

Exh. KJC-1T

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

EXHIBIT: KJC-1T

ADMIT  W/D  REJECT

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-200900

DOCKET NO. UG-200901

DOCKET NO. UE-200894

*(Consolidated)*

REBUTTAL TESTIMONY OF

KEVIN J. CHRISTIE

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

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

3 A. My name is Kevin Christie and I am employed as the Senior Vice President of  
4 External Affairs and Chief Customer Officer for Avista. My business address is 1411 East  
5 Mission Avenue, Spokane, Washington.

6 **Q. Would you briefly describe your educational background and professional  
7 experience?**

8 A. Yes. I graduated from Washington State University with a Bachelor of Business  
9 Administration degree with an accounting emphasis. I have also attended the University of Idaho  
10 Utility Executive Course, and the Finance for Senior Executives program at Harvard Business  
11 School. I joined the Company in 2005 as the Manager of Natural Gas Planning. In 2007, I was  
12 appointed the Director of Gas Supply, then in 2012 I was appointed as the Senior Director of  
13 Finance. In 2014 I was appointed to Senior Director of Customer Solutions, in 2015 I was  
14 appointed Vice President of Customer Solutions. I was promoted to my current role in October  
15 2019.

16 Prior to joining Avista, I was employed by Gas Transmission Northwest (GTN). I was  
17 employed by GTN from 2001 to 2005 and was the Director of Pipeline Marketing and  
18 Development from 2003 to 2005 and the Director of Pricing and Business Analysis from 2001  
19 to 2003. From 2000 to 2001, I was employed by PG&E Corporation (PG&E) as the Manager of  
20 Finance and Assistant to the SVP, Treasurer and CFO. Before joining PG&E, I was employed  
21 by Pacific Gas Transmission Company (PGT) from 1994 to 2000. While at PGT, I held several  
22 positions including Manager, Pricing and Business Analysis, Senior Business Analyst, Senior  
23 Pricing Planner, Director of Regulatory Affairs, Project Manager – Rates and Regulatory Affairs,

1 Senior Regulatory Analyst, Regulatory Analyst, and Revenue Accountant. From 1990 to 1994, I  
 2 was employed by Chevron USA as a Lease Revenue Accountant.

3 **Q. Have you filed direct testimony in this proceeding?**

4 A. No, I have not.

5 **Q. What is the scope of your rebuttal testimony?**

6 A. I will summarize the Company’s case, on rebuttal, and through the introduction  
 7 of witnesses, provide an overall response to many of the key issues raised by the Parties<sup>1</sup> in this  
 8 proceeding. A table of contents for my testimony is as follows:

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19 **Q. Are you sponsoring any exhibits that accompany your testimony?**

20 A. No, I am not.

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<sup>1</sup> I will refer to each of the non-Company parties in these Dockets as follows: the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Unit of the Washington Office of Attorney General (Public Counsel), the Alliance of Western Energy Consumers (AWEC), the Inland Empire Paper Company (IEP), Sierra Club, and The Energy Project.

1           **II.    SUMMARY OF AVISTA’S ORIGINAL RATE REQUEST AND REBUTTAL**  
2   **RATE REQUEST**

3           **Q.    Would you please summarize the Company’s electric and natural gas**  
4 **proposals included in its original filing?**

5           A.    Yes. As discussed by Company witnesses Mr. Vermillion and Ms. Andrews in  
6 their Direct Testimony,<sup>2</sup> the Company proposed a traditional general rate case, which would  
7 begin with new base rates effective October 1, 2021, but which would be fully offset through the  
8 use of a Tax Customer Credit. The proposed base and billed electric and natural gas revenue  
9 increases are shown in Table No. 1 below:

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

	<b><u>Proposed</u></b>	<b><u>Base %</u></b>	<b><u>Billed %</u></b>
	<b><u>Revenue Increase</u></b>	<b><u>Increase</u></b>	<b><u>Increase</u></b>
14           Electric Operations	\$44.2 million	8.3%	0.0%
16           Natural Gas Operations	\$12.8 million	12.2%	0.0%

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

21           **Q.    How did the Company propose to spread the base electric and natural gas**  
22 **increases to each of the customer rate schedules?**

23           A.    The proposed electric and natural gas increases to each customer rate schedule  
24 effective October 1, 2021, are shown in Tables No. 2 and 3, respectively.

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<sup>2</sup> Exh. DPV-1T and Exh. EMA-1T.

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

<b>Rate Schedule</b>	<b>Increase in Base Rates</b>	<b>Increase in Billing Rates before Offset</b>	<b>Increase in Billing Rates with Offset</b>
Residential Schedules 1/2	8.3%	8.5%	0.0%
General Service Schedules 11/12	8.3%	8.1%	0.0%
Large General Service Schedules 21/22	8.3%	8.1%	0.0%
Extra Large General Service Schedule 25	8.3%	8.6%	0.0%
Pumping Service Schedules 31/32	8.3%	8.1%	0.0%
Street & Area Lights Schedules 41-48	<u>8.3%</u>	<u>8.1%</u>	<u>0.0%</u>
<b>Overall</b>	<b><u>8.3%</u></b>	<b><u>8.3%</u></b>	<b><u>0.0%</u></b>

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

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

**Q. What were the drivers of the Company's rate request filing?**

A. Without repeating all of the information contained in Mr. Vermillion's direct testimony, the increase in overall costs to serve customers is driven primarily by the continuing need to replace and upgrade the facilities and technology we use every day to serve our customers, while revenue growth remains low. In particular, the Company's request includes the Company's electric and natural gas investment in AMI and related regulatory deferred balances, which is now materially complete. AMI represented 42% of the Company's overall original electric request, and 54% of its original natural gas request. The Company also included other major distinct electric projects related to the Company's 2020 and 2021 Wildfire Plan and EIM investments (21% of the original electric request), and pro formed certain electric and natural gas

1 gross plant additions for 2020. Offsetting those cost increases was a reduction in power supply  
2 costs, discussed by Company witness Mr. Kalich.

3 **Q. What is the Company's requested revenue requirement, on rebuttal?**

4 A. Having reviewed the Parties' testimony, as well as having incorporated other  
5 updated information discussed by Company witness Ms. Andrews (Exh. EMA-6T) that has  
6 occurred after the Company prepared its filing and during the pendency of this case, Avista's  
7 revised revenue requirement is provided in Table No. 4 below:<sup>3</sup>

8 **Table No. 4: Revised Rebuttal Revenue Requirement**

	<b><u>Proposed Electric Revenue Increase</u></b>	<b><u>Proposed Natural Gas Revenue Increase</u></b>
9		
10		
11		
12	October 1, 2021	\$40.2 million
13		\$10.7 million

14 **Q. Has the Company modified its proposed cost of capital?**

15 A. No, it has not. As discussed by Company witness Mr. Thies on rebuttal (Exh.  
16 MTT-6T), the Company's electric and natural gas requests continue to be based on a proposed  
17 rate of return of 7.43%, with a capital structure comprised of 50% equity and 50% debt, a 4.97%  
18 cost of debt, and a 9.9% return on equity (ROE).

