page 6, reflects net plant after ADFIT as of December
12 31, 2019 on an AMA basis per results of operations, adjusted to reflect net plant after
13 ADFIT to a 2019 EOP basis per results of operations. Depreciation at December 31, 2019
14 was also adjusted to reflect for annual depreciation expense. This adjustment excludes the
15 impact of incremental AMA to EOP new revenue investment, as well as incremental AMI
16 investment. The effect of this adjustment increases Washington electric and natural gas rate
17 base by \$21,049,000 and \$12,731,000, respectively. This adjustment also decreases
18 Washington electric NOI by \$1,357,000 and increases natural gas NOI \$273,000.³⁷

19

³⁷ After completion of the Company's revenue requirement, it was discovered that the transfer-to-plant balance included in the 2019 historical test period for the Cabinet Gorge Gantry Crane Replacement project completed in 2019, was overstated by approximately \$1.4 million (system) in costs that should have been recorded to expense. This project is described by Mr. Thackston in Exh. JRT-4. This error was corrected in 2020. As discussed by Company witness Ms. Schultz, during the process of this case, the Company will update restating adjustment "Restate 2019 AMA Rate Base to EOP (2.19)" to correct for this error, reducing rate base by approximately \$904,000, depreciation expense by \$10,000, and increasing 2019 restating operating expense by approximately \$0.9 million (\$1.4 million system). The overall net impact of this correction increases the Company's proposed revenue requirement by approximately \$821,000.

1 the Company's restated 2019 results and are reflective of costs incurred during the rate year,
2 beginning October 1, 2021. Each of these adjustments are described below.

3 The first adjustment on page 8 of the Electric Pro Forma Study, Exh. EMA-2, is
4 adjustment **Pro Forma Power Supply (electric)**, column (3.00P). This adjustment was
5 made under the direction of Mr. Kalich and is explained in detail in his testimony. This
6 adjustment includes pro forma power supply related revenue and expenses to reflect the
7 twelve-month period October 1, 2021 through September 30, 2022, using historical loads.
8 Mr. Kalich's testimony outlines the system level of pro forma power supply revenues and
9 expenses that are included in this adjustment. This adjustment calculates the Washington
10 jurisdictional share of those figures. The net effect of the power supply adjustment increases
11 Washington net operating income by \$11,521,000.³⁹

12 The adjustment in column (3.00T), **Pro Forma Transmission Revenue and**
13 **Expense (electric)**, was made under the direction of Company witness Mr. Schlect and is
14 explained in detail in his testimony. This adjustment includes pro forma transmission-
15 related revenues and expenses to reflect the twelve-month period October 1, 2021 through
16 September 30, 2022. The net effect of the transmission revenue and expense adjustments
17 increase Washington net operating income by \$873,000.

18 The next adjustment on page 8 of the Electric Pro Forma Study Exh. EMA-2, and the
19 first adjustment on page 8 of the Natural Gas Pro Forma Study, Exh. EMA-3, is adjustment

³⁹ As explained further by Company witness Mr. Kalich, in Order 07 of Avista's 2017 general rate case, Docket UE-170485, at ¶160, the Commission stated that baseline adjustments to power supply costs should only be made "in extraordinary circumstances." Mr. Kalich also provides an update on the progress of the power supply modeling workshops being held per the Commission direction. Representatives from the Commission Staff, Public Counsel and the Alliance of Western Energy Consumers (AWEC), in addition to the Company, have participated in all workshops held to date. Through these workshops, we appear to have reached consensus on most of the basic components of the power supply modeling approach.

1 **Pro Forma Revenue Normalization**, column (3.01), that adjusts electric and natural gas
2 January 2019 through December 2019 test period customers and usage for any known and
3 measurable (pro forma) changes. In addition, the adjustment re-prices billed, unbilled, and
4 weather adjusted usage at the base tariff rates approved for 2019, as if the April 1, 2020 base
5 tariff rates were effective for the full 12-months of the test year. This adjustment also
6 removes the impact of 2019 decoupling deferrals (GRC resets the base) and decoupling
7 earnings sharing. For natural gas, this adjustment also eliminates Schedule 150 Gas Cost
8 revenue and the associated cost of purchased gas. Ms. Knox is sponsoring electric
9 adjustment (3.01), which has the effect of increasing NOI by \$11,740,000. Mr. Anderson is
10 sponsoring natural gas adjustment (3.01), which has the effect of increasing NOI by
11 \$8,187,000.

12 **Pro Forma Def. Debits, Credits and Regulatory Amortizations**, column (3.02),
13 adjusts certain electric and natural gas items included in electric and natural gas restating
14 adjustments (1.02), which is included on an AMA 2019 Commission Basis level, to the level
15 in effect for Rate Year 1, beginning October 1, 2021. For electric, this adjustment removes
16 any remaining regulatory rate base balance and expense associated with expiring regulatory
17 amortizations prior to the rate effective period October 1, 2021⁴⁰: 1) Settlement Exchange
18 Power; 2) CDA Lake Settlement Deferral; 3) CDA/SRR (Spokane River Relicensing) CDR
19 Deferral; 4) Spokane River Deferral; and 5) Spokane River PM&E Deferral. In addition, this
20 adjustment includes the increased electric expense associated with the annual CPI
21 adjustment for the Montana Riverbed Lease. Finally, this adjustment also removes for both

⁴⁰ For a description of each deferral item, see discussion provided above for restating adjustment (1.02) Deferred Debits and Credits.

1 electric and natural gas non-reoccurring AFUDC amortization expense. The effect of this
2 adjustment reduces electric total rate base by \$766,000, and increases electric and natural
3 gas NOI by \$1,905,000 and \$182,000, respectively.

4 **Pro Forma ARAM DFIT**, column (3.03), adjusts the electric and natural gas
5 ARAM DFIT amortization expense included in the 2019 test period to reflect the level of
6 ARAM DFIT amortization expense expected for the rate effective period. As a result of the
7 December 31, 2017 Tax Cuts and Jobs Act (TCJA), Avista had an electric plant excess
8 ADFIT balance (Regulatory Liability) of approximately \$208.3 million as of December
9 2017. In accordance with the TCJA’s Average Rate Assumption Method (ARAM), the
10 Company is required to reverse (i.e. normalize) these “protected” balances over the
11 depreciable lives of the capital assets that created the ADFIT. The Company estimates the
12 ARAM for Avista results in an amortization period of approximately 36 years from
13 December 31, 2017 or a remaining 32.2 years from October 1, 2021. This long-term tax
14 benefit was included in base rates effective May 1, 2018, in Dockets UE-170485 et. al.⁴¹
15 The amortization of this balance over 36 years provides a tax benefit to customers (reduction
16 in rates) of approximately \$5 million Washington electric and \$1 million Washington
17 natural gas. The annual excess plant DFIT amortization benefit will vary annually as the IRS
18 ARAM is not calculated on a straight-line basis. This adjustment updates the DFIT

⁴¹ If the Commission approves the Company’s Tax Accounting Petition filed concurrent with this general rate case 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, certain excess DFIT tax balances will be reclassified as non-protected and removed from the ARAM calculation. These removed balances would be available to be returned to customers over a shorter period as discussed in the Tax Accounting Petition. The Pro Forma ARAM Adjustment (3.03) would therefore need to be revised during the pendency of the general rate case to reflect those changes, lowering the annual ARAM tax amortization benefit.

1 amortization expenses. The effect of this adjustment increases electric NOI by \$500,000 and
2 decreases natural gas NOI by \$41,000.

3 **Q. The next three adjustments (3.04) through (3.06) relate to pro forma**
4 **labor and benefit adjustments. Prior to addressing each of the adjustments, please**
5 **provide an overview of the Company's total compensation philosophy.**

6 A. Avista is committed to providing total compensation to employees that will
7 attract and retain qualified people required to meet the needs and expectations of all utility
8 stakeholders, including but not limited to, customers, shareholders and regulators. To that
9 end, the Company provides employees with cash compensation (base pay and variable pay
10 in the form of pay-at-risk incentive compensation) and a comprehensive benefit package
11 including medical and retirement. The overall package is designed to meet the following
12 goals:

- 13 • Clearly identify the specific measures of Company performance that are likely to
14 create long-term value for the Company's customers and shareholders;
- 15 • Keep employees focused on cost control, customer satisfaction, reliability and
16 operational efficiencies by awarding variable pay for meeting pre-determined
17 metrics;
- 18 • Promote a culture of safety;
- 19 • Pay competitively compared to others within our market;
- 20 • Reward outstanding performance; and
- 21 • Align elements of the incentive plans among all Company employees, including
22 executive officers.

23
24 Each component is carefully considered within the overall package in order to
25 provide total compensation which will be cost-effective for the Company, as well as, attract
26 and retain employees. Compensation components within the overall package may be
27 adjusted over time to achieve the goal of recruiting and retaining qualified employees. The

1 Company generally targets overall compensation levels within the range that is 15% above
2 or below the median of Avista's peer group.

3 **Q. Please now explain the pro forma labor and benefit adjustments starting**
4 **with adjustment (3.04) Pro-Forma Labor Non-Exec on page 8 of Exh. EMA-2 and**
5 **EMA-3.**

6 A. **Pro Forma Labor Non-Exec**, column (3.04), reflects changes in base pay,
7 which together with pay-at-risk (Short Term Incentive Compensation) is designed to provide
8 competitive compensation in the marketplace. The level of base pay is determined based on
9 position qualifications such as level of education, professional designations or certifications,
10 experience, roles and responsibilities, and within the market where we compete for talent.
11 Avista participates in numerous confidential salary surveys provided by third-party
12 consulting firms which compare Avista's pay programs and structure to other organizations
13 in the utility industry, as well as other industries, regionally and nationally. Salary surveys
14 are part of the input in the determination of salary increases and salary range updates
15 (minimum, mid-point and maximum), as well as benchmarking jobs to market data. Avista
16 benchmarks many jobs within the Company and reviews market data to determine if the
17 salary range midpoints still accommodate the new estimated values established by the
18 benchmarking process. Based on the information provided in these surveys, salary
19 recommendations are presented to the independent Compensation Committee of the Board
20 of Directors for their consideration and approval. The Compensation Committee can choose
21 to grant higher or lower salary adjustments, based on the available market data.

