- On rebuttal, the Company is requesting natural gas base rate relief of $10.714 million, effective October 1, 2021, or 10.19% (6.64% on a billed basis, prior to the impact of Tariff 176).

- With the approval by all Avista jurisdictions (Washington, Idaho and Oregon) to change from normalization to flow-through accounting for certain tax adjustment (meters and IDD#5) and the deferral of associated tax credits of $150.5 million on a system basis, or $58.1 million for Washington electric operations and $28.2 million for Washington natural gas operations, the Company has recorded this credit as a regulatory liability for the period ending April 2021. The Company continues to support its proposed amortization of the accumulated tax credits beginning October 1, 2021 through separate Tax Customer Credit Tariff Schedules 76 (electric) /176 (natural gas) of $40.155 million for electric and $10.714 million for natural gas, resulting in an overall $0 bill impact to Avista's electric and natural gas customers. The amortization period of Tariff 76 (electric) would be approximately October 1, 2021 through early 2023. The amortization period of Tariff 176 (natural gas) would be approximately October 1, 2021 through September 30, 2023.[6]

- The main differences between Avista (rebuttal), Staff, Public Counsel and AWEC, proposed electric and natural gas revenue requirements, mainly reflect: 1) differences associated with Avista's 2020 pro forma rate base additions (supported by Public Counsel), inclusion of a full return of and on Avista's investment in AMI (supported by Staff), and inclusion of other capital investment associated with Avista's Wildfire Plan, EIM and Colstrip Units 3 and 4 investments (including SmartBurn); 2) Cost of Capital differences; and 3) use of 2020 actual expense levels.[7]

- Staff, Public Counsel and AWEC's proposed revenue requirement for electric would result in earned equity returns (ROEs) of ~~7.3~~7.6%, ~~7.4~~7.6% and ~~6.4~~7.9%, respectively. These results reflect a reduction of between ~~200~~150 to ~~300~~180 basis points below that currently authorized (9.4%) and would not provide the Company with a reasonable opportunity to earn its authorized rate of return. Further degradation will occur as these ROE results only reflect the inclusion of capital and

[6] As discussed in direct testimony at EMA-1T, p. 97, ll. 9-14, "…because the return of the Tax Customer Credit benefits will have an impact on the Company's cash flow, weakening credit metrics tracked by the rating agencies, the Company requests that, regardless of the electric and natural gas base revenue increases approved in this case, the electric and natural gas tax benefit amortization does not go beyond base rate increases approved on an annual basis, and does not go beyond a two year amortization period. Any remaining balance after the two-year amortization period included in Tariff Schedule 176, for example, plus the on-going, incremental, annual deferred tax benefit recorded starting in January 2021 for both electric and natural gas, would be amortized over a 10-year period going forward."

[7] There is also the difference of AWEC including the amortization of deferred tax credit benefits and deferred AFUDC balances as a base rate amortization, rather than through a separate tariff, as proposed by Avista, Staff and Public Counsel. These large deferred balances are recorded on Avista's balance sheet and should be separately returned to customers without impacting base rates.

expenses as filed in the Company's case, and do not reflect further expenditures (capital and expenses) expected through the rate effective period ending September 30, 2022.

- Staff, Public Counsel and AWEC's proposed revenue requirement for natural gas would result in earned ROEs of ~~8.4~~8.5%, 8.0% and ~~6.3~~8.20%, respectively. These results reflect a reduction of between ~~100~~ 90 to ~~310~~140 basis points below that currently authorized (9.4%) and would not provide the Company with a reasonable opportunity to earn its authorized rate of return. Further degradation will occur as these ROE results only reflect the inclusion of capital and expenses as filed in the Company's case, and do not reflect further expenditures (capital and expenses) expected through the rate effective period ending September 30, 2022.

- Party recommended levels of rate base would result in electric rate base regulatory lag of between approximately $~~150~~ 137 million and $~~290~~277 million for Washington electric, and between approximately $48 million and $100 million for Washington natural gas, from that expected during the rate effective period. This would result in an overall Washington combined revenue loss of between $18~~19~~ million and $37~~38~~ million on return on investment alone. This goes well beyond merely providing an incentive to better manage costs; it cuts into the very marrow of cost recovery for prudent plant additions. In doing so, it precludes the Company from any reasonable opportunity to earn its authorized rate of return.