19 **Q. Would you please provide a breakdown of the major plant additions that the  
20 Company is supporting on Rebuttal?**

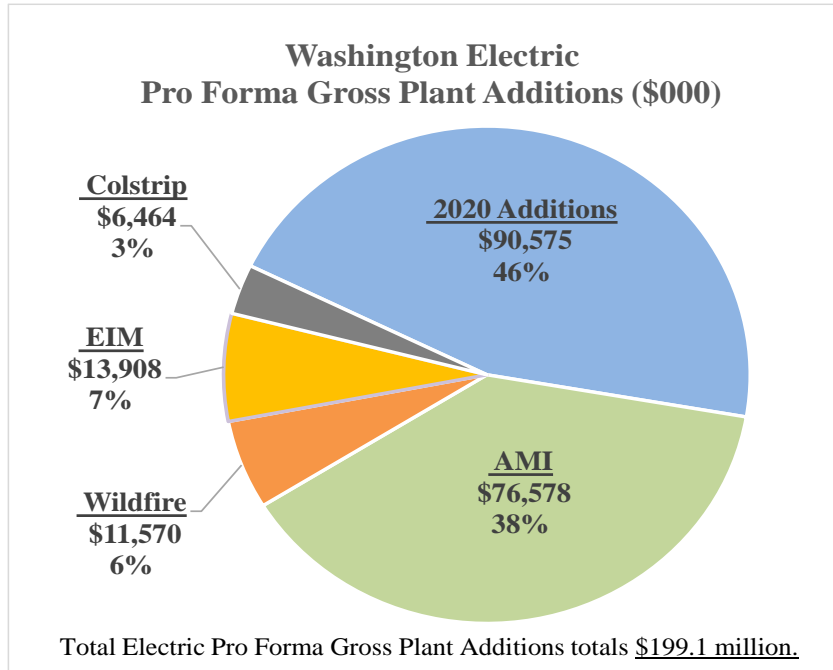
21 A. Yes. As discussed by Ms. Andrews, provided as Illustration No. 1 and No. 2 are  
22 the total capital additions (gross transfers to plant) pro formed by the Company in this case,  
23 including actual 2020 capital additions, and the additional four specific large and distinct capital

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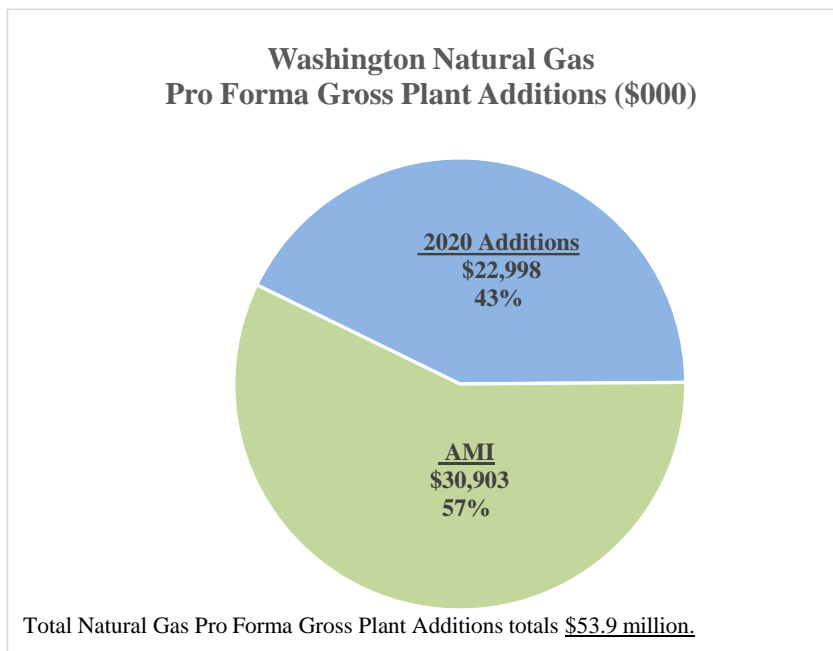
<sup>3</sup> Company witness Mr. Miller (Exh. JDM-8T) discusses the rate spread of the Company's rebuttal revenue requirement.

1 projects – i.e., AMI, EIM, Wildfire Plan, and Colstrip Units 3 and 4, totaling \$199.1 million for  
 2 Washington electric and \$53.9 million for Washington natural gas.

3 **Illustration No. 1 – Electric Plant Additions**



14 **Illustration No. 2 – Natural Gas Plant Additions**



1 **Q. How do the Company's original and rebuttal revenue requirements compare**  
2 **with those proposed by the Parties?**

3 A. Table No. 5 below provides the revenue requirements filed by Avista (original  
4 and rebuttal), and that of Staff, PC and AWEC (IEP, The Energy Project and Sierra Club did not  
5 provide a revenue requirement). Please note that on May 24, 2021 Public Counsel filed revised  
6 exhibits for Ms. Crane (Exhs. ACC-3-8) showing revised revenue requirement amounts of \$8.5  
7 million for electric and \$4.395 million for natural gas.<sup>4</sup>

8 **Table No. 5: Revenue Requirement Positions of the Parties**<sup>5</sup>

Summary of Proposed Revenue Requirement Positions (000s)		
	Electric	Natural Gas
Avista As-filed	\$ 44,183	\$ 12,790
Avista Rebuttal	\$ 40,155	\$ 10,714
Staff	\$ 7,230	\$ 5,619
Public Counsel	\$ 8,500	\$ 4,395
AWEC <sup>1</sup>	\$ (18,177)	\$ (6,706)

<sup>1</sup>AWEC proposed revenue requirement reflects the customer deferred benefit balances, that other parties, including Avista, propose to be returned through separate tariffs (AFUDC deferral and Tax Benefit deferral). Removing these items from base rates, would result in revised AWEC electric and natural gas revenue reductions of \$4.174 million and \$264,000, respectively. Amortization of these balances should only impact cash flow, not base rates.

17 **Q. Would you provide a more detailed breakdown of the positions of the Parties,**  
18 **by major revenue requirement items, that reconciles their revenue requirements with**  
19 **Avista's revenue requirements proposed on rebuttal?**

20 A. Yes. Ms. Andrews provides the following breakdowns in Exh. EMA-6T:

<sup>4</sup> This update reflects increases in Public Counsel's proposed revenue requirement amounts as a result of updating for pro forma benefits as provided by Avista (Ms. Andrews discusses this in her rebuttal testimony).

<sup>5</sup> Copied from Exh. EMA-6T, Table No. 2 p. 9.



1 **Table No. 6 - Electric Reconciliation of Avista Rebuttal versus Parties<sup>6</sup>**

2

Line:	Electric Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s)					
		Staff	PC	AWEC	See Andrews (Section V.) Other Company Witnesses:	
3	1	<b>Parties As Filed</b>	<b>\$ 7,230</b>	<b>\$ 8,500</b>	<b>\$ (18,177)</b>	
4		<b><u>Differences with Avista:</u></b>				
5	2	<b>Separate Tariff (AFUDC / Tax Benefit)</b>			\$ 14,003	Andrews (see Section V.)
6	3	<b>Miscellaneous Contested Adjustments:</b>				
7	i.	Expenses reflect Avista use of <u>actual 2020/2021 vs Parties 2019/2020</u>	\$ 7,703	\$ 5,661	\$ 15,617	Andrews (see Section V.)
8	ii.	Avista reflects <u>actual</u> 2020 Capital Additions <sup>1</sup>	\$ 8,278	\$ 3,418	\$ 7,276	Schultz (Exh. KJS-3T), DiLuciano/La Bolle (Exh. JD/LL-1T)
9	ii.	PF Power Supply (Normalized Revenue) / PF Transmission		\$ 907	\$ 1,464	Knox (Exh. TLK-4T) Schlect (Exh. JAS-3T)
10	4	<b>AMI Investment<sup>2</sup></b>	\$ 19	\$ 6,568	\$ 3,163	Rosentrater/La Bolle (Exh. HR/LL-1T)
11	5	<b>Wildfire Expenditures</b>	\$ 3,824	\$ 1,130	\$ 3,610	Howell (Exh. DRH-8T) Andrews (see Section VII.)
12	6	<b>EIM (Capital, Expense, Benefits)</b>	\$ 2,384	\$ 2,384	\$ 2,332	Kinney (Exh. SJK-13T) Kalich (Exh. CGK-9T)
13	7	<b>Colstrip / SmartBurn</b>	\$ 1,893	\$ 295	\$ 583	Thackston (Exh. JRT-12T)
14	8	<b>Cost of Capital</b>	\$ 8,824	\$ 11,292	\$ 10,284	Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T)
15	9	<b>Avista Rebuttal</b>	<b>\$ 40,155</b>	<b>\$ 40,155</b>	<b>\$ 40,155</b>	