22 The specific electric and natural gas adjustments, reflect changes to test period union
23 and non-union wages and salaries, excluding executive salaries, which are handled

1 separately in adjustment (3.04). For non-union employees, the adjustment annualizes the
2 impact of increases effective March 2019, and includes a 3.0% adjustment for increases
3 which were effective March 2020. The Company has not had a final increase for non-union
4 employees for 2021 approved (that will be in effect well before the start of the rate effective
5 period), however the Board of Directors has approved a preliminary minimum salary
6 increase of 3% based on 2020 salary planning surveys. The Company will update the
7 adjustment should the actual approval be less than 3%. Union employee increases are made
8 in accordance with contract terms to annualize the impact of the 3% increase in 2019 and
9 reflect the 3% actual increase for 2020. The current contract with the IBEW Union 77
10 (Washington/Idaho) expires on March 25, 2021. The Company has included an estimated
11 increase of 3% for 2021 in order to be consistent with non-union employees. The Company
12 will update the contract agreement increase during the process of the case once it is
13 available. In total, this portion of the adjustment represents an increase in expense of \$3.27
14 million electric and \$0.98 million natural gas. The effect of this adjustment decreases
15 electric and natural gas NOI by \$2,581,000 and \$772,000, respectively.

16 **Pro Forma Labor-Executive**, column (3.05), reflects actual salary levels approved
17 by the Board of Directors and that are in effect as of February 2020. This salary level is
18 allocated between Utility and Non-Utility based on 2019 levels actual percentages⁴² (90%
19 utility /10% non-utility) – this percentage is consistent with the level included in Order No.
20 UE-170485. This adjustment also reflects the changes (retirements and additions) in officers

⁴² For those Executives who were new in 2019, the union/non-union percentages are estimated based on the previous employee's actual allocation.

1 and their impact on salary expense from 2019 to 2020. The impact of this adjustment
2 reduces expense for electric by \$318,000 and for natural gas by \$97,000.

3 The Compensation Committee of the Board of Directors (Board) determined and
4 approved the level of executive officer level of base salary effective March 2020, as with all
5 components of executive officer compensation. The Board considers several internal factors
6 such as individual and Company performance goals, succession planning, job complexity,
7 experience and breadth of knowledge in the determination of base pay. Similar to non-
8 executive compensation, the Board also utilized external peer group data to benchmark its
9 executives against a group of companies with similar business profiles, similar revenue size
10 and market capitalization. These companies were reasonably assumed to be the companies
11 with which we compete for talent. The effect of this adjustment increases electric and
12 natural gas NOI by \$251,000 and \$77,000, respectively.

13 **Pro Forma Employee Benefits**, column (3.06) electric and natural gas, adjusts the
14 twelve-months ended December 31, 2019 Retirement Plans (401(k) and Pension), and
15 Medical insurance for active employees and for those retired (post-retirement medical) to
16 the expected amount for the rate effective period. Annually, the Company works with
17 independent consultants in order to determine the appropriate level of expense for both the
18 Retirement Plans (Willis Towers Watson) and the Medical Plans (Mercer). The impact of
19 these changes are summarized in Table No. 4 below: ⁴³

20

⁴³ Benefits associated with capital labor are embedded within the Company's Capital Adjustment.

Table No. 4: Benefit Adjustment

Benefit Adjustment	System	O&M	WA Electric	WA Natural Gas
Retirement	\$ 4,710,705	\$ 2,691,226	\$ 1,314,014	\$ 400,751
Medical	(695,754)	(397,484)	(194,075)	(59,189)
Total	\$ 4,014,951	\$ 2,293,742	\$ 1,119,939	\$ 341,562

The Company offers a comprehensive benefit plan for employees. Employees have several choices to elect benefits, such as medical and life insurance, so they can determine the best fit for their circumstances. The plans are designed to be competitive with the overall market practices and are in place to attract and retain qualified employees. Periodically, to aid in benchmarking, Avista participates in a comprehensive benefit evaluation study (BENEVAL) performed by an independent actuarial company, Willis Towers Watson. Similar to cash compensation, the Company generally targets the level of benefits it offers to be within +/- 15% of the market median.

Q. Please describe the Retirement portion of the Benefit Adjustment included in Adjustment 2.04 and Washington's share of this expense.

A. The Company's Retirement portion of the calculation adjusts the 401(k) expense and Pension Plan from the twelve-months ending December 31, 2019 to reflect what will be in effect during 2020, resulting in an overall system expense reduction of \$0.8 million. Estimates for Pension Plan expense is determined annually by Willis Towers Watson based on the expected return on assets, discount rates and asset value. The primary contributor to this decrease in expense is related to changes in asset value due to the actual return on assets for 2019 partially offset by changes in the discount rate and the expected long-term return on assets for 2020. Assumptions utilized in the calculation are presented to and approved by the Board of Directors annually. In addition, these calculations and

1 assumptions are reviewed by the Company's outside accounting firm annually for
2 reasonableness and comparability to other Companies. The Company has included in this
3 case the most recent estimates provided by our actuary for 2022.⁴⁴ We anticipate updates for
4 2021 and 2022 to be available sometime in the fourth quarter of 2020, and the Company will
5 adjust pension expense at that time to reflect a prorated amount of 2021-2022 for the rate
6 effective period.

7 In addition, the Company has made changes to the overall retirement plan, discussed
8 below, resulting in an increase in 401(k) expense on a system basis of \$355,000. The
9 Company has proposed an increase of 6% consistent with proposed labor increases for 2021
10 and 2022 as discussed in Pro Forma Labor Non-Exec adjustment (3.04). Over the long
11 term, we anticipate a decrease in pension expense will reduce overall retirement net expense
12 over the long-term.

13 **Q. Please summarize changes to the Company's retirement plan in recent**
14 **years.**

15 A. In October 2013, the Company revised the defined benefit pension plan such
16 that, as of January 1, 2014, the plan is closed to all non-union employees hired or rehired on
17 or after January 1, 2014.⁴⁵ All actively employed non-union employees that were hired prior
18 to January 1, 2014, and were covered under the defined benefit pension plan at that time,
19 will continue accruing benefits as originally specified in the plan. A defined contribution
20 401(k) plan replaced the defined benefit pension plan for all non-union employees hired or
21 rehired on or after January 1, 2014. Under the defined contribution plan the Company will

⁴⁴ The estimate for 2022 was used as the basis for the rate effective period.

⁴⁵ Changes were applicable to Local Union 659 (Oregon operations) effective April 1, 2014.

1 provide a non-elective contribution as a percentage of each employee's pay based on the age
 2 of the employee. This defined contribution is in addition to the existing 401(k) contribution
 3 where Avista matches a portion of the pay deferred by each participant. In addition to the
 4 above changes, the Company also revised our lump sum calculation for non-union retirees
 5 under the defined benefit pension plan to provide non-union participants who retire on or
 6 after January 1, 2014 with a lump sum amount equivalent to the present value of the annuity
 7 based upon applicable discount rates.

8 **Q. Please now provide an overview of how medical expenses are determined**
 9 **by the Company.**

10 A. Avista sponsors a self-funded medical plan that provides various levels of
 11 overage for medical, dental and vision as a portion of employee benefits. Annually, medical
 12 premiums⁴⁶ for the Company are estimated by an independent consultant, Mercer,⁴⁷ based
 13 on medical trend, which is a combination of utilization (the pattern of use or intensity of
 14 services used for a particular timeframe), and the estimated increase in the costs (such as
 15 medical services, office visits, medical equipment, etc.) to treat patients from one year to the
 16 next. The following factors are taken into consideration in the development of premiums:

- 17 • Population Profile – the number and composition of participating employees (such as
 18 single person, family, age, etc.).
- 19
- 20 • Estimated Medical and Prescription Costs – the increase in unit cost for a given
 21 medical service or treatments, the mix and intensity of differing types of service, and
 22 new treatments/therapy/technology.
- 23
- 24 • Laws and Regulation – changes and associated costs, such as those required as part
 25 of the Affordable Care Act.

⁴⁶ In this context, “premium” is defined as total medical costs including both the Company and employee contribution.

⁴⁷ Mercer is currently the world’s largest human resources consulting firm, with more than 20,500 employees, based in more than 40 countries.

1 Actual medical expense will vary from premium cost estimates based on variations
2 in plan utilization and actual components in the medical trend. For the past several years,
3 actual expense had been lower than our premium cost estimates, resulting in lower costs for
4 the Company and our customers. Some reasons include the effects of the Company's
5 wellness programs, the severity of flu season in a given year, the level of acute or chronic
6 illness, or for a variety of other reasons. However, due primarily to increased utilization
7 rates, price increases and our population profile, medical expenses have been trending
8 upward.

9 As with the Pension Plan, estimates for the Post-Retirement Medical piece of the
10 Medical adjustment are based on the expected return on assets, discount rates and asset
11 value. In this case, the primary contributor to the increase in expense is related to an increase
12 in cost trend assumptions. We anticipate updates for 2021 to be available sometime in the
13 first quarter of 2021, and the Company will adjust expected medical expense, in this case, at
14 that time. The net effect of the changes in medical costs on O&M expense described above,
15 reflect an increase in system expense of \$2.7 million.

16 As shown in Table No. 4 above, the overall net impact of changes in pension and
17 medical expense on a system basis is an increase of \$2.3 million, or \$1.1 million
18 Washington electric and \$342,000 Washington natural gas. Therefore, the Pro Forma
19 Employee Benefits adjustment reduces NOI for electric by \$885,000 and for natural gas by
20 \$269,000. Again, the Company will update the level of expense as soon possible during the
21 process of the case, after receiving updated consultant information expected in early 2021.

22 **Q. Please turn to page 9 of exhibits Exh. EMA-2 and Exh. EMA-3 and**
23 **continue with your discussion on pro forma adjustments.**

1 A. Starting on page 9 of both Exh. EMA-2 and Exh. EMA-3, is electric and
2 natural gas adjustment **Pro Forma Insurance Expense**, column (3.07). This adjustment
3 increases the 2019 level of insurance expense for general liability, directors and officers
4 (“D&O”) liability, and property insurance to the level of insurance expense the Company is
5 expecting during the rate year. The amount included for D&O insurance is reduced by 10%
6 per Dockets UE-090134 and UG-090135. New invoicing is expected in December 2020 for
7 the Company’s general and property insurance premiums, and March 2021 for D&O
8 insurance premiums, and the Company will update the estimated amounts included here as
9 soon as the actual invoices are available. The effect of this adjustment decreases NOI by
10 \$2,796,000 for electric and by \$852,000 for natural gas.

11 **Q. Please summarize the main cause for the increased level of insurance**
12 **expense included in the Company’s case, compared to that experienced in the 2019 test**
13 **period.**

14 A. Although in recent years insurance premiums have been held flat or slightly
15 decreased, starting in late 2019 insurance companies have started raising premiums, some
16 significantly, due to an increase in claim frequency and severity. Avista expects
17 extraordinary increases in general liability insurance premiums above and beyond industry
18 wide increases based on recent wildfire activity in Oregon and Washington, combined with
19 insurers’ continuing wildfire losses and perceived increase of wildfire risk throughout the
20 western United States. Avista also expects significant increases in its Property and D & O
21 insurance premiums at least through 2022 as insurers look to bring collected premiums in
22 line with increases in losses.