- Avista, for its part on rebuttal, has assumed the burden of Washington electric and natural gas rate base regulatory lag of $63.5 million for electric and $38.2 million natural gas, based on its filing. In and of itself, this translates into a combined Washington revenue requirement loss of approximately $10.0 million, or $6.2 million electric and $3.8 million natural gas. This, in and of itself, represents substantial regulatory lag.[8]

- AMI is essentially completed at this time and will be fully completed prior to the rate effective date of this case. The Company has met its burden of proof for full recovery of this project, as discussed by Company Joint witnesses Ms. Rosentrater and Mr. La Bolle, and supported by Staff, and should earn its full return on this investment, contrary to Public Counsel and AWEC testimonies.
- The risk of wildfires is a real threat across Avista's service territories, and as discussed by Company witness Mr. Howell, the Company's 10-year Wildfire Plan expenditures, both capital and expense, are necessary to protect lives and property, ensure emergency preparedness, align operating practices with fire threat

[8] These balances represent the revenue requirement on the return on net plant only, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net ratebase, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022.

**Table No. 1**

| Summary of Revenue Requirement - As-Filed versus Rebuttal (000s) | | | | |
|---|---|---|---|---|
| | Electric | | Natural Gas | |
| | Revenue Requirement[1] | Rate Base | Revenue Requirement[1] | Rate Base |
| **As-Filed Revenue Requirement** | **$ 44,183** | **$ 1,877,557** | **$ 12,790** | **$ 448,206** |
| Updates on Rebuttal: | | | | |
| Expense [1] | $ (1,026) | | $ (1,154) | |
| Capital and related expense [2] | $ (1,822) | $ (16,951) | $ (922) | $ (5,877) |
| Revenue [3] | $ (1,180) | | $ - | $ - |
| **Rebuttal Revenue Requirement** | **$ 40,155** | **$ 1,860,606** | **$ 10,714** | **$ 442,329** |
| % Increase Base, prior to effect of Tariff Schedules 76 and 176 | 7.57% | | 10.19% [4] | |

[1]The majority of expense adjustments reflect 2020 actual updates available after the filing of the Company's electric & natural gas filed cases.

[2]Capital and related expense amount reflects updates to Pro Forma Adjustments 3.11 - 3.19, the majority of which reflect 2020 actual transfer-to-plant updates available after the filing of the Company's electric and natural gas filed cases.

[3]Revenue amount includes the net increase to rebuttal revenues associated with lost "general business revenue," due to the closing of a large industrial customer (see TLK-4T), and inclusion of $2.323 million ($3.4 million system) of estimated EIM benefits added to base power supply net costs (See Exh. SJK-13T).

[4]The increase on a billed basis for natural gas is 6.64%, prior to effect of Tariff Schedules 76 and 176.

Details regarding the "Updates on Rebuttal," including the change in "Revenue" amounts in Table No. 1 above are discussed further in Section IV. "Uncontested Adjustments and Updates to Company Case," and provided in Exh. EMA-7, pages 3 - 6.

**Q. How does the Company's revenue requirement need proposed on direct and rebuttal compare to that proposed by Staff and the other intervening Parties?**

A. Included below in Table No. 2 is a summary of the revenue requirement positions by Staff, Public Counsel, and AWEC.

**Table No. 2[11] [REVISED]**

| Summary of Proposed Revenue Requirement Positions (000s) [REVISED][1] | | |
|---|---|---|
| | Electric | Natural Gas |
| Avista As-filed | $ 44,183 | $ 12,790 |
| Avista Rebuttal | $ 40,155 | $ 10,714 |
| Staff | $ 10,553 | $ 6,055 |
| Public Counsel | $ 10,648 | $ 4,395 |
| AWEC | $ 14,709 | $ 5,075 |

[1]Revised revenue requirement balances reflect Staff, Public Counsel and AWEC revised positions for electric and natural gas as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation.

[11] On May 24, 2021 Public Counsel filed revised exhibits for Ms. Crane (Exhs. ACC-3-8) showing revised revenue requirement amounts of $8.5 million for electric and $4.395 million for natural gas, reflecting increases in her proposed revenue requirement amounts as a result of updating for pro forma benefits as provided by Avista.

As shown in Table No. 3 below, approval of any of the recommended revenue increases proposed by Staff, Public Counsel, or AWEC in Table No. 2 above, would result in a return on equity (ROE) of over ~~200~~160 to ~~300~~180 basis points for electric and ~~100~~90 to ~~310~~140 basis points for natural gas, under that currently authorized (9.4%).

**Table No. 3 [REVISED]**

| Resulting ROE of Proposed Revenue Positions of Parties [REVISED][1] | | | |
|---|---|---|---|
| | ROE Electric | ROE Natural Gas | Current Authorized |
| **Staff** | **7.60%** | **8.50%** | |
| **Public Counsel** | **7.60%** | **8.00%** | |
| **AWEC** | **7.90%** | **8.20%** | |

[1]Revised ROEs reflect Staff, Public Counsel and AWEC revised revenue requirement positions for electric and natural gas as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation. See Revised Table No. 2 above.