13 **Table No. 7 – Natural Gas Reconciliation of Avista Rebuttal versus Parties<sup>7</sup>**

14

Line:	Natural Gas Reconciliation of Avista Rebuttal versus Parties Revenue Requirement (000s)					
		Staff	PC	AWEC	See Andrews (Section V.) Other Company Witnesses:	
15	1	<b>Parties As Filed</b>	<b>\$ 5,619</b>	<b>\$ 4,395</b>	<b>\$ (6,706)</b>	
16		<b><u>Differences with Avista:</u></b>				
17	2	<b>Separate Tariff (AFUDC / Tax Benefit)</b>			\$ 6,442	Andrews (see Section V.)
18	3	<b>Miscellaneous Contested Adjustments:</b>				
19	i.	Expenses reflect Avista use of <u>actual 2020/2021 vs Parties 2019/2020</u>	\$ 1,500	\$ 1,039	\$ 5,379	Andrews (see Section V.)
20	ii.	Avista reflects <u>actual</u> 2020 Capital Additions <sup>1</sup>	\$ 1,443	\$ 212	\$ 2,163	Schultz (Exh. KJS-3T)
	4	<b>AMI Investment<sup>2</sup></b>	\$ 7	\$ 2,438	\$ 981	Rosentrater/La Bolle (Exh. HR/LL-1T)
	5	<b>Cost of Capital</b>	\$ 2,145	\$ 2,630	\$ 2,455	Thies (Exh. MTT-6T) McKenzie (Exh. AMM-15T)
	6	<b>Avista Rebuttal</b>	<b>\$ 10,714</b>	<b>\$ 10,714</b>	<b>\$ 10,714</b>	

<sup>6</sup> Copied from Exh. EMA-6T, Table No. 4 p. 11.

<sup>7</sup> Copied from Exh. EMA-6T, Table No. 5 p. 12.

1 **Q. What would be the combined Washington return on equity (“ROE”) for**  
 2 **Avista using Staff’s and the other Parties’ proposed revenue requirements?**

3 A. As discussed by Ms. Andrews in Exh. EMA-6T, using Staff’s, Public Counsel’s  
 4 and AWEC’s filed revenue requirements, compared to the level of rate base supported by the  
 5 Company (which itself is already understated, as discussed later), results in the following Return  
 6 on Equity:

7 **Table No. 8: ROE Results of the Parties**<sup>8</sup>

Resulting ROE of Proposed Revenue Positions of Parties			
	ROE Electric	ROE Natural Gas	Current Authorized
Staff	7.30%	8.40%	9.40%
Public Counsel	7.40%	8.00%	9.40%
AWEC	6.40%	6.30%	9.40%

8  
 9  
 10  
 11  
 12  
 13 As shown in Table No. 8 above, approval of any of the recommended revenue increases proposed  
 14 by Staff, Public Counsel, or AWEC would result in a return on equity (ROE) of over 200 to 300  
 15 basis points for electric, and 100 to 310 basis points for natural gas, under that currently  
 16 authorized (9.4%). These results reflect a reduction of between 100 basis points (Staff natural  
 17 gas) to 310 basis points (AWEC natural gas) below that currently authorized (9.4%). This  
 18 seemingly would be a best-case scenario as well, given continued self-imposed lag discussed by  
 19 Ms. Andrews.

20 **Q. What is this self-imposed lag Ms. Andrews testifies to?**

21 A. As she notes in her testimony (Exh. EMA-6T), it is important to remember that

<sup>8</sup> AWEC ROE calculations reflect revised AWEC electric and natural gas revenue sufficiency (reductions) of \$4.174 million and \$264,000, respectively, as discussed by Ms. Andrews. The Public Counsel calculations reflect the May 24, 2021 revised revenue requirement as filed by Ms. Crane.

1 Avista “self-imposed” regulatory lag by not including all of the plant additions that will be used  
 2 and useful for customers in the rate effective period. The Company limited its plant additions  
 3 included in this case to less than the overall projects completed in 2020; 2021 additions of only  
 4 4 distinct project investments (i.e., AMI, EIM, Wildfire and Colstrip); and only two projects  
 5 completed in 2022 (EIM<sup>9</sup> March 2022 project, and Colstrip June 2022 project). And that is in  
 6 addition to the decision to delay the filing of this rate case from when it had planned to file the  
 7 case, until October 30, 2020, due to the COVID-19 pandemic.

8  
 9 **III. STAFF’S PRO FORMA CAPITAL ADJUSTMENTS WOEFULLY**  
 10 **UNDERSTATE THE LEVEL OF PLANT-IN-SERVICE PRIOR TO THE**  
 11 **START OF THE OCTOBER 1, 2021 RATE YEAR**

12 **Q. Did you sponsor testimony related to capital additions in this case, or any**  
 13 **recent general rate case?**

14 A. No, I generally have not been a Company witness related to capital additions.  
 15 Other witnesses in this case describe the capital additions included in our proposed revenue  
 16 requirement. Those witnesses include Company witness Ms. Schultz regarding Avista’s  
 17 proposed capital adjustments, and Mr. Kensok, Mr. Thackston, Ms. Rosentrater, Mr. Magalsky,  
 18 Mr. Kinney, and Mr. Howell regarding specific capital additions.

19 **Q. Why then are you testifying about capital additions in this matter?**

20 A. In this testimony I wanted to address, at a policy level, the effects resulting from  
 21 the testimony of Staff witness Ms. Higby, in particular.<sup>10</sup> I believe that her testimony, and my

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<sup>9</sup> As discussed by Mr. Kinney at Exh. SJK-13T, Avista needs to complete all its EIM equipment upgrades/replacements and integrate all new software by July 1, 2021 per the CAISO implementation schedule. However, although the equipment-related projects will be complete by July 1, 2021, the software applications (while complete) will not officially transfer-to-plant until all testing is complete and the Company officially joins the EIM in March 2022.

<sup>10</sup> Generally, Exh. ANH-1T.

1 response, is important for the Commission to understand from a policy and future ratemaking  
2 perspective.

3 **Q. Staff witness Ms. Higby states that in Avista’s 2017 general rate case, the**  
4 **Commission rejected Avista’s proposal to pro form in 121 projects because such an**  
5 **inclusion “created ‘a significant, and nearly prohibitive burden for Staff and the**  
6 **intervening Parties to conduct any practical review and audit’.”<sup>11</sup> At a policy level, what is**  
7 **different in what the Company did in this case, as compared to that case?<sup>12</sup>**

8 A. Company witnesses Ms. Andrews and Ms. Schultz provide the specificity of what  
9 the Company included in this case. At a summary level, the majority of the investments included  
10 in this case (specifically those included in Adjustments 3.11 through 3.15), were for capital  
11 deployed, used and useful, and serving customers as of December 31, 2020, at least nine (9)  
12 months prior to the October 1, 2021 rate effective date. As noted by Ms. Schultz in Exh. KJS-  
13 3T at p. 3:

14 The Company updated 2020 Pro Forma (PF) Capital Additions Adjustments 3.11  
15 – 3.15 with actual transfers to plant for the period of January 1, 2020 through  
16 December 31, 2020 in Staff Data Request No. 107, Supplemental 1<sup>13</sup>, which was  
17 provided to the Parties on February 22, 2021. These pro formed capital additions  
18 reflect plant completed and in service, used and useful, by December 31, 2020,  
19 which is at least nine months or more prior to the October 1, 2021 rate effective  
20 date.<sup>14</sup>  
21

22 In the previous Avista general rate case referred to by Ms. Higby, by way of contrast, the  
23 Company actually pro formed in all capital investment much closer to the rate effective date –

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<sup>11</sup> Exh. ANH-1T, fn 5. Quoting *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-170485 & UG-170486, Order 07, 67, ¶ 198 (April 26, 2018) (2017 Avista Order).