1 With regards to general liability, the excess liability insurance marketplace started to
2 see significant premium increases in 2019 due to an increase in loss costs for the industry
3 primarily attributable to the frequency of large jury settlements. Avista also expected to see
4 premium increases due to wildfire exposure in its territory. Prior to the September 7, 2020
5 wildfire event across the Pacific Northwest, Avista had anticipated a premium increase of
6 approximately 63% at the 12/31/2020 renewal. However, given the occurrence of the
7 September 7, 2020 wildfire event coupled with the occurrence of prior fires in Avista's
8 service territory, insurance companies are likely to seek premium increases for 2021 far
9 beyond the previously projected increase of 63%. AEGIS, Avista's primary excess liability
10 insurer, whose premium accounts for approximately two-thirds of the entire excess liability
11 program premium, originally informed Avista the projected 12/31/2020 renewal increase,
12 would include a premium increase above their general forecasted premium increase of 10-
13 12% to all members to address rising loss costs. After the September 7, 2020 wildfire event,
14 anticipated increases by AEGIS and other insurers in the remaining layers of insurance to
15 maintain their existing Rate-on-Line (ROL) pricing, are expected to increase premiums
16 invoiced in December 2020 at or above levels included in this filing.

17 With regards to property insurance, the property insurance market in the latter half of
18 2018 began to pivot away from several years of declining rates (2013-2017) to one where
19 premium increases will be the new norm through at least 2022. While premiums continued
20 to decrease over the prior period, claim activity did not decrease, resulting in ever
21 decreasing profitability for insurance companies. This problem became compounded when
22 the industry experienced two of the biggest catastrophic loss years in the history of the
23 industry in 2017 and 2018. This triggered an industry-wide move for insurers to start to

1 seek property insurance premium increases in order to return this line of business to
2 profitability. Avista had a 18.5% increase in property insurance premiums at its 12/1/19
3 renewal. Industry-wide, premiums have continued to increase, often at a monthly rate, since
4 that time. Avista's insurance broker has indicated that U.S. property insurance companies
5 will be seeking a minimum premium increase of approximately 25% annually over the next
6 couple of years in order to return their property lines of business to profitability. Given the
7 projected base premium increases combined with its recent loss history, Avista currently
8 projects property premium increases of 30% for its 12/1/20 and 12/1/21 renewals.

9 Finally, with regards to D & O insurance, this insurance has shared the same history
10 of declining premiums during a period of increasing loss activity. Insurance companies
11 industry-wide have seen increased losses driven by specific large loss events, merger
12 objection lawsuits, an increase in securities class-action suits, general increases in claims
13 frequency and higher defense costs. Going forward, insurers see additional risk in expected
14 claims. Based on these increased risks in the industry, Avista expects a blended rate increase
15 of 11% at its 3/31/2021 renewal.

16 The overall increase in insurance expense included in this case above 2019 test
17 period levels is a system increase of \$7.3 million (after the reduction of 10% of D&O
18 insurance per Dockets UE-090134 and UG-090135), or \$3.5 million Washington electric
19 and \$1.1 million Washington natural gas. The Company will update these estimated
20 insurance premium levels once new invoices are received in December 2020 (general and
21 property insurance) and March 2021 (D&O insurance) and will update these estimated
22 amounts during the process of this case. The current effect of this adjustment decreases NOI
23 by \$2,796,000 for electric and by \$852,000 for natural gas.

1 **Q. Please continue with your discussion of the Pro Forma adjustments**
2 **included on page 9 of Exh. EMA-2 and Exh. EMA-3.**

3 A. The next adjustment on page 9 is electric and natural gas adjustment **Pro**
4 **Forma IS/IT Expense**, column (3.08), which adjusts the actual level of information services
5 and technology expense included in the 2019 test year to that expected during the rate period
6 beginning October 1, 2021. This adjustment includes the incremental costs primarily
7 associated with contractual agreements in place, pre-paid costs, or are the continuation of
8 costs for products and services that have increased beyond the 2019 historical test period
9 associated with products and services, licensing and maintenance fees, and other costs for a
10 range of information services programs. These incremental expenditures are necessary to
11 support Company cyber and general security, emergency operations readiness, electric and
12 natural gas facilities and operations support, and customer service. Mr. Kensok sponsors
13 this adjustment and provides more information within his testimony. The effect of this
14 adjustment decreases NOI by \$1,590,000 for electric and by \$493,000 for natural gas.

15 **Pro Forma Property Tax**, column (3.09) electric and natural gas, restates the 2019
16 level of property tax expense included in adjustment (2.02) Restate 2019 Property Tax, to
17 the level of property tax expense the Company will experience during the rate year. The
18 property on which the tax is calculated is the property value as of December 31, 2020, taxed
19 at existing rates. The effect of this adjustment decreases NOI by \$1,349,000 for electric and
20 by \$366,000 for natural gas.

21 **Pro Forma Fee-Free Amortization**, column (3.10) electric and natural gas, reflects
22 the annual expense associated with the “fee-free” payment expense incurred during the rate
23 year of \$751,000 electric and \$492,000 natural gas, as well as the annual amortization

1 expense as a result of amortizing the “fee-free” payments deferred from February 2017
2 through March 2020 over a two-year period (April 1, 2020 through March 31, 2022). The
3 Washington electric and natural gas amortization expense for the rate effective period is an
4 increase of \$524,000 and \$343,000, respectively.

5 On January 12, 2016, Avista filed with the Washington Utilities and Transportation
6 Commission a petition requesting an order authorizing accounting and ratemaking treatment
7 of fees for credit and debit card payments made by residential customers. Avista asked to
8 defer, for up to 36 months from the time the program went into effect, all fees paid by
9 Avista related to offering a fee-free program for payment of bills by Washington residential
10 customers that use credit and debit cards. Avista also proposed that the deferred balance
11 would be included in the Company’s next general rate case and amortized over 24 months.

12 On March 24, 2016 the Commission issued Order 01 in Docket UE-160071 and UG-
13 160072 approving Avista’s petition for an order authorizing accounting and ratemaking
14 treatment of its residential fee-free payment program. The fee-free payment program was
15 successfully launched February 19, 2017. Finally, on April 11, 2019, in addition to the
16 approved 36-month deferral period previously approved, the Commission granted Avista a
17 four-month extension due to the timing of filing of the previous general rate case.⁴⁸

18 As of March 31, 2020, the Company deferred \$1.686 million of Washington electric
19 and \$1.09 million of Washington natural gas customer transactions through the fee-free
20 payment program. Amortization expense of the deferred balance over a two-year period
21 was approved by the WUTC in Dockets UE-190334 & UG-190335 beginning April 1, 2020

⁴⁸ Order 02, Docket UE-160071 and UG-160072.

1 through March 31, 2022.

2 The total increase in Washington expense associated with the annual fee free
3 expense, and amortization expense of the deferral, totals \$1.27 million for electric and
4 \$835,000 for natural gas. The effect of this adjustment decreases NOI by \$1,052,000 for
5 electric and \$689,000 for natural gas.

6 **Q. Continuing on pages 9 and 10 of Exh. EMA-2 and EMA-3, are a series of**
7 **five proforma 2020 capital addition adjustments (3.11) through (3.15), sponsored by**
8 **Ms. Schultz. Would you please summarize these adjustments, and explain the impact**
9 **on your Electric and Natural Gas Pro Forma Studies?**

10 A. Yes. As discussed earlier, Ms. Schultz sponsors five Pro Forma 2020 Capital
11 Additions adjustments, reflecting additions that fall into the following categories: Customer
12 at the Center (PF 3.11); Large and Distinct (PF 3.12); Programmatic (PF 3.13); Mandatory
13 and Compliance (PF 3.14); and Short-Lived Assets (PF 3.15). As discussed by Ms. Schultz,
14 these pro formed capital additions, reflect capital projects that will be complete before year-
15 end 2020 (and are largely complete prior to the filing of this general case in November
16 2020) – nine months or more prior to the October 1, 2020 rate effective date. Each of these
17 adjustments reflect the increases in 2020 capital additions, together with associated A/D,
18 ADFIT, and depreciation expense. Ms. Schultz also reflects 2020 retirements on plant-in-
19 service at December 31, 2019, on similar assets, and other O&M savings, as an offset to
20 expense, reducing the overall impact of these adjustments. The overall effect of reflecting
21 these offsets in each 2020 Pro Forma Capital Additions adjustment, reduces the incremental
22 depreciation and O&M expense included in those adjustments by 21% for electric and 16%
23 for natural gas.

1 Detailed information supporting these capital additions are included in testimony and
2 exhibits of witnesses Mr. Magalsky, Mr. Thackston, Ms. Rosentrater and Mr. Kensok.
3 Detailed analysis supporting the pro forma adjustments are available in Exh. EMA-5, as well
4 as Ms. Schultz workpapers filed with the Company's case.

5 A description of these pro forma adjustments follows:

6 **Pro Forma 2020 Customer At Center Additions**, column (3.11) electric and
7 natural gas, reflect increases in capital additions related to the Company's Customer at the
8 Center capital projects, as supported by Mr. Magalsky. Ms. Schultz sponsors the pro forma
9 adjustment for these projects reflecting the increases in 2020 capital additions, together with
10 associated A/D, ADFIT, and depreciation expense. Ms. Schultz also reflects 2020
11 retirements on plant-in-service at December 31, 2019, on similar assets, as an offset to
12 expense, reducing the overall impact of this adjustment. The effect of this adjustment
13 increases electric rate base by \$9,316,000 and decreases NOI by \$1,404,000. For natural
14 gas, this adjustment increases rate base by \$2,923,000 and decreases NOI by \$441,000.

15 **Pro Forma 2020 Large and Distinct Additions**, column (3.12) electric and natural
16 gas, reflect increases in capital additions related to various large and distinct capital projects
17 as supported by Mr. Thackston, Ms. Rosentrater and Mr. Kensok. Ms. Schultz sponsors the
18 pro forma adjustment for these projects reflecting the increases in 2020 capital additions,
19 together with associated A/D, ADFIT, and depreciation expense. Ms. Schultz also reflects
20 2020 retirements on plant-in-service at December 31, 2019, on similar assets, as an offset to
21 expense, reducing the overall impact of this adjustment. The effect of this adjustment

1 increases electric rate base by \$23,308,000 and decreases NOI by \$238,000.⁴⁹ For natural
2 gas, this adjustment increases rate base by \$7,191,000 and decreases NOI by \$110,000.