**B. Differences Between Avista & Staff/Intervening Parties Proposed Revenue Requirements**

**Q. What are the primary differences between Avista's proposed revenue requirements and that of the intervening Parties, including Staff?**

A. As noted within Table No. 2 above, Staff, Public Counsel, and AWEC propose significantly less electric and natural gas revenue requirement than that proposed by Avista. The primary differences between Avista and the Parties are shown below in Table No. 4 (electric) and Table No. 5 (natural gas), summarized into several main categories:

**Table No. 4 - Electric Reconciliation of Avista Rebuttal vs Parties Revenue Requirement [REVISED]**

| Line: | Electric Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s) [REVISED][3] | | | | |
|---|---|---|---|---|---|
| | | **Staff** | **PC** | **AWEC** | **See Andrews (Section V.) Other Company Witnesses:** |
| 1 | **Parties As Filed** | **$ 10,553** | **$ 10,648** | **$ 14,709** | |
| | ***Differences with Avista:*** | | | | |
| 2 | **Separate Tariff (AFUDC / Tax Benefit)** | | | $ - | Andrews (see Section V.) |
| 3 | **Miscellaneous Contested Adjustments:** | | | | |
| i. | Expenses reflect Avista use of actual 2020/2021 vs Parties 2019/2020 | $ 6,764 | $ 5,661 | $ 1,372 | Andrews (see Section V.) |
| ii. | Avista reflects actual 2020 Capital Additions[1] | $ 8,278 | $ 3,418 | $ 7,276 | Schultz (Exh. KJS-3T), DiLuciano/La Bolle (Exh. JD/LL-1T) |
| ii. | PF Power Supply (Normalized Revenue) / PF Transmission | | $ 1,143 | $ 1,464 | Knox (Exh. TLK-4T) Schlect (Exh. JAS-3T) |
| 4 | **AMI Investment[2]** | $ 19 | $ 6,568 | $ 3,163 | Rosentrater/La Bolle (Exh. HR/LL-1T) |
| 5 | **Wildfire Expenditures** | $ 3,824 | $ 1,130 | $ 3,610 | Howell (Exh. DRH-8T) Andrews (see Section VII.) |
| 6 | **EIM (Benefits not reflected by AWEC, to be included with 60-day update)** | | | $ (2,306) | Kinney (Exh. SJK-13T) Kalich (Exh. CGK-9T) |
| 7 | **Colstrip / SmartBurn** | $ 1,893 | $ 295 | $ 583 | Thackston (Exh. JRT-12T) |
| 8 | **Cost of Capital** | $ 8,824 | $11,292 | $ 10,284 | Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T) |
| 9 | **Avista Rebuttal** | **$40,155** | **$40,155** | **$ 40,155** | |

[1]Difference with Public Counsel mostly relates to 2019/2020 Grid Mod and Substation removal, as well as a small difference in cost of capital.

[2]Difference with Staff relates to cost of capital.

[3]REVISED - Revenue Requirement balances reflect Staff, Public Counsel and AWEC revised positions for electric as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation.

As can be seen in Table No. 4 above, for electric the main differences between Avista on rebuttal and that of Staff, Public Counsel and AWEC, reflect: 1) Avista including certain pro forma expenses using 2020 actuals, or in the case of insurance and certain IT expenses, prepaid 2021 expenses, versus Parties use of 2019/2020 levels (Line 3i); 2) Avista reflecting actual 2020 capital additions for the specific pro forma 2020 projects included in this case (Line 3ii); 3) inclusion of a full return of and on Avista's investment in AMI (otherwise supported by Staff) (Line 4); 4) inclusion of other capital investment associated with Avista's Wildfire Plan, EIM and Colstrip Units 3 and 4 investments (including SmartBurn) (Lines 5-7); 5) Cost of Capital differences (Line 8). The other items, AWEC's inclusion of the deferred tax flow-through liability balances as an amortization credit, rather than separate tariff as proposed by Avista and the other Parties (Line 2), as well as, impacts to Power Supply or Transmission revenues (line 3iii), also reflect differences between the Parties.