<sup>12</sup> Exh. ANH-1T, p. 9, ll. 9-16.

<sup>13</sup> The final Staff Data Request No. 107, Supplemental 3, including updates to additional pro forma capital projects sponsored by Ms. Andrews is provided with Exh. EMA-10, pages 39-46.

<sup>14</sup> “Rate Year” is defined as October 1, 2021 through September 30, 2022.

1 plant through December 31, 2017 for rates effective on May 1, 2018. Accordingly, the Parties  
 2 have had documentation supporting the Company’s investment from the date of filing for audit  
 3 and review, and merely updated its adjustments based on final year end balances transferred to  
 4 service.

5 **Q. Is there a simplified illustration showing what Avista pro formed into this**  
 6 **case, as it relates to capital additions?**

7 A. Yes. Illustration No. 3 prepared by Ms. Andrews below depicts not only capital  
 8 additions reflected through the year-end 2020, but also the 4 separately pro formed projects that  
 9 come into service later (both prior to the rate effective date, and after the effective date, but still  
 10 within the Rate Year):

11 **Illustration No. 3 - 2020 Capital Additions and Pro Formed/Provisional Large/Distinct**  
 12 **Projects**<sup>15</sup>

2020 Capital Additions and Pro Formed/Provisional Large/Distinct Projects (AMI / EIM / Wildfire / Colstrip)		
12 Months ended December 31, 2020	October 1, 2021	September 30, 2022
(2020 Capital Additions)		
	<b>Pro Formed</b> (1) AMI (2) EIM - Capital work complete July 1, 2021. Software testing until go-live Mar 2022.*	
	<b>Pro Formed</b> (3) Wildfire Jan. 1 - Sept. 2021 (4) Colstrip Jan. 1 - Sept. 2021 ("short-lived" assets)	<b>Provisional</b> (3) Wildfire Oct - Dec 2021 (4) Colstrip Oct - Dec 2021, & July 2022 ("short-lived" assets)  *(2) EIM Software complete in 2021, transfers Mar. 2022 at "Go-Live" date ("short-lived" asset)

22 **Q. Do you agree that “an unlimited number of pro forma adjustments restricts**

<sup>15</sup> Copied from Exh. EMA-6T, p. 14.

1 **the parties’ ability to meaningfully review pro forma adjustments”?**<sup>16</sup>

2 A. First, I strongly disagree with the supposition that Avista filed an “unlimited”  
3 number of pro forma adjustments in this case. Avista only includes in its filings supportable and  
4 justifiable revenues, expenses, and capital investment. Moreover, “the Company excluded all  
5 non-material projects generally less than \$500,000 electric and \$200,000 natural gas” to reduce  
6 the number of projects selected for recovery in this case and to ease the auditing burden on Staff  
7 and the Parties.<sup>17</sup>

8 Now, would I agree or disagree with the viewpoint that including many projects  
9 “restricts” the parties’ ability to review? I disagree. Nothing, per se, “restricts” parties’ ability  
10 to review anything; everything is “fair game.” I do agree, however, that the review of each and  
11 every investment, if disaggregated into thousands of constituent parts, would be quite difficult.  
12 But that is not how the Company presented its case; rather it “grouped” the investments into  
13 “business cases” and provided information on each, allowing the Parties the opportunity to  
14 “vector in” or focus on those that were of special interest or concern. The same is true for the  
15 review we presume that Staff and the Parties do for all of the capital investment that transferred  
16 to service during the test year in this case, which was made up of more projects than were pro  
17 formed. That is where I then disagree with Staff’s assertion. Avista has managed to work with  
18 the parties in Oregon and Idaho to successfully allow for the review of the same investments  
19 included in Washington, based on their share of the allocated projects and programs. What we  
20 have seen in those jurisdictions, who have an even shorter statutory time period for review, is  
21 that they conduct a general sampling of business cases to test for reasonableness and prudence.

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<sup>16</sup> Exh. ANH-1T, p. 10, ll. 14-15.

<sup>17</sup> Schultz, Exh. KJS-1T, p. 11, ll. 16-17.

1 Further, they can review the actual books of the Company showing that all of the investment  
2 included has transferred to service. It should not be the expectation that Staff should go and visit  
3 every piece of pipe, nut and bolt, or thousands of electric and natural gas line extensions. Ms.  
4 Andrews discusses the “sampling” technique and other audit procedures used by accountants to  
5 audit the books of their clients and this is done under standard accounting practice (those firms  
6 do not “qualify” their audit opinions by removing entirely from the balance sheets all items below  
7 a certain threshold).

8 **Q. Ms. Higby also argues that a “major” threshold must be used to determine**  
9 **projects included for recovery because it is “not reasonable to expect Staff and other Parties**  
10 **to perform a comprehensive review of them all”.<sup>18</sup> Do you agree?**

11 A. Again, the Company agrees that it is not reasonable to expect Staff and other  
12 Parties to perform a “comprehensive review” of each and every capital project included by the  
13 Company. Nor is an accountant who audits the books of any other Company expected to count  
14 every nut or bolt or “widget” in yearly inventory. Standard and accepted auditing practices in  
15 the industry use techniques for “sampling” and otherwise focusing on important or representative  
16 items. That is the only way any audit can be made manageable. For its part, however, a company  
17 is expected to freely open its books and records for audit and assist in providing documentation.  
18 Ms. Andrews discusses in her rebuttal testimony (Exh. EMA-6T, p. 23, ll. 4-6) that the Company  
19 has in fact done that in this case. It started by providing 63 business cases<sup>19</sup> in its direct case and  
20 responded to 659 discovery requests (over 1,200 itemized questions or parts) that drilled down  
21 into specific items.

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<sup>18</sup> Higby, Exh. ANH-1T, p. 12, ll. 3-9.

<sup>19</sup> Ms. Schultz discusses that the Company included 59 business cases for 2020 in her testimony (Exh. KJS-3T), excluding the 4 distinct business cases for AMI, EIM, Wildfire and Colstrip.

1 This is also true whether talking about the approximately 120 business cases Avista  
 2 completed in 2020, or the specific projects in any given business case. No one expects every  
 3 project to be reviewed. For example, in the case of line extensions, that would mean every project  
 4 installed for a customer, totaling thousands of line extensions in any given year. Or another  
 5 example would be every wood pole replaced in a year. This is not practical. This said, there is a  
 6 difference, however, between using a threshold for reviewing a project versus using a threshold  
 7 to exclude completed property for recovery, as proposed by Ms. Higby. Remember, any party is  
 8 always free to drill down into any business case of its choosing (whether through sampling or  
 9 based on a particular interest or concern), and the Company has and will provide the requested  
 10 information.