3 **Pro Forma 2020 Programmatic Additions,** column (3.13) electric and natural gas,
4 reflect increases in capital additions related to various programmatic capital projects as
5 supported by Mr. Thackston, Ms. Rosentrater and Mr. Kensok. Ms. Schultz sponsors the
6 pro forma adjustment for these projects reflecting the increases in 2020 capital additions,
7 together with associated A/D, ADFIT, and depreciation expense. Ms. Schultz also reflects
8 2020 retirements on plant-in-service at December 31, 2019, on similar assets, as an offset to
9 expense, reducing the overall impact of this adjustment. The effect of this adjustment
10 increases electric rate base by \$51,538,000 and decreases NOI by \$749,000. For natural gas,
11 this adjustment increases rate base by \$7,194,000 and decreases NOI by \$143,000.

12 **Pro Forma 2020 Mandatory and Compliance Additions,** column (3.14) electric
13 and natural gas, reflect increases in capital additions related to various mandatory and
14 compliance capital projects as supported by Mr. Thackston and Ms. Rosentrater. Ms.
15 Schultz sponsors the pro forma adjustment for these projects reflecting the increases in 2020
16 capital additions, together with associated A/D, ADFIT, and depreciation expense. Ms.
17 Schultz also reflects 2020 retirements on plant-in-service at December 31, 2019, on similar
18 assets, as an offset to expense, reducing the overall impact of this adjustment. The effect of
19 this adjustment increases electric rate base by \$35,584,000 and decreases NOI by \$375,000.
20 For natural gas, this adjustment increases rate base by \$13,123,000 and decreases NOI by

⁴⁹ As discussed by Ms. Schultz, preliminary project costs for the Chelan-Stratford Transmission Line Rebuild project from the 2020 Labor Day Storm, included in adjustment (3.12), are now expected to be lower than the estimated amount included in the Company's filing. Final project costs, once available will be updated during the pendency of the case, reducing the overall rate base and revenue requirement associated with this project.

1 \$150,000.

2 **Pro Forma 2020 Short-Lived Additions**, column (3.15) electric and natural gas,
 3 reflect increases in capital additions related to various short-lived capital projects as
 4 supported by Mr. Kensok. Ms. Schultz sponsors the pro forma adjustment for these projects
 5 reflecting the increases in 2020 capital additions, together with associated A/D, ADFIT, and
 6 depreciation expense. Ms. Schultz also reflects 2020 retirements on plant-in-service at
 7 December 31, 2019, on similar assets, as an offset to expense, reducing the overall impact of
 8 this adjustment. The effect of this adjustment increases electric rate base by \$10,886,000
 9 and decreases NOI by \$1,496,000. For natural gas, this adjustment increases rate base by
 10 \$3,408,000 and decreases NOI by \$489,000.

11 **Q. Please continue with your discussion of the Pro Forma adjustments**
 12 **included on page 10 of Exh. EMA-2 and Exh. EMA-3.**

13 A. The next adjustment is electric and natural gas **Pro Forma AMI Capital**
 14 **Additions and Regulatory Amortization**, column (3.16), which reflects the Company's
 15 adjustment to recover its investment in Automated Meter Infrastructure (AMI) that has been
 16 described by Ms. Rosentrater and Company witness Mr. DiLuciano. The electric adjustment
 17 increases regulatory amortization expense by \$10.1 million, increases depreciation expense
 18 by \$2.5 million, reduces O&M expenses by \$3.0 million for offsets⁵⁰, increases AMI net

⁵⁰ Offsets included in this GRC reflect hard savings of \$6.7 million expected during the rate period levels (October 1, 2021 – September 30, 2022) on a system basis. The Washington-share of these savings, net of 2019 test period savings already included (\$2.4 system), reflect an incremental savings of \$4.3 million, or \$3.0 million Washington electric and \$1.0 million natural gas. These savings mainly reflect reductions due to elimination of meter reading, remote service connectivity and conservation voltage reduction. Mr. DiLuciano provides the detailed analysis of the annual savings within his workpapers provided with the Company's filing. As discussed by Mr. DiLuciano, with the Commission's ruling in July 2020, including remote service disconnection, the Company will add 4 employees to meet the requirements of the new rule, at an estimated incremental cost of approximately \$271,000 per year, the savings therefore, have been reduced to reflect this expected increase in cost.

1 plant by \$38.8 million (after including pro formed AMI capital additions between January 1,
2 2020 through the completion of the project), and increases the regulatory asset by \$53.4
3 million. The net effect of these adjustments, therefore, decreases electric NOI by
4 \$7,153,000 and increases total electric rate base by \$92,163,000.

5 The natural gas adjustment increases regulatory amortization expense by \$3.5
6 million, increases depreciation expense by \$1.0 million, reduces O&M expenses by \$1.0
7 million for offsets, increases AMI net plant by \$19.8 million (after including pro formed
8 AMI capital additions between January 1, 2020 through the completion of the project), and
9 increases the regulatory asset by \$15.7 million. The net effect of these adjustments
10 decreases natural gas NOI by \$2,550,000 and increases total natural gas rate base by
11 \$35,432,000.

12 As described by Mr. DiLuciano, the AMI project was first introduced to the
13 Commission in 2015. In Docket UE-160100 the Commission approved deferred accounting
14 treatment related to the undepreciated net book value of the existing electric meters. In
15 Dockets UE-170327 and UG-170328, the Commission approved deferred accounting
16 treatment related to the undepreciated net book value of the existing natural gas meter
17 registers. In addition, the Commission authorized the Company to defer the depreciation
18 expense associated with the investment in the AMI until such time plant is included in retail
19 rates in a future general rate case, and required the Company to defer revenues collected
20 from customers related to the existing electric meters and natural gas meter registers that
21 exceeded the actual depreciation expense recorded on the existing investment. A summary
22 of AMI accounting that forms the basis for the adjustments that have been included in this
23 general rate case follows:

1 **AMI Rate Base** - Rate base in the Company's case includes the following as shown in
 2 Table No. 5.

3 **Table No. 5 – AMI Rate Base:**

AMI RATE BASE				
Line #		Electric	Natural Gas	Total
	Plant in Service			
1	Plant	\$ 105,563,963	\$ 38,538,823	\$ 144,102,786
2	A/D	(30,640,538)	(10,133,198)	(40,773,736)
3	NBV	<u>74,923,425</u>	<u>28,405,625</u>	<u>103,329,050</u>
	Regulatory Asset			
4	Deferred Depreciation Expense on AMI Investment	30,884,949	10,217,098	41,102,047
5	Existing Meters/Meter Registers	21,307,531	4,410,569	25,718,100
6	Regulatory Asset - AFUDC	1,031,168	324,977	1,356,145
7	Carrying Charge	2,378,532	867,308	3,245,840
8	Excess Depreciation Collected	(2,257,282)	(151,495)	(2,408,777)
9	ADFIT	(10,985,883)	(3,222,131)	(14,208,014)
10	Total Regulatory Asset	<u>42,359,015</u>	<u>12,446,326</u>	<u>54,805,341</u>
11	Total Rate Base	<u>\$ 117,282,440</u>	<u>\$ 40,851,951</u>	<u>\$ 158,134,391</u>

13 As shown on lines 1 through 3, investment in AMI plant is \$144.1 million (\$105.6
 14 million electric and \$38.5 million natural gas). Accumulated depreciation on an AMA basis
 15 during the rate year is \$40.8 million (\$30.6 million electric and \$10.1 million natural gas),
 16 leaving a net book value of \$103.3 million (\$74.9 million electric and \$28.4 million natural
 17 gas).

18 As shown on lines 4 through 10, a number of regulatory assets associated with the
 19 AMI project have been included as rate base. A description of these regulatory assets
 20 follows:

- 21 • (Line 4) All of the depreciation expense that was recorded on the AMI investment
 22 since the project began has been deferred and totals \$41.1 million (\$30.9 million
 23 electric and \$10.2 million natural gas).

- 1 • (Line 5) The net book value of the existing electric meters and natural gas meter
2 registers have been deferred and totals \$25.7 million (\$21.3 million electric and \$4.4
3 million natural gas).
- 4
- 5 • (Line 6) The net book value of AFUDC that has been recorded as a regulatory asset
6 totals \$1.3 million (\$1.0 million electric and \$0.3 million natural gas).
- 7
- 8 • (Line 7) The carrying charge that has been recorded on all of the AMI deferral
9 accounts per the Commission order in Docket Nos. UE-170327 and UG-170328
10 totals \$3.3 million (\$2.4 million electric and \$0.9 million natural gas).
- 11
- 12 • (Line 8) The deferred revenues collected from customers related to the existing
13 electric meters and natural gas meter registers that exceeded the actual depreciation
14 expense recorded on the existing investment totals \$2.4 million (\$2.3 million electric
15 and \$0.2 million natural gas). These amounts are regulatory liabilities and reduces
16 the amount of rate base that will need to be collected from customers in the future.
- 17
- 18 • (Line 9) The accumulated deferred federal income taxes associated with the
19 regulatory assets totals \$14.2 million (\$11.0 million electric and \$3.2 million natural
20 gas) and is a reduction to rate base.
- 21

22 **AMI Expenses**

23 Expenses in the Company’s case includes the following as shown in Table No. 6.

24 **Table No. 6 – AMI Expenses:**

AMI ANNUAL EXPENSES				
Line #		Electric	Natural Gas	Total
1	Depreciation Expense	\$ 9,746,516	\$ 3,297,548	\$ 13,044,064
2	AFUDC Amortization	41,648	13,198	54,846
3	Regulatory Asset Amortization	4,286,654	1,296,172	5,582,826
4	Total AMI Expenses	\$ 14,074,818	\$ 4,606,918	\$ 18,681,736

- 29 • (Line 1) Annual depreciation expense on the AMI investment totals \$13.0 million
30 (\$9.7 million electric and \$3.3 million natural gas).
- 31
- 32 • (Line 2) Annual AFUDC amortization on the AMI investment totals \$0.05 million
33 (\$0.04 million electric and \$0.01 million natural gas).
- 34
- 35 • (Line 3) Annual amortization of the deferred costs on the AMI investment totals \$5.6
36 million (\$4.3 million electric and \$1.3 million natural gas). This amortization
37 represents the annual amount of the net deferrals of \$51.1 million electric and \$15.4
38 million natural gas amortized beginning the rate-effective date of October 1, 2021

1 through August 31, 2033 (which is the date that the new electric meters and new
2 natural gas meter registers will become fully depreciated, which is based on a 15
3 year life). Additional details of these adjustments are available within accompanying
4 workpapers filed with the Company's case.
5

6 The next adjustment on Exh. EMA-3 page 10, is natural gas adjustment **Pro Forma**
7 **LEAP Deferral Gas Line Extension (natural gas)**, column (3.17), that adjusts the existing
8 LEAP deferral amortization expense and rate base balance recorded in 2019, to reflect the
9 revised LEAP AMA rate base (net of ADFIT) balance of \$4.0 million, and the revised
10 amortization expense of \$2.1 million during the rate-effective period (October 1, 2021
11 through September 30, 2022) based off the approved regulatory treatment approved in prior
12 Avista proceedings as discussed below. The effect of this adjustment decreases net rate base
13 by \$3,959,000, and decreases NOI by \$1,245,000.