**Table No. 5 – Natural Gas Reconciliation of Avista Rebuttal vs Parties Revenue Requirement [REVISED]**

| Line: | Natural Gas Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s) [REVISED][3] | Staff | PC | AWEC | See Andrews (Section V.) Other Company Witnesses: |
|---|---|---|---|---|---|
| 1 | **Parties As Filed** | $ 6,055 | $ 4,396 | $ 5,075 | |
| | ***Differences with Avista:*** | | | | |
| 2 | **Separate Tariff (AFUDC / Tax Benefit)** | | | $ - | Andrews (see Section V.) |
| 3 | **Miscellaneous Contested Adjustments:** | | | | |
| i. | Expenses reflect Avista use of actual 2020/2021 vs Parties 2019/2020 | $ 1,064 | $ 1,038 | $ 39 | Andrews (see Section V.) |
| ii. | Avista reflects actual 2020 Capital Additions[1] | $ 1,443 | $ 212 | $ 2,163 | Schultz (Exh. KJS-3T) |
| 4 | **AMI Investment[2]** | $ 7 | $ 2,438 | $ 981 | Rosentrater/La Bolle (Exh. HR/LL-1T) |
| 5 | **Cost of Capital** | $ 2,145 | $ 2,630 | $ 2,455 | Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T) |
| 6 | **Avista Rebuttal** | $ 10,714 | $ 10,714 | $ 10,713 | |

[1]Difference with Public Counsel relates to cost of capital.

[2]Difference with Staff relates to cost of capital.

[3]REVISED - Revenue Requirement balances reflect Staff, Public Counsel and AWEC revised positions for natural gas as provided in the Joint Issues List (JIL) filed with the Commission on June 30, 2021. The JIL includes the effect of the Settlement Stipulation.

For natural gas, Lines 2 – 5 reflect similar differences between Avista and that of Staff, Public Counsel and AWEC as described above for electric.

## III. CAPITAL ADDITIONS & APPROPRIATE LEVEL OF RATE BASE ARE MAIN DRIVERS OF AVISTA'S NEED FOR RATE RELEIF

**Q. As noted within the Company's direct case, capital additions are a main driver for the need for rate relief in this case, and therefore a main topic of consideration by the Parties. Please explain.**

A. As discussed in my direct testimony and supported by multiple Avista witnesses' direct and rebuttal testimonies, the incremental 2019 test period and pro forma capital additions above existing base rates, are the main driver of the need for rate relief in this case. The overall proposed by Parties with regard to Avista's limited distinct 2021 or 2022 projects (AMI, EIM, Wildfire and Colstrip), however, are discussed later in my testimony, and therefore are not discussed here. I do discuss, however, the impact of each of the Parties' overall proposed rate base positions and the regulatory lag the Company would experience if the Commission were to approve such positions.

In this section of my testimony, I first briefly discuss Avista's as-filed approach for including 2020 capital additions, and summarize the approach proposed by Staff witness Ms. Higby, Ms. Schultz discusses this in more detail. Next, I discuss the appropriate level of net rate base Avista is recommending on rebuttal versus that of Staff and other Parties; as well as the resulting regulatory lag from each position. In summary, the testimony that follows will explain that:

- The Company has included certain (not all) 2020 capital additions, updated with actual in-service balances as of December 31, 2020, following guidance per the Commission's Used and Useful Policy Statement (Docket U-190531), as well as the most recent PSE Order 08 in Dockets UE-190529 and UG-190530. All 2020 projects included are currently serving customers and "used and useful" nine (9) months prior to rates going into effect October 1, 2021 – and for some projects, several months to one year in advance.

- The projects beyond 2020, were limited to the investments for four specific investments (AMI, EIM, Wildfire and Colstrip), mainly occurring in 2021 projects, with two occurring in 2022 (EIM March 2022 project, and Colstrip June 2022 project), even though the rate effective period ends September 2022. For the four specific investments, again Avista followed the guidance per the Commission's Used and Useful Policy Statement (Docket U-190531), as well as the most recent PSE Order 08 in Dockets UE-190529 and UG-190530 related to short-lived assets.

- The rate base level proposed by Staff and other intervening Parties would impose a significant regulatory lag of between two and four years relative to plant that will be in service serving customers through the rate effective period ending September 30, 2022. This lag if imposed, would represent a combined Washington electric and natural gas lost revenue of $18.2~~19.4~~ million (Staff), $23.0~~24.3~~ million (Public Counsel) and $37.1~~38.3~~

million (AWEC)[22]. This represents excluded net plant investment of between $185~~97.5~~ million (Staff) and $377~~89.4~~ million (AWEC). This level of "regulatory lag" will be detrimental to the Company's financial position, preventing it from realizing the opportunity to earn the authorized rate of return approved by this Commission.