11 **Q. What is your understanding of the regulatory practice the Commission**  
 12 **follows as it relates to inclusion of capital investment in rates?**

13 A. As noted by the Commission at para. 112 – 114, pp. 37-38 of PSE Order 08:

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

21  
 22 (3) The Commission may provide changes to rates under this section  
 23 for up to forty-eight months after the rate effective date using any  
 24 standard, formula, method, or theory of valuation reasonably  
 25 calculated to arrive at fair, just, reasonable, and sufficient rates.  
 26

27 As a result, extending the pro forma period beyond a few months after the end of  
 28 the test year is no longer “exceptional.” To the contrary, it is a method we expect  
 29 to employ as a tool to address regulatory lag and particularly when a utility proposes  
 30 a multi-year rate plan. This use of an extended pro forma period is not a one-size  
 31 fits all solution, and thus will be determined on a case-by-case basis.  
 32



1 Here, we need not rely on projections or estimates. Each of the investments we  
 2 approve meets the used and useful standard because it is currently being used to  
 3 provide service to customers, and their associated costs are known and measurable.  
 4 We find that allowing these adjustments through December 31, 2019, is a  
 5 reasonable means to address regulatory lag by ensuring more timely recovery for  
 6 investments – some of which are short-lived and particularly vulnerable to  
 7 regulatory lag – that are already benefitting customers. (footnotes omitted)  
 8 (emphasis added)  
 9

10 **Q. How does this language comport with what Avista did in this case?**

11 A. In short, as addressed by Ms. Andrews in EMA-1T, we followed this guidance  
 12 from the PSE Order and the Used and Useful Policy Statement to capture plant in service for  
 13 customers during the rate effective period.

14 **Q. How does the Company's capital pro forma adjustments generally fit with**  
 15 **Senate Bill 5295?**

16 A. SB 5295, signed into law by Gov. Inslee on May 3, 2021, states:

17 The commission shall ascertain and determine the fair value for rate-making  
 18 purposes of the property of any gas or electrical company that is or will be used and  
 19 useful under RCW 80.04.250 for service in this state by or during each rate year of  
 20 the multiyear rate plan. **For the initial rate year, the commission shall, at a**  
 21 **minimum, ascertain and determine the fair value for rate-making purposes of**  
 22 **the property of any gas or electrical company that is used and useful for service**  
 23 **in this state as of the rate effective date.** The commission may order refunds to  
 24 customers if property expected to be used and useful by the rate effective date when  
 25 the commission approves a multiyear rate plan is in fact not used and useful by such  
 26 a date. (emphasis added)  
 27

28 **Q. When you prepared and filed this case, Senate Bill 5295 was not even drafted.**  
 29 **Were you contemplating that this legislation, or something similar, would be passed during**  
 30 **the recently-concluded legislative session?**

31 A. No, we were not contemplating this piece of legislation at the time of case  
 32 preparation. But importantly our case then, and now, stands on solid footing with existing law –

1 i.e., the revisions to RCW 80.04.250, which now provide that the Commission may include in  
 2 rates “property that is used and useful for service in this state by or during the rate effective  
 3 period. Adjustments 3.11 through 3.15, and Avista’s investment in AMI are all property that is  
 4 used and useful for service in this state by the rate effective period.<sup>20</sup>

5 **Q. Did Staff in their review of all of the Company’s test year capital additions,**  
 6 **and pro forma capital additions, recommend any disallowance for any of the Company’s**  
 7 **projects on the basis of “prudence”?**

8 A. No, but for the disallowance related to the Company’s investment in SmartBurn  
 9 at Colstrip (addressed by Company witness Mr. Thackston).<sup>21</sup> Ms. Higby did not argue the  
 10 prudence of specific 2020 capital additions, but rather significantly limited Avista’s 2020 capital  
 11 additions – projects that were complete and in-service by December 31, 2020. This position is  
 12 based on an attempt to once again minimize capital additions that are known and measurable, by  
 13 imposing an arbitrary definition of “major” to categorize and limit the number of projects this  
 14 Commission should allow. She further reduces her selected “major” projects by incorrectly  
 15 removing projects that she believes should have additional offsetting factors, or removes because  
 16 of her prescribed definition of “programmatic investments.”<sup>22</sup> Ms. Schultz, at Exh. KJS-3T,  
 17 provides a more detailed approach to the issues raised by Ms. Higby’s response testimony.

18 **Q. So, what is the practical effect of what Ms. Higby is proposing in her**  
 19 **testimony?**

20 A. The practical effect, as discussed in the prior section of my testimony, is that if  
 21 the Commission adopts her adjustments, there is an absolute guarantee that Avista will not be

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<sup>20</sup> Additional projects for Colstrip, Wildfire and EIM are also completed by the rate effective period.

<sup>21</sup> Staff takes issue with the Company’s Colstrip SmartBurn investment, which was completed in 2016 and 2017, these investments were not test period or pro forma capital additions.

<sup>22</sup> Higby Exh. ANH-1T, p. 3, ll. 23 – p. 5, ll. 1.

1 able to come anywhere close to earning its allowed rate of return. I know that this argument  
2 might be tired, as it is what the Company contended in its rate cases in the 2000's. This is why  
3 we argued for - and the Commission approved - attrition adjustments mid last decade, and what  
4 we have had to argue for in a "post-attrition adjustment" regulatory world more recently.

5 **Q. Why is this argument then more germane today than ever?**

6 A. I think it is primarily for the reasons many of the Parties in this case, along with  
7 the Commissioners, engaged in discussions that led to Senate Bill 5295. While cut from the final  
8 bill that passed, early on the intent statement of the language is what I believe, at a minimum,  
9 brought the Commissioners, Puget Sound Energy, and Avista together to start the drafting of the  
10 legislation. That proposed, but not adopted intent language in the preamble of the bill noted that  
11 utilities face transformational change brought on by new technology, rapidly changing costs,  
12 emerging opportunities for customers, and public policy mandates (including CETA). Further,  
13 the traditional regulatory construct is neither adaptable, nor well suited to adjusting to rapidly  
14 changing societal expectations and public policy objectives, and therefore hinders the ability of  
15 gas and electrical companies to effectively evolve to meet new challenges and opportunities.<sup>23</sup>  
16 Finally, among other reasons, there was a push towards administrative efficiencies that could be  
17 gained from requiring multiyear rate plans. Under such plans, the Commission, the parties, and  
18 the utilities could get past the seemingly endless cycle of back-to-back rate cases and instead  
19 could start working on even more transformational projects, initiatives, and development of

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<sup>23</sup> (3) It is the intent of the legislature that the regulatory construct should require a forward-looking orientation for regulation consistent with state policy objectives that focus on planning, flexibility, and fair allocation of risks, while fostering and supporting a culture that delivers performance and cost control in this new industry environment.

(4) It is the intent of the legislature that the regulation of gas and electrical companies transform toward multiyear rate plans and performance-based rate making to provide certainty and stability to customers and gas and electrical companies, with those plans focused on ensuring alignment of public policy objectives, investment, safety, and reliability.

1 performance-based rate making.

2 **Q. How does that matter in this case if you didn't file a multiyear rate plan?**

3 A. Respectfully, I for one couldn't put the Company in a position where a multiyear  
4 rate plan is approved not knowing if the Commission would allow for a sufficient revenue  
5 increase from which to build on – the so called “get the first year right” argument. If the  
6 Commission approved a multiyear rate plan with the first year woefully lacking in terms of the  
7 capital investment included (used and useful investment before rates go into effect), the utility  
8 would underearn in the first year, and every subsequent rate year. There is just no amount of  
9 prudent and reasonable cost cutting that would overcome the lag built into every year of the plan.

10 **Q. Do you view the outcome of this case to be critical to what the Company does**  
11 **next – such as filing just a 2-year rate plan versus a 4-year rate plan?**

12 A. Respectfully, I do, and I also believe that the other utilities are watching this case  
13 as well to help inform their future plans. If we can get a rate year set at a level that includes  
14 appropriate used and useful prudent capital investment, all of which has transferred to service  
15 well in advance of the rate effective date, that would send an important message, as we develop  
16 future rate plans under the new legislation.

17 **Q. Does Avista face similar capital lag in its Idaho or Oregon jurisdictions?**

18 A. As it relates to capital additions, no. In Idaho for example, through settlements  
19 approved by the Idaho Public Utilities Commission, Avista and the parties generally support in  
20 rates the level of net plant investment in service right before rates go into effect. In Oregon, we  
21 see similar treatment. In our last Oregon general rate case for example, approximately 80% of  
22 the capital investment included in our case valued at December 31, 2020 were included in rates  
23 16 days later, January 16, 2021.