14 On February 25, 2016, per Docket UG-152394, Order 01, the Commission approved
15 the changes to the Company's natural gas line extension tariff Schedule 151, for a temporary
16 three-year period. Specifically, the Commission approved the use of any excess single-
17 family residential line extension allowance as a rebate on customers' purchase and
18 installation of high efficiency natural gas space and/or hot water heating equipment, if the
19 customer is converting to natural gas from another fuel source. The Commission also
20 approved the Company's proposed ratemaking treatment, allowing the Company to defer,
21 for opportunity for later recovery in rates, the excess line extension allowance paid to
22 Washington residential customers upon conversion to natural gas. The Commission
23 approved a five-year amortization period for balances included in future general rate cases,
24 with a return on the unamortized balance. Per Order 01, the deferral began on March 1,
25 2016 and expired February 28, 2019.

1 In Docket UG-170486, the Commission approved the amortization of the then-
2 deferred balance of \$2.9 million as of March 31, 2017 over five years. This Commission
3 approved in Docket UG-190335 the updated deferred balance of approximately \$10.7
4 million (an incremental amount of \$7.8 million), and an additional amortization of the
5 incremental \$7.8 million over five-years beginning April 1, 2020 through March 31, 2025.
6 This adjustment restates the 2019 test period deferred asset balance to the rate period
7 balance on an AMA basis, and reflects the annual amortization expense of the two
8 amortizations, previously approved by the Commission, during the rate-effective period.

9 **Pro Forma Wildfire Resiliency Plan Capital Additions and Expense (electric),**

10 column (3.17) reflect increases in capital additions and expenses related to the Company's
11 Wildfire Plan, as supported by Mr. Howell. This pro forma adjustment reflects the increases
12 in 2020 and 2021 capital additions, together with associated A/D, ADFIT, and depreciation
13 expense, as well as wildfire operating expenses expected during the rate effective period.⁵¹
14 Section IX. "Wildfire Recovery, Deferral Petition and Balancing Account" below, provides
15 additional information supporting the pro forma capital additions and expenses included in
16 this case, as well as the Wildfire Plan Deferral Petition filed concurrent with the Company's
17 case, and the proposed Wildfire Balancing Account to track expenses during the 10-year life

⁵¹ As discussed by Mr. Howell, the Company has not included offsets to operating expenses in this case associated with wildfire. The goal of wildfire resiliency is to reduce the overall risk associated with wildfires. In short, the benefits of the WF Plan are largely measured in terms of risk reduction for all parties involved. The Company, however, recognizes a potential for costs savings and cost shifts from operating and maintenance expense towards capital investment. The overall impact of cost savings and cost shifts will not be well understood until the Wildfire Plan is operational and performance data can be obtained and analyzed. However, one of the objectives of the Wildfire Plan is to reduce the number of equipment failures and tree-related outages and by doing so, avoid emergency response.

1 of the plan. The effect of this adjustment increases electric rate base by \$13,126,000 and
2 decreases NOI by \$3,359,000.

3 **Pro Forma EIM Capital and Expenses (electric)**, column (3.18) reflect increases
4 in capital additions and expenses related to the Company's decision to join the Western
5 Energy Imbalance Market (EIM) operated by the California Independent System Operator
6 (CAISO), as supported and discussed by Mr. Kinney. This pro forma adjustment reflects the
7 increases in 2020 through March 2022 capital additions, together with associated A/D,
8 ADFIT, and depreciation expense, as well as EIM operating expenses expected during the
9 rate-effective period.

10 Specifically, the Company has pro formed capital transfers-to-plant of \$14.3 million
11 (Washington-share) that has or will transfer to plant between January 1, 2020 through
12 project completion in March 2022.⁵² The amount pro formed in the Company's case on an
13 average-monthly-average (AMA) basis during the rate period totals approximately \$10.8
14 million⁵³ (Washington-share) as shown in Table No. 7 below.

15 **Table No. 7 – Pro Forma Capital Investment – WA Share**

EIM Pro Forma Capital - Washington Share				
2020	2021	2022 ⁽¹⁾	Total	Rate Period AMA Pro Forma
\$ 3,162,378	\$ 3,493,027	\$ 7,605,679	\$ 14,261,084	\$ 10,775,133
(1) Capital addition planned for March 2022 included is a short-lived asset.				

⁵² As discussed by Mr. Kinney, the capital additions and resulting revenue requirement included in this case is based on the EIM Original Charter. The EIM Scope document updates were approved by the EIM Executive Steering Committee post-filing and will be updated during the pendency of the case. These changes do not have material impact on the Company's requested revenue requirement.

⁵³ Net plant of \$9.4 million after reflecting accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT).

1 Depreciation expense of \$1.4 million (Washington-share) associated with this pro
2 forma investment has also been included. Washington's share of operating expenses
3 including incremental labor and other expenses totaling approximately \$1.4 million have
4 also been included in this adjustment, reflecting incremental labor expense of \$780,000,
5 information technology ("IT") expense of \$220,000 and system integrator (Utilicast) and
6 CAISO implementation fee expenses of \$386,000. Washington's incremental labor expense
7 of \$780,000 represents the labor expense level expected during the rate-effective period,
8 including new hires in 2020 and planned new hires through September 30, 2022.⁵⁴ Detailed
9 information related to these new hires are discussed in Mr. Kinney's testimony and included
10 in his workpapers included with the Company's filing. The effect of this adjustment
11 increases net electric rate base by \$9,358,000 million and decreases NOI by \$2,160,000.

12 **Pro Forma Colstrip Capital and Amortization (electric)**, column (3.19), reflects
13 the Company's adjustment to recover its investment in Colstrip Units 3 and 4 after reflecting
14 an accelerated depreciation rate to year 2025 as approved in the Company's last general rate
15 case (Docket UE-190334). The adjustment decreases regulatory amortization expense by
16 \$2.5 million, increases depreciation expense by \$3.1 million, reduces Colstrip net plant by
17 \$11.4 million (after including pro formed Colstrip capital additions between January 1, 2020
18 through September 30, 2022), and decreases the regulatory asset by \$4.3 million.

19 A summary of Colstrip issues that were resolved in the last general rate case and
20 form the basis for the accounting that has been included in this general rate case follows:

- 21 • The depreciation schedule for Colstrip Units 3 and 4 generating units was
22 accelerated to 2025.

⁵⁴ The Company did not pro form increases associated with labor loadings, i.e. expected incremental pension, medical, and other labor costs. Therefore, total labor expenses included are conservative to actual planned labor expenses.

- 1 • The Colstrip transmission assets were not accelerated and therefore are being
2 depreciated over the same life as non-Colstrip transmission assets.
3
- 4 • The Colstrip plant-in-service at December 31, 2017, excluding the investment in
5 SmartBurn made in 2016 and 2017, has been determined to be prudent.
6
- 7 • “Temporary” tax credits of approximately \$11.7 million that were created with
8 the Tax Cuts and Jobs Act (TCJA) of 2017 were used to offset the increased
9 costs associated with the acceleration of depreciation / asset retirement obligation
10 (ARO) costs on the current Colstrip Unit 3 and 4 assets.⁵⁵
11
- 12 • Deferred accounting was approved to accumulate the Colstrip ARO costs not
13 recovered from customers through existing rates, to be amortized over
14 approximately 34 years, through 2053. These costs are also referred to as
15 decommissioning and removal costs (D&R). The Company has included the
16 annual amortization of \$979,000 of these D&R costs.
17

18 The SmartBurn investment and capital additions from 2018 - September 30, 2022
19 have been included in this case for prudency determination. Mr. Thackston sponsors the
20 Colstrip capital additions testimony, describing the capital that has been included in this
21 general rate case, including capital additions between January 1, 2018 and September 30,
22 2022, and the SmartBurn investment that was transferred to plant in service in 2016 and
23 2017. The Company pro formed Colstrip capital to an AMA September 30, 2022 basis. The
24 overall effect of this adjustment increases NOI by \$105,000 and decreases total rate base by
25 \$15,605,000.

⁵⁵ The primary provision of the TCJA was a reduction in the federal corporate tax rate from 35% to 21%, reducing the current and deferred tax expense currently included in customers’ rates. The TCJA also required accumulated DFIT balances as of December 2017 to be revalued at the lower corporate rate (21%). The difference between the original balance recorded at 35% and the new balance recorded at 21%, resulted in excess DFIT (EDIT). EDIT was categorized as “protected” and “unprotected.” “Protected” EDIT is generally defined as capital assets (plant) depreciated under Internal Revenue Code (IRC) section 167, and these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the EDIT. “Unprotected” EDIT mainly represents non-plant related deferred assets/liabilities. The non-plant EDIT balances have no IRC requirement as to when they must be reversed.

1 **Pro Forma Normalize CS2/Colstrip Major Maintenance (electric)**, column
2 (3.20), reflects a decrease to the normalized major maintenance expense included above in
3 restating adjustment (2.17), which reflected normalized Coyote Springs 2 (CS2)/Colstrip
4 major maintenance for the 2019 historical test period of \$1.760 million system, or \$1.155
5 million Washington electric. This adjustment reflects the normalized level of major
6 maintenance for the CS2/Colstrip facilities, expected during the rate period effective of
7 \$1.735 million system, or \$1.139 million Washington, a reduction of \$16,000 from the test
8 period.

9 Major maintenance in this adjustment reflects Colstrip and CS2 major maintenance
10 that occurred in 2018, 2019 and 2020 totaling \$6.3 million on a system basis.
11 “Normalization” of these major maintenance expenses include the following: 1) one-quarter
12 of the 2019 CS2 “Transformer 3” major maintenance (\$2.2 million); 2) one-seventh of the
13 2019 CS2 “Steam Turbine” major maintenance (\$1.0 million);⁵⁶ 3) one-third of the 2018
14 Colstrip major maintenance (\$0.3 million), and 4) one-third of the 2020 Colstrip major
15 maintenance (\$2.8 million), on a system basis. The result of this adjustment on a
16 Washington-share basis, decreases normalized major maintenance from that included in
17 restating adjustment (2.17) by \$16,000, increasing NOI by \$13,000.