- The Company, for its part, already absorbs regulatory lag on a combined Washington electric and natural gas basis of $101.6 million net rate base, or $10.0 million in lost revenue.[23] This lag represents the difference in net plant investment from that included in the Company's case on rebuttal, compared to that actually expected as of December 31, 2021. This reflects a return on net rate base only and is conservative in that this does not reflect the additional regulatory lag associated with the nine months investment through September 30, 2022.

**A. <u>Avista As-Filed Approach For Including 2020 Capital Additions</u>**

**Q. Before discussing Staff witness Higby's criticism of Avista's approach to including 2020 capital additions, please summarize Avista's approach for pro forming capital additions in its direct case.**

A. As noted in the Company's direct case, the Company typically has approximately 150 plus projects (business cases) completed on an annual basis which represent the approximate $405 million of capital spending for any given year, on a system basis. In order to determine the projects requested in this case for calendar 2020, the Company used the Commission's recent Used and Useful Policy Statement (Docket U-190531), as well as the recent PSE Order 08 in Dockets UE-190529 and UG-190530, for guidance in establishing the projects it selected for inclusion in this proceeding. This guidance was also used with regards to the very limited pro forma 2021

[22]These balances represent the revenue requirement on the <u>return on net plant only</u>, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net ratebase, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022.

[23] Avista's Washington system amounts represent a rate base lag for electric of $64.5 million and for natural gas of $38.2 million, resulting in lost revenue of $6.2 million for electric and $3.8 million for natural gas.

**Table No. 6 – Comparison of Proposed Rate Base – Avista versus Parties[39] [REVISED]**

| Proposed Rate Base - Avista versus Parties [REVISED]* | | | | |
|---|---|---|---|---|
| | Avista Rebuttal | Staff | PC | AWEC |
| **Electric** | $ 1,860,606 | $ 1,786,803 | $ 1,754,384 | $ 1,647,192 |
| **Difference with Avista** | | **$ (73,803)** | **$ (106,222)** | **$ (213,414)** |
| | | | | |
| **Natural Gas** | $ 442,329 | $ 432,870 | $ 416,198 | $ 380,588 |
| **Difference with Avista** | | **$ (9,459)** | **$ (26,131)** | **$ (61,741)** |
| **Total Washington** | | **(83,262)** | **(132,353)** | **(275,155)** |

*Revised rate base balances reflect Staff, Public Counsel and AWEC revised positions for electric as provided in the Joint Issues List filed with the Commission on June 30, 2021.

As can be seen in the table above, compared to Avista on rebuttal, the Parties have significantly understated the level of rate base proposed for recovery (imposed regulatory lag) in this proceeding, by a combined Washington basis of $~~95.8~~83.3 million (Staff), $~~144.9~~132.4 million (Public Counsel) and $~~287.7~~275.2 million (AWEC).

It is important to remember, that for its part, this is in addition to Avista's "self-imposed" regulatory lag from that expected during the rate effective period ending September 2022. This is because the Company limited its plant additions included in this case to less than the overall projects completed in 2020; 2021 additions of only 4 distinct project investments (i.e., AMI, EIM, Wildfire and Colstrip); and only two projects completed in 2022 (EIM[40] March 2022 project, and Colstrip June 2022 project).

**Q. Based on the positions of Avista and each party in this case, how do each level of rate base compare, just considering the expected net rate base as of December 31, 2021?**

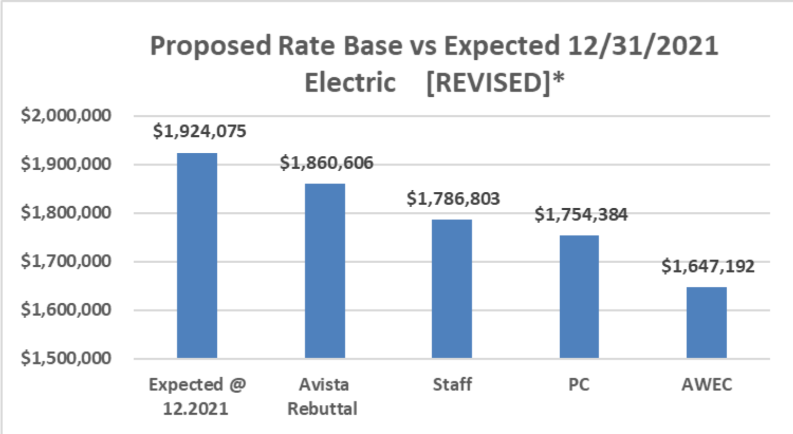
A. The expected net rate base as of December 31, 2021, is $1.9 billion electric and

[39] As can be seen in Table No. 7 below, where Table No. 6 shows the difference between Avista and the Parties only, Table Nos. 7 - 9 shows the overall regulatory lag expected during the rate period based on the position of each Party and Avista.