1           **Q.     So, in Oregon approximately 80% of capital additions, many of which are**  
2 **the same system capital additions included in this case, through December 31, 2020 were**  
3 **included in rates that timely?**

4           A.     Yes. Certain system investments that transferred by December 31, 2020 were put  
5 in Avista’s Oregon rates 16 days later, yet here we are almost 6 months later (and a full 9 months  
6 later when rates go into effect), and Staff would have this Commission exclude those same  
7 projects from the revenue requirement.

8           **Q.     So, what is the Company proposing here?**

9           A.     This is the first opportunity, post enactment of Senate Bill 5295 into law, for the  
10 Commission to use its broad discretion to get the rate year set right and provide Avista with a  
11 reasonable opportunity to earn anywhere near its authorized rate of return. This is what was  
12 contemplated in the recent legislation, and was discussed by Avista, Puget Sound Energy, the  
13 Commissioners, and others when this legislation was drafted. As we said at that time, it is critical  
14 in an era of multiyear rate plans to get the first year set at an appropriate level, from which to  
15 then layer on the future adjustments in Years 2, 3 or 4. With utilities coming into the Commission  
16 with multiyear rate plans in the coming year, I believe that now is the time to send a signal to the  
17 utilities that the Commission will support used and useful capital in rates in th at first rate effective  
18 period. That will provide assurances, in part, for utilities to file for longer rate plans, effectuating  
19 the primary goal of Senate Bill 5295.

20           **Q.     Mr. Christie, before addressing the specifics of the prefiled testimony of the**  
21 **Parties, what is your overall reaction and concern after reading their proposals?**

22           A.     I am greatly troubled by what this portends for the future of ratemaking under the  
23 requirement that we “must”, not merely “may”, file for a minimum two-year rate plan under the

1 new legislation that becomes effective on July 25, 2021. Make no mistake about it, Avista was  
2 very supportive of this new legislation (Senate Bill 5295).<sup>24</sup> But any “rate plan”, of whatever  
3 duration, still “must get the first year right.” And that is because everything builds off that first  
4 year. If we don’t get it “right,” problems seriously compound throughout the duration of the rate  
5 plan.

6 **Q. So why are you bringing all of this up in THIS case, well in advance of any**  
7 **rate plan proposed in a future filing by Avista that might be made as early as next year?**

8 A. I am doing so to cast light on the impact of what Staff, Public Counsel and others  
9 are proposing, in this case, and how far off the mark those proposals are in terms of establishing  
10 reasonable rates for the Rate Year, whether for a single upcoming Rate Year, or if this were the  
11 first Rate Year of a future rate plan. Consider this a “dress rehearsal” if you will.

12 **Q. Doesn’t everyone accept the premise that it is necessary to “get the first year**  
13 **right, as we move forward in time?**

14 A. Probably. But if the rate proposals of the Parties in this case are any indication,  
15 there are radically different interpretations of what that truly means. In fact, forget about getting  
16 the first year of a future rate plan right; we should ask if we are even getting the single Rate Year  
17 in this case right. That is the first order of business here. I agree that future rate plans are not at  
18 issue here, but the decisions of the Commission in this case will have troubling implications as  
19 we move forward in time and offer up rate plans.

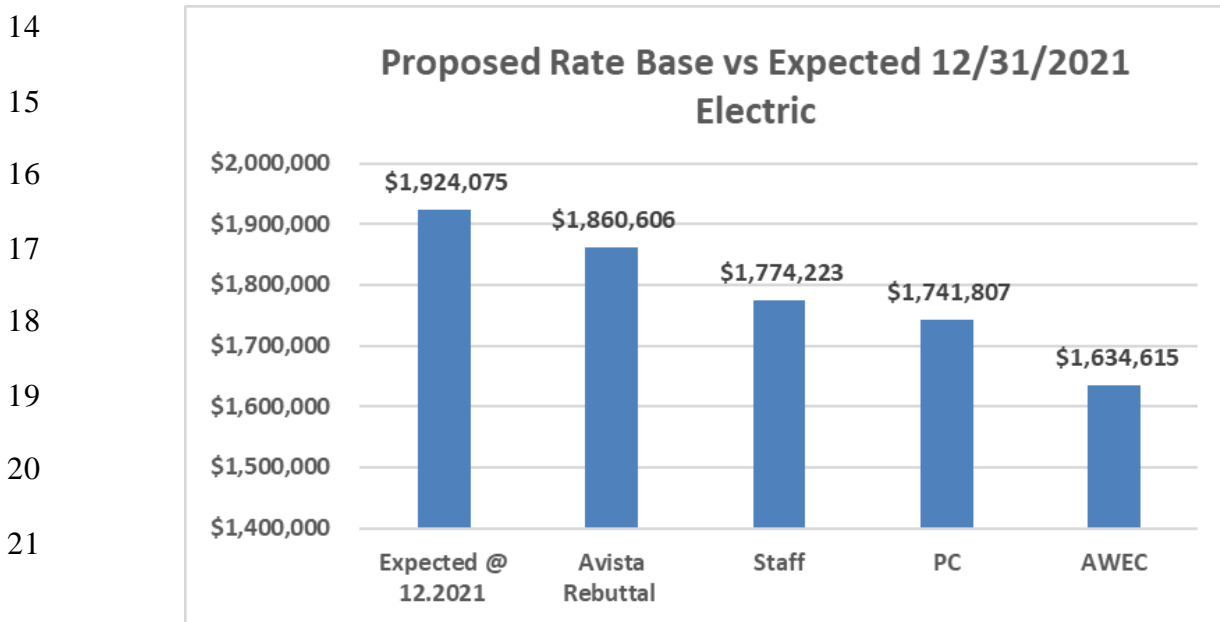
20 **Q. Ok. So now let’s turn specifically to the proposals of the Parties in this**  
21 **case. Would you offer some perspective please?**

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<sup>24</sup> Senate Bill 5295 is “An Act Relating to transforming the regulation of gas and electrical companies toward multiyear rate plans and performance based rate making; amending RCW 80.28.068 and 80.28.074; adding new sections to chapter 80.28 RCW; and creating a new section.”

1           A.     Yes. Staff proposes an increase of \$7.2 million in Electric revenue requirement  
 2 and a \$5.6 million increase for Natural Gas. On Rebuttal, the Company has justified a \$40.2  
 3 million revenue requirement for Electric and a \$10.7 million increase in Natural Gas revenues.  
 4 As shown in the following illustrations and tables, the revenue requirement of Staff excludes  
 5 \$86.4 million of electric rate base, and \$9.5 million of natural gas rate base versus that supported  
 6 by the Company on rebuttal. This is all rate base that will be used and useful at the start of the  
 7 Rate Year beginning October 1, 2021, leaving a combined \$95.9 million of plant in service  
 8 unaccounted for in rates – even though its prudence has not been challenged.<sup>25</sup> And it is lag in  
 9 capital cost recovery that is a primary driver of not realizing our authorized rate of return.  
 10 Illustration No. 4 below shows how Avista’s level of rate base on rebuttal underestimates the  
 11 level of rate base as of December 31, 2021. The proposals of the other Parties introduce even  
 12 more lag in capital cost recovery.

13 **Illustration No. 4 – Electric Proposed Rate Base**<sup>26</sup>



<sup>25</sup> With the exception of SmartBurn/Coal Ash projects at Colstrip.

<sup>26</sup> Exh. EMA-6T, Chart No. 1.