18 The last adjustment on page 10 of Exh. EMA-2 and Exh. EMA-3, is **Pro Forma**
19 **Restate 2019 ADFIT**, column (3.21) electric and (3.18) natural gas. This adjustment
20 reflects the updated ADFIT balances for the impact of the tax accounting method changes

⁵⁶ Although typically the CS2 major maintenance is amortized over four years, this major maintenance is not expected to be completed again prior to seven years, so the amortization has been included over seven years.

1 (updating the tax repairs adjustment⁵⁷ and including the Industry Director Directive No. 5
2 (IDD #5) and meters tax deductions), described by Mr. Krasselt, which were reflected in the
3 Company's 2019 tax return filed in October 2020. The adjustment first restates the
4 December 31, 2019 ADFIT balance for the impact of the 2019 tax return. The adjustment
5 then pro forms the impact of these tax method changes for the estimated 2020 impact,
6 factoring in the additional ADFIT that was pro formed in other previous adjustments
7 described by me above. The overall effect of this adjustment decreases Washington NOI by
8 \$159,000 for electric and \$79,000 for natural gas. This adjustment also reduces total rate
9 base by \$30,542,000 for electric and \$15,228,000 for natural gas.

10 **Q. Turning to page 11 of Exh. EMA-2 and Exh. EMA-3, please explain the**
11 **final columns shown on those pages.**

12 A. The first column on electric Exh. EMA-2 page 11, labeled "Base Pro Forma
13 Total," shows the total pro forma operating results (NOI of \$106,131,000) and rate base
14 (\$1,877,557,000) for the pro forma test period, and the total electric revenue requirement
15 need of \$44,183,000.

16 The first column on natural gas Exh. EMA-3 page 11, labeled "Base Pro Forma
17 Total," shows the total pro forma operating results (NOI of \$23,640,000) and rate base
18 (\$448,206,000) for the pro forma test period, and the total natural gas revenue requirement
19 need of \$12,790,000.

⁵⁷Avista's largest basis adjustment has historically been tax repairs. Beginning in 2014, Avista changed its method of accounting as it relates to determining whether expenditures to maintain, replace, or improve various utility property were capitalized under § 263(a) or are deductible under § 162. Avista has elected to deduct these items for tax purposes while capitalizing them for book purposes. In 2020, Avista reexamined the tax repairs calculation and filed a change in accounting method with the IRS, under IRC § 481(a), to adopt a more detailed calculation.

1 Finally, the last two columns on page 11 for both electric and natural gas, show for
2 illustrative purposes, the impact of the Tax Customer Credit Tariff Schedules 76 (electric)
3 and 176 (natural gas), returning the Tax Customer Credit dollars to customers, resulting in
4 the final column result of \$0 overall impact to customers on a billed basis.

5 **Q. What is provided as page 12, of Exh. EMA-2 and Exh. EMA-3?**

6 A. Page 12 of Exh. EMA-2 and Exh. EMA-3 provides a one-page summary list
7 of all restating and pro forma adjustments by adjustment number and description, with
8 individual NOI and rate base amounts, as well as overall, and the rates of return on an
9 actual, restated and pro forma level, for ease of reference.

10
11 **IX. WILDIRE RECOVERY, DEFERRAL PETITION**
12 **AND BALANCING ACCOUNT**
13

14 **Q. Please summarize the Company's Wildfire Resiliency Plan and its**
15 **request of this Commission to recover planned wildfire costs.**

16 A. As noted above, Mr. Howell sponsors testimony detailing the Wildfire
17 Resiliency Plan ("Wildfire Plan"), annual costs and risks over the 10-year plan (2020
18 through 2029), a summary of which is also provided below. Based on the 10-Year Wildfire
19 Plan, I have included in my Electric Pro Forma Study certain Wildfire Plan capital additions
20 and expenses for the rate effective period in this case. Specifically, Pro Forma Wildfire
21 Capital and Expense Adjustment (3.17) includes 2020 and 2021 capital additions, together
22 with associated A/D, ADFIT, and depreciation expense, as well as wildfire transmission and
23 distribution operating expenses expected during the rate effective period (October 1, 2021 –
24 September 30, 2022). Further detail of the included amounts is discussed below.

1 In addition to the requested rate relief included in this GRC, the Company has also
2 filed with this Commission (concurrent with the filing of this case), its Wildfire Plan
3 Deferral Petition requesting approval to defer incremental wildfire expenses prior to new
4 rates going into effect on October 1, 2021, i.e., January 1, 2021 through September 30, 2021.
5 Lastly, the Company is also requesting the Commission authorize the Company to create a
6 two-way Wildfire Balancing Account, based off the base level of wildfire expense included
7 in each GRC going forward, tracking the actual annual difference up or down over the 10-
8 Year Wildfire Plan. Each of these recovery proposals are discussed further below.

9 In summary, although the Company will still experience regulatory lag on capital
10 additions between rate cases over the 10-Year Wildfire Plan, approval of the Company's
11 proposals, mainly impacting wildfire expenses as outlined in this testimony, is an important
12 element of the Company's wildfire program and helps support the level of wildfire
13 mitigation efforts proposed in the Company's Wildfire Plan.

14 **Q. Please provide a brief summary of the Company's Wildfire Resiliency**
15 **Plan.**

16 A. As discussed by Mr. Howell and in the Company's Wildfire Plan Deferral
17 Petition, the risk of large wildfire events is increasing across the western United States.
18 Recent fire events in Avista's own service territories of Washington, Idaho and Oregon, as
19 well as major wildfire activities in other states such as California, illustrate that utility
20 operating risk is increasing related to wildfires. Reducing the risk of wildfires is critical for
21 customers, communities, investors, and the regional economy. Avista has taken a proactive
22 approach for many years to manage wildfire risks and impacts, and through its Wildfire
23 Plan, the Company has identified additional wildfire defenses for implementation. The

1 goals, strategies, and tactics set forth in this plan reflect a quantitative view of risk.
 2 Additional research, conversation and analysis with Avista’s operating staff and steering
 3 group provided critical qualitative and contextual information that also shaped the
 4 recommendations. This combination of quantitative and qualitative analysis ensures the
 5 recommendations are robust, well-rounded, and thoughtful, and that they align with the plan
 6 goals and are appropriate. Mr. Howell’s testimony and exhibits provide details behind the
 7 creation of the Wildfire Plan, and the Wildfire Plan itself (see Exh. DRH-1T through Exh.
 8 DRH-7).

9 As presented in Table No. 8 below, the Company’s Wildfire Plan, including all 28
 10 plan recommendations discussed by Mr. Howell, expects total costs over the ten-year period
 11 2020 through 2029 to reflect capital investment of \$268,965,000, and corollary operating
 12 expenses of \$59,586,000 (all electric system numbers). Annual program costs for the period
 13 2020 – 2029 are also shown in Table No.8 as follows:

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

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

17 These total capital investments and expenses of the Wildfire Plan will be directly
 18 assigned or allocated to Avista’s Washington and Idaho jurisdictions over time as the costs
 19 occur. (Shaded areas in Table No. 8 above reflect system balances considered in this case.)

20 **Q. What Wildfire Plan costs have been included in this general rate case?**

21 A. Specific costs proposed by Avista in this general rate case reflect the
 22 expected wildfire related transmission and distribution costs to be charged to Washington
 23 during the rate effective period, i.e. October 1, 2021 through September 30, 2022.

1 Table Nos. 9 and 10 below split the annual system and Washington expected capital
 2 and operating expenses between distribution and transmission for the calendar periods 2020
 3 through 2022 only, for the 10-year plan. Using this information, the Company has
 4 incorporated the incremental wildfire costs within Electric Pro Forma Study Exh. EMA-2.

5 **Table No. 9 – Wildfire Plan Capital Investment – Washington-Share & System (000s)**

Total Wildfire Plan - Washington and System (Capital)						
	Washington			System		
	Distribution	Transmission	Total	Distribution	Transmission	Total
2020	1,958	1,317	3,275	3,255	2,010	5,265
2021	7,927	2,595	10,522	13,025	3,960	16,985
2022	12,918	3,857	16,775	21,170	5,885	27,055

9 Included in Pro Forma Wildfire Adjustment (3.17) in Exh. EMA-2 is Washington's
 10 share of Wildfire Plan capital projects transferring to plant between August of 2020 and
 11 December 2021 of approximately \$13.9 million as shown in Table No. 9 above. These plant
 12 additions, included on an AMA basis for the rate effective period (\$13.5 million), net of A/D
 13 and ADFIT, results in a net rate base adjusted amount of \$13.1 million. Capital additions in
 14 2022 are expected to transfer during the second half of 2022 and therefore have been
 15 excluded from this case.

16 **Table No. 10 – Wildfire Plan O&M Expense – Washington-Share & System (000s)**

Total Wildfire Plan - Washington and System (Expense)						
	Washington			System		
	Distribution	Transmission	Total	Distribution	Transmission	Total
2020	930	577	1,506	1,536	880	2,416
2021	2,437	868	3,305	4,047	1,325	5,372
2022	3,199	1,050	4,249	5,316	1,602	6,918

20 For Wildfire operating expenses shown in Table No. 10 above, after using a prorated
 21 amount of calendar 2021 (\$3.305 million) and 2022 (\$4.249 million) expenses expected for
 22 the rate period (October 1, 2021 through September 30, 2022), I have included \$4.025

1 million (Washington-share) for operating expenses.⁵⁸

2 The overall electric revenue requirement included in this case associated with these
3 costs is approximately \$5.7 million.