[40] See footnote 12 above regarding the March 2022 EIM project.

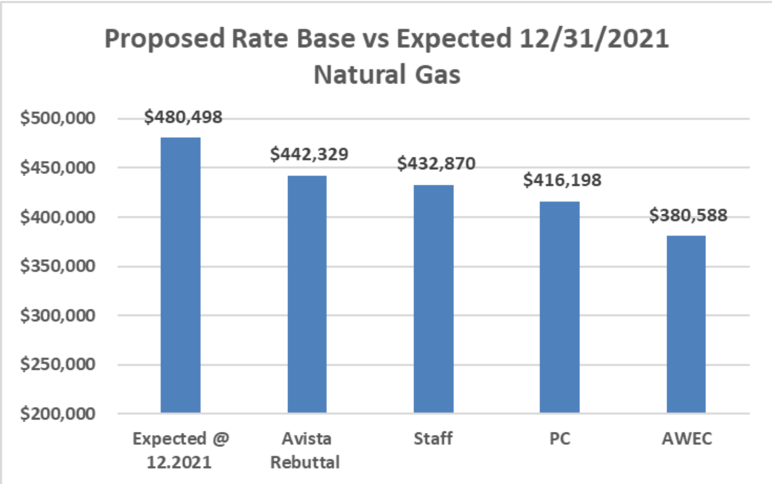
$480.5 million for natural gas. Chart Nos. 1 and 2 below show the differences between Avista's (on rebuttal), Staff's and the intervening Parties' electric and natural gas rate base, compared to that expected as of December 31, 2021.

**Chart No. 1 – Electric Proposed Rate Base Comparison with Expected 12/31/2021 [REVISED]***




***Revised rate base balances reflect Staff, Public Counsel and AWEC revised electric positions as provided in the Joint Issues List filed with the Commission on June 30, 2021.**

**Chart No. 2 – Natural Gas Proposed Rate Base Comparison with Expected 12/31/2021**




**Q. How does this difference translate into regulatory lag and lost revenue for the Company?**

A. If the Commission approved the levels as proposed by the Parties, this will create a regulatory lag, and lost revenue, of a significant nature, even just comparing to the rate base expected by Avista as of December 31, 2021, before taking into account the additional nine months of investment through September 30, 2022. Table Nos. 7 and 8 show the "regulatory lag" introduced by each party, including Avista, charted above, and adds the lost revenue associated with this lag on a Washington electric and natural gas basis.

**Table No. 7 - Electric Rate Base – Regulatory Lag [REVISED]**

| Proposed Rate Base - Regulatory Lag [REVISED]* | | | | |
|---|---|---|---|---|
| Washington Electric | | | | |
| Expected @ 12/31/2021 | Avista | Staff | PC | AWEC |
| $ 1,924,075 | $ 1,860,606 | $ 1,786,803 | $ 1,754,384 | $ 1,647,192 |
| Difference: | **$ (63,469)** | **$ (137,272)** | **$ (169,691)** | **$ (276,883)** |
| Revenue Impact - "Return On" only | **$ (6,244)** | **$ (13,504)** | **$ (16,693)** | **$ (27,238)** |
| *Revised rate base balances reflect Staff, Public Counsel and AWEC revised electric positions as provided in the Joint Issues List filed with the Commission on June 30, 2021. | | | | |

As can be seen in Table No. 7, if the Commission were to accept the positions of Staff, Public Counsel or AWEC, the electric regulatory lag imposed on Avista on rate base would range from $~~149.9~~137.3 million to $~~289.5~~276.9 million, and lost associated revenue would range from $~~14.7~~13.5 million to $~~28.5~~27.2 million. This compares to the regulatory lag built in by Avista ("self-imposed) of $63.5 million of rate base, and $6.2 million of lost revenue.

**Table No. 8 – Natural Gas Proposed Rate Base – Regulatory Lag**

| Rate Base | | | | |
|---|---|---|---|---|
| Washington Natural Gas | | | | |
| Expected @ 12/31/2021 | Avista | Staff | PC | AWEC |
| $ 480,498 | $ 442,329 | $ 432,870 | $ 416,198 | $ 380,588 |
| Difference: | **$ (38,169)** | **$ (47,628)** | **$ (64,300)** | **$ (99,910)** |
| Revenue Impact - "Return On" only | **$ (3,755)** | **$ (4,685)** | **$ (6,325)** | **$ (9,828)** |

For natural gas, as can be seen in Table No. 8, if the Commission were to accept the positions of Staff, Public Counsel or AWEC, the natural gas regulatory lag imposed on Avista on rate base would range from $47.6 million to $99.9 million, and lost associated revenue would range from $4.7 million to $9.8 million. This compares to the regulatory lag built in by Avista of $38.2 million of rate base, and $3.8 million of lost revenue.