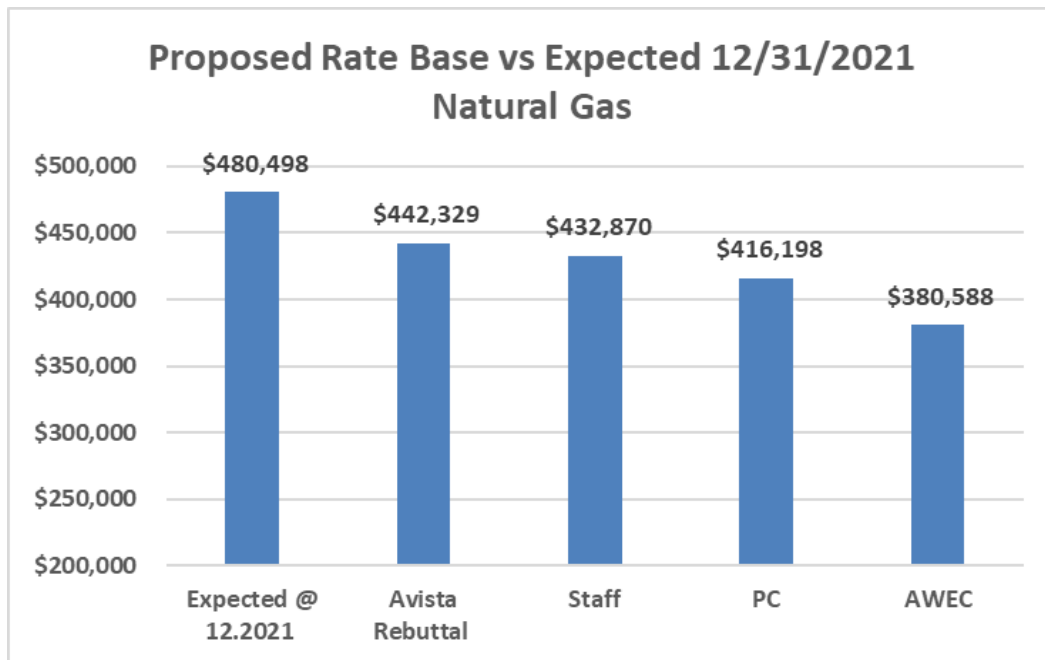
1 Table No. 9 translates that regulatory lag into levels of rate base that are providing no return to  
 2 Avista.

3 **Table No. 9 – Electric Rate Base – Regulatory Lag**<sup>27</sup>

Rate Base - Regulatory Lag				
Washington Electric				
Expected @ 12/31/2021	Avista	Staff	PC	AWEC
\$ 1,924,075	\$ 1,860,606	\$ 1,774,223	\$ 1,741,807	\$ 1,634,615
Difference:	\$ (63,469)	\$ (149,852)	\$ (182,268)	\$ (289,460)
Revenue Impact - "Return On" only	\$ (6,244)	\$ (14,741)	\$ (17,930)	\$ (28,475)

9 The same showing can be made for natural gas, with Illustration No. 5 again showing how each  
 10 of the Parties' proposals understates rate base as of December 31, 2021:

11 **Illustration No. 5 – Natural Gas Proposed Rate Base**<sup>28</sup>



<sup>27</sup> Exh. EMA-6T, Table No. 7.

<sup>28</sup> Exh. EMA-6T, Chart No. 2.



1 Again, it is the same story, with no return on this excluded (but prudent) capital investment.

2 **Table No. 10 – Natural Gas Proposed Rate Base**<sup>29</sup>

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)

3  
4  
5  
6  
7 To focus only on Public Counsel, for example, it proposes an increase of \$7.2 million in Electric  
8 Revenue requirement and a \$4.0 million increase for Natural Gas rates. Public Counsel’s  
9 combined revenue requirement excludes nearly \$145 million of rate base that will be used and  
10 useful at the start of the Rate Year beginning in October of 2021 (and of course much more if we  
11 were to look at December 31, 2021, where an astounding \$246.6 million of electric and natural  
12 gas rate base is excluded).

13 **Q. But even since 2019, wasn’t the rate base statute (RCW 80.04.250) changed**  
14 **to call for consideration of “used and useful” plant that is in service, “by or during the rate**  
15 **effective period”?**

16 A. Those legislative changes took effect on May 1, 2019—over two years ago. And,  
17 unfortunately, not much has changed. We are still battling to get recognition of plant in service,  
18 even as of the rate effective date (October 1, 2021) — much less “during” the rate effective  
19 period. Moreover, the Commission continues to emphasize that there are no “bright line” tests  
20 for proforma capital adjustments, but it seems that these adjustments are only sparingly  
21 awarded. And the seemingly intractable problem of “major thresholds” persist, whereby an  
22 arbitrary dollar value is assigned to determine which projects are to be reviewed (e.g., \$5 million),

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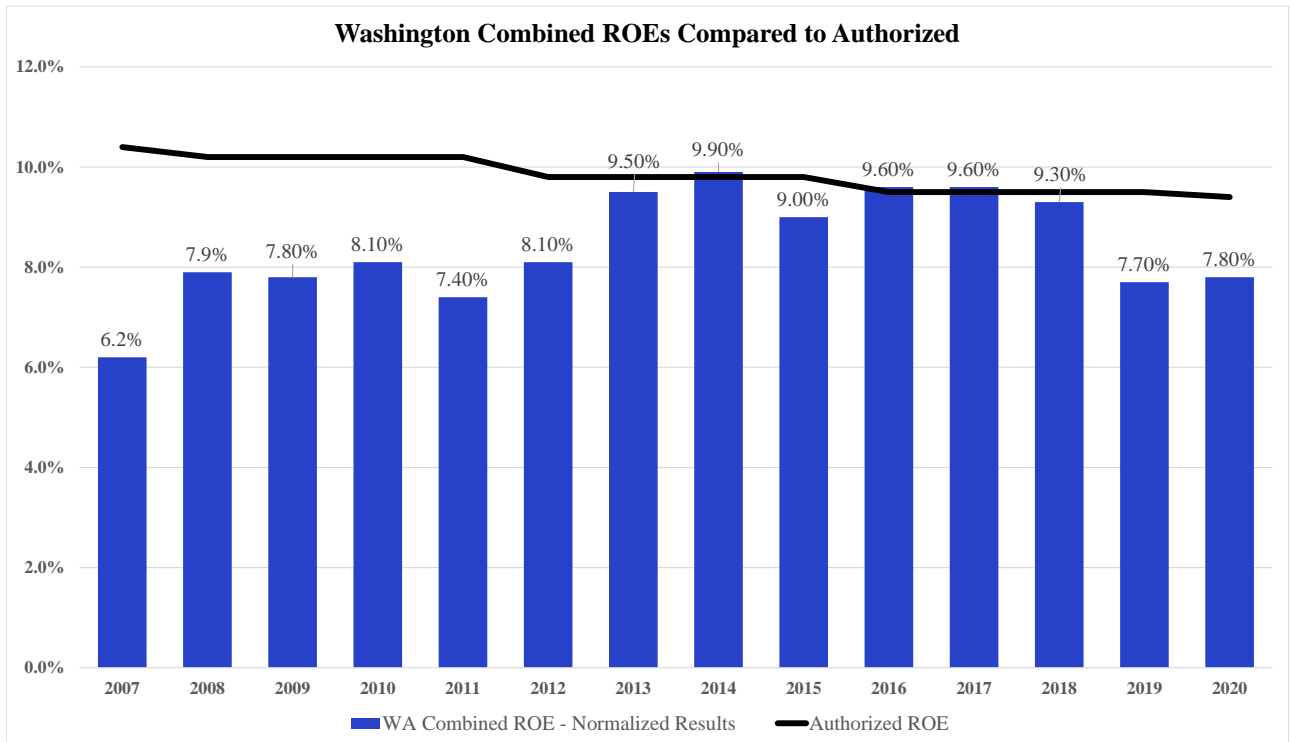
<sup>29</sup> Exh. EMA-6T, Table No. 8.