4 **Q. Please discuss the Wildfire Deferral Petition filed with the Commission**
5 **concurrent with this general rate case.**

6 A. Concurrent with the filing of this general rate case, the Company filed with
7 this Commission its “Petition for an Order Authorizing Deferral of Expenses Associated
8 with the Company’s Wildfire Resiliency Plan” (Wildfire Deferral Petition).⁵⁹ Support of the
9 Wildfire Plan itself, and costs and risks over the 10-year Wildfire Plan is provided in detail
10 in the Wildfire Deferral Petition, as well as discussed in Attachments A through E of the
11 Wildfire Deferral Petition.⁶⁰

12 In the Company’s Wildfire Deferral Petition, the Company specifically is requesting
13 approval to defer, for later rate-making treatment, the incremental expenses incurred in 2021
14 (prior to new rates going into effect – that is January 1, 2021 through September 30, 2021)
15 of Avista’s actual Wildfire Plan efforts. The expected amount to be deferred during the
16 nine-month period January 1, 2021 through September 30, 2021 is estimated at \$2.6

⁵⁸ Wildfire risk tree and other expenditures are incremental to existing vegetation management expenses included in the 2019 test period, with the exception of approximately \$265,000 (Washington/Idaho). The calculation of the operating expense included in this case was calculated as follows: Allocated Washington-share expenses (\$3.305 million * 3/12 (2020) + \$4.249 million * 9/12 (2021)), offset by existing vegetation management expense included in the 2019 test period of \$184,000 (Washington-share), totals \$4.025 million. Allocation to Washington was based on expected allocated transmission and direct assigned distribution expenses. The System amount using this calculation is \$6.266 million. See Andrews workpapers for analysis.

⁵⁹ On May 29, 2020 the Company filed with the Idaho Public Utilities Commission (IPUC), in Case No. AVU-E-20, its application requesting the Commission issue an order authorizing approval to defer, for later rate-making treatment the incremental costs the Company will incur associated with its Wildfire Resiliency Plan. On August 26, 2020, the Staff of the IPUC issued comments supporting deferral of the Company’s incremental wildfire expenses. A final Commission Order is anticipated in November 2020.

⁶⁰ Attachments A through E of the Wildfire Deferral Petition have been provided in this proceeding, sponsored by Mr. Howell, as Exh. DRH-2 through Exh. DRH-7.

1 million.⁶¹

2 Avista proposes to record the monthly deferral as a regulatory asset in FERC
3 Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory
4 Credit). The costs as incurred will be debited to various expense accounts. The Company
5 proposes that interest will not accrue on the unamortized balance. In a future general rate
6 case proceeding, Avista would address the prudence of the costs incurred and request
7 recovery of the deferred costs, including a carrying charge on the deferral at the authorized
8 rate of return. At that time, the Company would also propose an amortization period to
9 recover the costs from Washington customers over a future period.

10 Approval by this Commission to defer the incremental expenses in 2021 associated
11 with the Company's Wildfire Plan, would allow the Company to set these costs aside for an
12 opportunity to recover these costs in a future rate proceeding. Furthermore, the Commission
13 will have the opportunity to review the costs after-the-fact and make a prudence
14 determination prior to the Company receiving recovery of the prudently incurred costs
15 through retail rates.

16 **Q. Please turn now to the Company's proposal to create a Wildfire**
17 **Balancing Account related to wildfire expenses.**

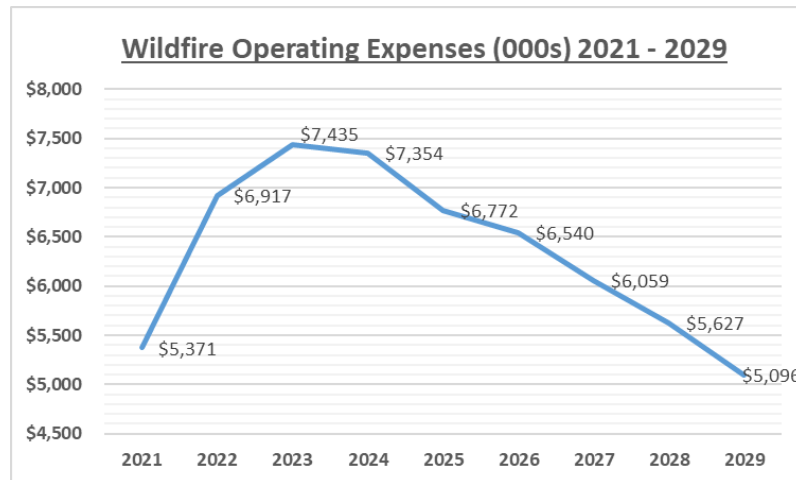
18 A. Lastly, the Company is proposing to create a Wildfire Balancing Account to
19 track the variability in wildfire expenses over the 10-year life of the Wildfire Plan. As
20 shown in Illustration No. 2 below, the O&M expenses on a system annual basis over the 10-
21 year life of the Wildfire Plan increases from \$5.4 million in 2021⁶² to a maximum increase

⁶¹ Wildfire expenses deferred in 2021, estimated at \$2.6 million, would not impact the Company's request in this current general rate case proceeding.

⁶² The first partial year of the Wildfire Plan in 2020 of \$2.4 million is not shown.

1 of \$7.4 million in 2024, before declining over the remaining years to \$5.1 million in 2029,
 2 producing more of a “bell-shaped” curve.

3 **Illustration No. 2 – Wildfire System Annual Operating Expenses**



11 Given this expected “bell-shaped” curve of expenses beginning after the first partial
 12 year (2020), and that expenses are expected to begin to decline after year 4 (2024) of the
 13 Wildfire Plan, in order to protect customers by ensuring customers pay no-more/no-less of
 14 the O&M expenses of this Wildfire Plan, the Company believes it prudent for the
 15 Commission to establish a two-way balancing account for these costs. By establishing a
 16 base level of expense in this case of \$4.025 million⁶³ (included in Pro Forma Wildfire
 17 Adjustment (3.17) in Exh. EMA-2) and each subsequent general rate case following,
 18 allowing the Company to track actual expenses against the base, and defer the difference up
 19 or down over time for later recovery or return to customers, will ensure customers pay no
 20 more than the actual wildfire expenditures over the 10-year plan.

21 Avista proposes to record the deferral balances (expense levels higher or lower than

⁶³ The system wildfire expense “base” totals \$6.266 million (\$5.371 million * 3/12 (2020) + \$6.917 million * 9/12 (2021)), offset by existing vegetation management expense included in the 2019 test period of \$265,000 (Washington/Idaho)).

1 the GRC established base) into a balancing account recorded as a separate regulatory asset
2 in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4
3 (Regulatory Credit). The costs as incurred will be debited to various expense accounts. In
4 each subsequent general rate case proceeding, Avista would propose a new base, made up of
5 the expected rate effective period expenses. The level of expense included in that GRC
6 however, will be offset by or added to the deferred amount in the wildfire balancing account.
7 The Company would address in each GRC the prudence of any deferred balances. The intent
8 of the balancing account is to track actual costs and match dollar-for-dollar what is collected
9 from customers during the period October 1, 2021 through December 31, 2029. The
10 Company proposes that interest will not accrue on the unamortized balance.

11 Approval by this Commission to defer the incremental expenses associated with the
12 Company's Wildfire Plan prior to new rates going into effect, as well as track the on-going
13 expenses versus an approved base over the life of the 10-year plan, would allow the
14 Company to set these costs aside for an opportunity to recover these costs in future rate
15 proceedings and ensure customers pay no more/no less than actual wildfire expenses
16 incurred. Any costs deferred and set aside for a future period will provide this Commission
17 and other parties the opportunity to review the costs after-the-fact and make a prudence
18 determination prior to the Company receiving recovery of the prudently incurred costs
19 through retail rates.

20

**X. TAX ACCOUNTING PETITION –
BASIS ADJUSTMENTS IDD #5 AND METERS**

1
2
3
4
5 **Q. Please summarize the Company’s accounting petition filed with the**
6 **Commission, concurrent with the filing of this general rate case, requesting approval to**
7 **change its accounting for federal income taxes.**

8 A. Concurrent with the filing of this general rate case, the Company has filed
9 with this Commission its “Petition for an Order Authorizing Approval to Change Its
10 Accounting for Federal Income Tax Expense Certain Plant Basis Adjustments and Deferral
11 of Associated Changes in Tax Expense” (Tax Accounting Petition). Mr. Krasselt in his
12 supporting testimony describes in more detail the Company’s Tax Accounting Petition and
13 explains the Company’s request seeks authorization to change its accounting for federal
14 income tax expense from the normalization method to a flow-through method for certain
15 “non-protected” plant basis adjustments,⁶⁴ including Industry Director Directive No. 5 (IDD
16 #5) and meters⁶⁵. Approval of the Company’s Tax Accounting Petition would provide
17 immediate benefits to customers, which the Company also through the Tax Accounting
18 Petition, is requesting approval to defer. However, approval in all three of Avista’s

⁶⁴ As noted previously, during 2020, Avista worked with consultants from the Deloitte accounting firm on a 2019 tax review project. The outcome of this project was to expand on the tax deduction for repairs expenses that the Company originally implemented in 2014. This change allowed the Company to deduct costs for tax purposes that previously were capitalized, thereby reducing current federal income taxes owed to the IRS. While the Company expanded its deduction for repairs expenses, the deferred taxes for this deduction will continue to be normalized and therefore, are not part of the deferral application or the credits available for the Tax Customer Credits.

⁶⁵ In addition to the repairs review, Avista filed two new accounting method changes with the IRS to modify its tax method for accounting for certain costs relating to IDD #5 and meters. IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than \$200. These changes were included with the 2019 federal tax return that was filed in October 2020 and is the basis of the request for an accounting change in the Company’s Tax Petition.

1 jurisdictions (Washington, Idaho and Oregon) to make this change is required, and any
2 changes need to be adjusted concurrent with a GRC, as it has significant impact on rate base.
3 Furthermore, the Company has requested in its Tax Accounting Petition approval of the
4 change in accounting, and the deferral of benefits, on or before May 1, 2021, to ensure
5 approval from all three jurisdictions is received in time to apply this change and return the
6 customer benefits in each state effective with each State's next general rate case.

7 As discussed further below, after receiving approval in all three jurisdictions of the
8 accounting change and the deferral of the benefits, the Company is proposing to begin
9 amortization of the deferred benefits, concurrent with the effective date of this GRC.⁶⁶

10 **Q. What is the basis of the Company's change in accounting requested?**

11 A. There are two methods that regulated utilities may use to record the federal
12 income taxes related to book-to-tax differences, (1) normalization and (2) flow-through.
13 Using a normalization method to compute income tax expense simply means that all the
14 income tax costs related to items in the current period will be computed, whether paid in the
15 current year or paid later. This method creates deferred income tax and the associated
16 accumulated deferred income tax that is subtracted from rate base.