Adding the results of Table Nos. 7 and 8 together, this results in an overall Washington regulatory and associated lost revenue as shown in Table No. 9 below.

**Table No. 9 – Washington Combined – Regulatory Lag and Lost Revenue [REVISED]**

| Total Washington Proposed Rate Base - Regulatory Lag [REVISED]* | | | | |
|---|---|---|---|---|
| | Avista | Staff | PC | AWEC |
| Total Regulatory Lag @ 12/31/2021 | $ (101,638) | $(184,900) | $ (233,991) | $ (376,793) |
| Net Revenue Impact - "Return On" only | $ (9,998) | $ (18,189) | $ (23,018) | $ (37,066) |
| Approximate Lag - Years | 1+ Year | 2+ Years | 2.5+ Years | 4 Years |
| *Revised rate base balances reflect Staff, Public Counsel and AWEC revised electric positions as provided in the Joint Issues List filed with the Commission on June 30, 2021. | | | | |

Table No. 9 shows that on a combined Washington electric and natural gas basis, if the Commission were to approve any one of the Parties positions, the net Washington lag on rate base would range from Staff's "lag" of approximately $~~200~~ 185 million, and $~~20~~18 million in lost revenue, all the way up to as high as proposed by AWEC of approximately $~~390~~377 million in regulatory lag, and $37~~8~~ million in lost revenue. Party positions, would result in a regulatory lag of between 2 and 4 years before the Company could request recovery after September 30, 2022.[41]

As noted, the Company has already built in a significant (:self-imposed") rate base regulatory lag of $101.6 million, resulting in lost revenue of approximately $10 million on a Washington combined system. This lag represents the difference in net plant investment from that

[41]These balances represent the revenue requirement on the return on net plant only, and do not include additional lag associated with depreciation expense, property tax or other expenses associated with plant, nor the offset of incremental revenue from growth investment. The balances are also conservative in that they only reflect net ratebase, after AD and ADFIT, expected as of December 31, 2021, versus that as filed, and do not reflect the additional nine months of investment through September 30, 2022.

included in the Company's case on rebuttal, compared to that expected as of December 31, 2021, and even this is conservative in that it does not reflect the additional regulatory lag associated with the nine months investment through September 30, 2022.

Given the level of regulatory lag and lost revenue that would be suffered, the positions of Staff, Public Counsel and AWEC would not provide Avista with a reasonable level of rate relief during the effective period, and would preclude Avista from any reasonable opportunity to earn its authorized rate of return or return on equity, as approved by this Commission. No amount of additional efficiencies, managing of costs or cost-cutting measures could make up for the lag as proposed by other parties. This lag explains the expected ROEs ranging from ~~6.4~~7.9% (AWEC) to ~~7.4~~7.6% (Staff/PC) for electric, and ~~6.3~~8.00% (PC~~AWEC~~) to ~~8.4~~8.5% (Staff) for natural gas, as shown in Table No. 3 above.

## IV. UNCONTESTED ADJUSTMENTS AND UPDATES TO COMPANY CASE

**Q. Before discussing the updates to the Company's case, are there some adjustments that are uncontested by all Parties?**

A. Yes. Provided as page 1 of Exh. EMA-7, is a listing of 23 electric and 22 natural gas adjustments filed by the Company and uncontested by all Parties.

**Q. Please explain the updates by Avista on rebuttal to update its as-filed revenue requirement.**

A. Table No. 10 below provides a listing of electric and natural gas restating and pro forma adjustments proposed by Avista to its as-filed case, producing Avista's revised revenue requirement on rebuttal.[42]

[42] See also Exh. EMA-7 page 2.

discussed further below in Section V.[49] I also address in Section V. below, Staff's proposed insurance adjustment.[50]

Supplemental to the Parties' response testimonies, on April 26, 2021, the Company provided the Parties with a response to Staff 044 Supplemental (See Exh. EMA-10, pages 23-28), reflecting the Company's insurance expense for the D&O Insurance premium invoices received in April 2021. These final invoices reflect an incremental reduction in system insurance expenses of $52,000 electric and $16,000 natural gas from that previous provided. As can be seen in Table No. 12 below, the revised actual 2021 premium costs of $8.794 million on a system basis, are 92% above those in 2019 of $4.591 million (71% of this increase is due to higher premiums associated with wildfire exposure).