17 Flow-through accounting generally treats the actual current Federal income tax
18 liability of the regulated utility as the utility's tax expense in determining utility rates. Thus,

⁶⁶ As discussed by Mr. Krasselt, in the Northwest we are aware that Idaho Power and Northwest Natural utilize the flow-through method of accounting for some of their non-protected book-to-tax differences. It is our understanding that the following state utility commissions have authorized flow-through accounting for certain of its regulated utilities: California, Idaho, Iowa, Louisiana, Montana, South Dakota, Maine, Wisconsin, Pennsylvania and New Jersey, although this is not an exhaustive list. Specific utility examples include, Pacific Gas and Electric Company in California, Pennsylvania Power and Light Electric Utilities Corporation, NorthWestern Energy in Montana, South Dakota and Nebraska, Cleco Power LLC in Louisiana, and Wisconsin Electric Power Company, to name a few.

1 under flow-through accounting, the tax benefits of accelerated tax expense and other similar
2 items are taken into account immediately in determining utility rates (through their effect of
3 reducing current income tax expense). Accumulated deferred tax reserves related to tax
4 items that have been flowed through are not included in the rate base calculation as the tax
5 benefit was provided, or flowed-through, to customers.

6 Currently the Company uses the normalization method for accounting for most of its
7 federal income taxes related to book-to-tax differences – both “protected” and “non-
8 protected.”⁶⁷ Through the Company’s Tax Accounting Petition, the Company is proposing
9 to change to the flow-through method of accounting for income taxes for certain “non-
10 protected” plant basis adjustments (related to IDD#5 and meters) that the Company
11 developed with the 2019 tax review project it completed in 2020. Approval of this
12 accounting change would create immediate tax benefits that could be returned to customers.

13 **Q. What is the breakdown of the protected and non-protected deferred tax**
14 **balances, after adjustment for the tax review?**

15 A. Avista records the accumulation of deferred taxes on plant book-to-tax
16 differences in FERC Account No. 282900. As of December 31, 2019, FERC Account No.
17 282900 contained a balance of \$819 million that has been normalized prior to adjustments
18 related to the tax review. After adjustment for the tax review, the estimated balance is \$885

⁶⁷ The IRS requires normalization on book-to-tax differences it considers protected. The capitalizing of utility property under IRC § 263(a) constitutes protected assets that are subject to the normalization requirement under IRC § 168(i)(9). The two primary areas that give rise to protected differences are book-to-tax differences for depreciation method and depreciable life of the asset (commonly referred to as “method/life differences”). The normalization requirements of the Internal Revenue Code are designed to prohibit the direct or indirect flow-through of accelerated depreciation tax benefits to utility customers. Other book-to-tax differences not related to method/life differences are considered non-protected, such as expenditures capitalized for book purposes but allowed as a deduction for tax purposes. These non-protected book-to-tax differences are not required to be normalized.

1 million. Much of this balance is protected because it relates to accelerated depreciation,
 2 including bonus depreciation⁶⁸. However, included in FERC Account No. 282900 is non-
 3 protected basis adjustments (i.e. IDD #5, meters, repairs and other). Avista has historically
 4 normalized the entire FERC Account No. 282900 balance.

5 Table No. 11 below shows the breakdown of the protected and non-protected
 6 deferred tax balances, after adjustment for the tax review, as of December 31, 2019:

7 **Table No. 11: Protected/Non-Protected Deferred Tax Balances at December 31, 2019**

FERC Account No. 282900 - ADFIT Estimated Balance at December 31, 2019	
Protected	\$ 599,773,098
Non-Protected - Proposed Flow-Through	106,824,795
Non-Protected - Other	178,574,508
	<u>\$ 885,172,401</u>

14
 15 By changing to the flow-through method of accounting for certain basis adjustments,
 16 including IDD #5 and meters, as discussed by Mr. Krasselt, Avista will have an estimated
 17 \$106 million (system) of ADIT as of December 31, 2019, which represents approximately
 18 \$134 million (system grossed-up for federal income taxes) that can be recorded in a
 19 regulatory liability and used to offset customers' rates in future general rate cases. Detail of
 20 these balances have been provided in Exh. RLK-2. A summary of the estimated ADIT
 21 amount by jurisdiction is shown in Table No. 12 below.

⁶⁸ Bonus depreciation is a tax incentive that allows a business to immediately deduct a large percentage of the purchase price of eligible assets, such as machinery, rather than write them off over the "useful life" of that asset.

Table No. 12: Tax Benefit by Jurisdiction through December 31, 2019

Tax Impact of Basis Adjustments (IDD #5 and Meters) December 31, 2019		
	ADFIT	Grossed-up for Federal Taxes
WA Electric	\$ (40,748,313)	\$ (51,580,143)
ID Electric	(21,941,399)	(27,773,923)
WA Natural Gas	(19,653,292)	(24,877,585)
ID Natural Gas	(8,422,839)	(10,661,822)
OR Natural Gas	(15,443,480)	(19,548,709)
	<u>\$ (106,209,323)</u>	<u>\$ (134,442,181)</u>

Avista would have an annual additional tax benefit each year, beginning in 2020, which would be available for immediate use to offset customers' rates, estimated to be \$16.4 million, shown in Table No. 13 below.

Table No. 13: Tax Benefit by Jurisdiction for Calendar 2020

Estimated Tax Impact of Basis Adjustments (IDD #5 and Meters) Annual Additional Amounts		
	ADFIT	Grossed-up for Federal Taxes
WA Electric	\$ (5,179,775)	\$ (6,556,678)
ID Electric	(2,789,110)	(3,530,519)
WA Natural Gas	(2,624,993)	(3,322,776)
ID Natural Gas	(1,124,997)	(1,424,047)
OR Natural Gas	(1,240,032)	(1,569,661)
	<u>\$ (12,958,907)</u>	<u>\$ (16,403,679)</u>

The total of the tax benefits included in Table Nos. 12 and 13, therefore, through December 31, 2020, associated with changing to the flow-through method of accounting for

1 IDD#5 and meters, and available for immediate use to offset customers' rates, after
2 receiving approval in all three jurisdictions, is estimated at \$150.8 million (system), or \$58.1
3 million for Washington electric, and \$28.2 million for natural gas.

4 **Q. Why is it important to make the requested modifications concurrent**
5 **with a general rate case as proposed by the Company?**

6 A. ADFIT is a reduction to rate base. If Avista was authorized to change to the
7 flow-through method of accounting for the proposed basis adjustments IDD #5 and meters,
8 and the tax benefits were to be given to customers over a shorter period than if using the
9 normalization method, the ADFIT balance related to these basis adjustments would not be
10 included in the rate base calculation, as the amount would have already been flowed through
11 to customers. Given this complexity, it is through a general rate case that the proposed
12 modifications need take place, with the benefit used to mitigate such rate filings and
13 appropriately track changes in rate base and other accounts.

14 **Q. How has the Company proposed to account for the change in accounting**
15 **as requested in the Tax Accounting Petition?**

16 A. The Company has provided detailed calculations and accounting entries that
17 reflects the impact of changing from using the normalization method for the new basis
18 adjustments to the flow-through method filed with the Tax Accounting Petition. A high-
19 level summary of those accounting entries follows.

20 Avista will record the 2019 tax return adjustments and all future monthly tax
21 accruals using the normalization method, until the Company receives approval to change to
22 the flow-through method in all three states. This allows the Company to continue to record
23 deferred taxes and will increase the ADIT balance recorded in FERC Account No. 282900.

1 After the Company receives approval from all three states to utilize the flow-through
2 method of accounting for IDD #5 and meters, as described above, the Company will record
3 the amounts that have accumulated at that point related to those basis adjustments to FERC
4 Account No. 254.3 – Regulatory Liability at the grossed-up amount. Associated deferred
5 taxes will be recorded on this deferral in FERC Account No. 190 – ADFIT. The net of these
6 two accounts will equal the amount that had been recorded in FERC Account. No. 282900
7 and will be included as an offset to rate base until flow-through begins. This will allow
8 customers to continue to receive the benefits of the basis adjustments, as a reduction to rate
9 base, until such time the flow-through benefits are included in rates.

10 **Q. What is the Company proposing with regards to the amortization of the**
11 **tax benefits?**

12 A. As a part of this general rate case, if the Tax Accounting Petition’s proposed
13 accounting treatment is approved by all three jurisdictions (Washington, Idaho and Oregon),
14 as well as approval to defer these tax benefits, the Company proposes to return the
15 accumulated tax benefits that will be recorded in FERC Account No. 254.3 over a shorter
16 period of time than the current normalization method allows, taking into consideration the
17 impact of any proposed change in base rates. Once those credits are being returned to
18 customers, the Company will amortize the accumulated tax benefits recorded in the
19 regulatory liability account as proposed in this filing. The Company is also proposing to
20 defer the future annual benefits of the IDD# 5 and meters basis adjustments to ensure the
21 customer receives all benefits from the flow-through in future general rate cases.

22 As discussed by Company witness Mr. Miller, concurrent with the effective date of
23 this general rate case, the Company proposes to return to customers the tax benefit,

1 beginning October 1, 2021, for approximately one and one quarter (1¼) years for electric
2 and two (2) years for natural gas, through separate Tariff Schedules 76 (electric) and 176
3 (natural gas), titled “Tax Customer Credit,” of \$44.18 million for electric and \$12.79 million
4 for natural gas - offsetting the Company’s requested electric and natural gas base rate
5 increase - resulting in no billed impact to customers. Therefore, the amortization and the
6 Tax Customer Credit Tariff Schedules 76 and 176, if approved as filed, would be in place
7 from October 1, 2021 through December 31, 2022 for electric and September 30, 2023 for
8 natural gas.

9 Furthermore, as discussed by Mr. Thies, because the return of the Tax Customer
10 Credit benefits will have an impact on the Company’s cash flow, weakening credit metrics
11 tracked by the rating agencies, the Company requests that, regardless of the electric and
12 natural gas base revenue increases approved in this case, the electric and natural gas tax
13 benefit amortization does not go beyond base rate increases approved on an annual basis,
14 and does not go beyond a two year amortization period.⁶⁹ Any remaining balance after the
15 two-year amortization period included in Tariff Schedule 176, for example, plus the on-
16 going, incremental, annual deferred tax benefit recorded starting in January 2021 for both
17 electric and natural gas, would be amortized over a 10-year period going forward.

18 We believe this proposal properly balances the rate impact to customers and the
19 Company’s financial health. In addition, a 10-year amortization is significantly shorter,
20 benefiting customers longer-term than if the IDD#5 and meters basis adjustments remained

⁶⁹ As discussed by Mr. Thies, currently the Company’s credit rating is at BBB, two notches above “non-investment grade” rating levels. A downgrade to our ratings to one-notch above or to non-investment grade, could be possible if the Commission were to include a higher amortization balance than the approved rate increases. That is true as well if the Commission went beyond the two-year amortization period proposed in this filing.

1 using normalization accounting, which would amortize these balances over approximately
2 36 years.

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

4 A. Yes, it does.