**Table No. 12 – Updated Insurance Expense**

| TOTAL INSURANCE COSTS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 12/31/2019 | | | 12/31/20 - Actual | | | 12/31/21 - Based on ACTUAL Invoices | | |
| **Line of Insurance** | premium with cc (1) | premium without cc | basis | premium with cc | premium without cc | basis | premium with cc | premium without cc | basis |
| **General Liability** | **$2,259,774** | $2,704,244 | Actual | $2,749,608 | $2,981,117 | Actual | **$5,529,138** | $5,788,307 | **Actual (a)** |
| **Directors & Officers Liability** | **$850,468** | $1,221,598 | Actual | $894,646 | $1,279,676 | Actual | **$1,029,578** | $1,391,964 | **Actual (b)** |
| **Property** | **$1,480,696** | $1,503,777 | Actual | $1,765,375 | $1,792,539 | Actual | **$2,235,720** | $2,283,779 | **Actual (a)** |
| **TOTAL INSURANCE COSTS** | 4,590,939 | 5,429,619 | | 5,409,629 | 6,053,333 | | 8,794,436 | 9,464,051 | |
| | **IA-1** | | | **IA-1** | | | **IA-1** | | |
| Less 10% D&O | - | | | 89,465 | | | 102,958 | | |
| **Adjusted for 10% D&O Removal** | **4,590,939** | | | 5,320,164 | | | **8,691,478** | | |
| | | | | | | | **(a) Actual, received in Dec. 2020** | | |
| **Notes:** | | | | | | | **(b) Actual, received in April 2021** | | |

Also included in this adjustment (consistent with Avista's as-filed adjustment) is a reduction to D&O Insurance of 10% per Dockets UE-090134 and UG-090135. Therefore, after reflecting the overall impact of both updates, and the reduction of 10% D&O Insurance, actual pre-paid insurance expense for the 2021 period results in $2,456,000 for Washington electric and $279,000 for Washington Natural Gas (~~$8.69~~$5.3 million on a system basis) above 2019 levels. The overall impact of the change in this adjustment reduces insurance expense from that filed, by $1.083 million electric and $801,000 for natural gas, or a reduction to revenue requirement of $1,133,000 electric and $837,000 natural gas.

**g) 3.09 Pro Forma Property Tax (Electric and Natural Gas)**

**Actual update, to reflect Washington and Idaho revised property tax assessments**:

[49] Public Counsel does use the January updated insurance information from Staff 044, however proposes a 50% allocation of D&O insurance be allocated to shareholders. Avista opposes this recommendation, as I discuss below. Crane Exh. ACC-1T, p. 25, ll. 14-16.

[50] Staff does not use the actual data from the response to Data Request Staff 044 provided in January 2021, but rather inappropriately adjusts insurance to 2019 levels. Avista oppose this recommendation, as I discuss further below. Huang Exh. JH-1T, p. 24, ll. 7-13.

**h) Pro Forma Insurance Expense 3.07 (Electric and Natural Gas)**

**Q. Before responding to Party testimony related to Pro Forma Insurance Expense Adjustment 3.07, please remind us of Avista's position on rebuttal.**

A. As discussed above, the Company, in response to Data Request Staff 044 Supplemental (provided as Exh. EMA-10, pages 23-28), has updated its pro forma insurance expense to reflect actual 2021 prepaid invoices (reduced by 10% of D&O Insurance per Dockets UE-090134 and UG-090135), resulting in an increase in insurance levels above 2019 test period levels of $2,456,000 for Washington electric and $279,000 for Washington natural gas (~~$8.69~~$5.32 million on a system basis). As described in my direct filed testimony (Exh. EMA-1T, starting at p. 63), the largest drivers of increased insurance expense are a result of large jury settlements and increased wildfire exposure risk driving premiums higher.

**Q. Starting with Ms. Huang, she recommends removal of the Company's Pro Forma Insurance Adjustment 3.07 in its entirety because "As with employee benefits expense, Avista has a history of overestimating its level of insurance expense."[96] Is her recommendation reasonable?**

A. No, it is not. Consistent with her review of employee benefits, Ms. Huang's analysis of prior case activities is inaccurate and once again uses as-filed estimates, ignores updated information by the Company during the process of those cases and what was approved by the Commission, and mismatches year-to-year comparisons. More importantly, she ignores my direct testimony in this case describing the drivers of estimated increases, ignores that insurance

[96] Huang, Exh. JH-1T, p. 20, ll. 1-3.