1 and which projects will be excluded from recovery – i.e., leaving everything else “on the cutting  
 2 room floor,” no matter how prudent or necessary the projects are. It is often the case that some  
 3 of these smaller value projects are more in the nature of routine items, about which there should  
 4 be little debate. The point here is that even with all of these recent developments, companies still  
 5 do not have a reasonable opportunity to earn their authorized return—at least when considering  
 6 the approaches applied by many of the Parties to this case.

7 **Q. What could be the repercussions to Avista if the Commission does not**  
 8 **demonstrate, in this case, that it will include in rates more plant in service, that is already**  
 9 **used and useful?**

10 A. Unfortunately, there will be the continuation of consistent - and material -  
 11 “regulatory lag”. Illustration No. 6 below provides the actual and Commission-basis return on  
 12 equity from 2007 through 2020, as compared to the Commission-authorized amount.

13 **Illustration No. 6 – Combined Electric & Natural Gas ROEs in Washington Compared to**  
 14 **Authorized**

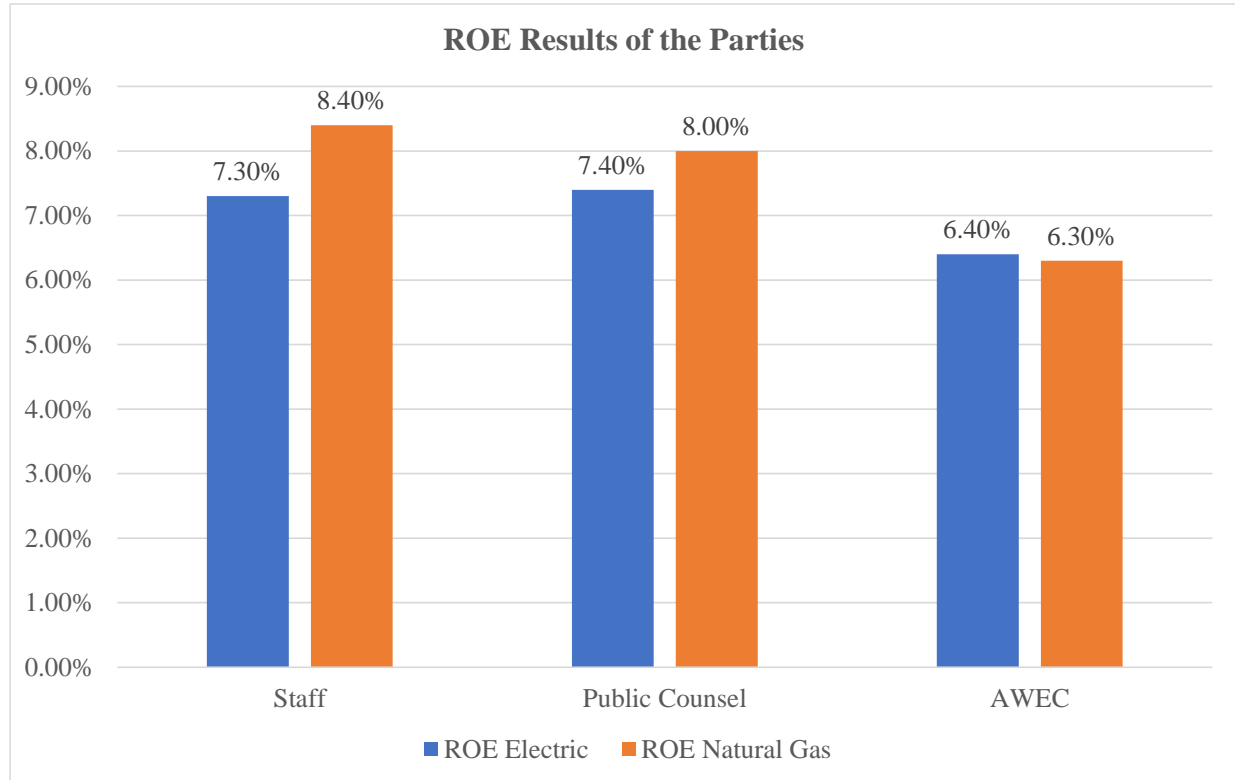


1 Illustration No. 6 demonstrates that, but for the 2013 through 2018 timeframe, when attrition  
2 adjustments were allowed and the effects were in rates, Avista's earned returns lagged  
3 considerably behind authorized returns for its combined operations in Washington. And they  
4 appear to be getting worse, which will certainly be the case if Staff's recommended electric  
5 revenue requirement is accepted by the Commission. Put another way, using the old "thresholds  
6 of Staff" that preceded attrition adjustments, and post attrition, there is just so much lag on capital  
7 investment that there is absolutely no reasonable path for Avista to earn its allowed returns.  
8 Afterall, it is the current positions of Staff, that are similar to the positions in the 2000's, that led  
9 to the attrition adjustment to begin with. Staff and the Commission, through settlements or  
10 Orders, realized that there was no path for Avista to earn its allowed return without such an  
11 adjustment.

12 **Q. Is Avista now stating that they want an attrition adjustment?**

13 A. No, what I am getting at is that the Commission (even without an attrition  
14 adjustment), and using tools already in its toolbox, can simply address the guaranteed under  
15 earnings by allowing the rate base supported by the Company in rates. Using data from Table  
16 No. 8 earlier, recall the effects of the Parties proposals on Avista's return on equity during the  
17 rate effective period (shown in Illustration No. 7 below):

1 **Illustration No. 7: ROE Results of the Parties**



13 Clearly the proposals of the parties in this case are not a good harbinger of things to come as we  
 14 look into the future of ratemaking in the state of Washington.

15 **Q. What if the Commission includes too much capital such that Avista over**  
 16 **earns in the rate effective period.**

17 A. For reasons just stated, we don't believe that will occur. But should that happen,  
 18 there is already a customer safeguard in place, which has not been needed in many years, because  
 19 we haven't been overearning in recent years. Namely, we have a 50/50 earnings test as a part of  
 20 the Company's decoupling mechanism. Should the Company actually over earn, half of any  
 21 overearnings would be returned to customers. But recall that Avista is continuing to invest in  
 22 our system to serve our customers, and most of that plant investment beyond 2020 was not even  
 23 included in this case. We will continue to absorb the depreciation expense (and lost return on

1 investment) until new rates go into effect at least 18 months from now, if not longer.

2

3 **IV. MAJOR ISSUES ADDRESSED BY COMPANY WITNESSES ON REBUTTAL**

4 **Q. Would you please provide a summary of the other major issues in this general**  
5 **rate case, and who from the Company will address that item?**

6 A. Absolutely. As discussed by Mr. Vermillion (Exh DPV-1T), there are a number  
7 of important issues Avista has brought forth in this case for the Commission's determination. Of  
8 course, the biggest issue is the overall revenue requirement, and the level of capital investment  
9 included in rates, as supported by Ms. Andrews and Ms. Schultz and as discussed in great depth  
10 previously in my testimony. But of course, there are key issues that are, for the most part,  
11 embedded within the proposed revenue requirements for electric and natural gas service, that are  
12 addressed by other Company witnesses.

13 **Q. In no particular order, what is the first issue you would like to highlight?**

14 A. A critical component of any rate proceeding is the ultimate cost of capital,  
15 comprised of the capital structure, cost of debt, and return on equity. Company witnesses Mr.  
16 Thies and Mr. McKenzie support the Company's cost of capital. Mr. Thies demonstrates that  
17 the Commission should accept the Company's filed capital structure and rate of return and reject  
18 the capital structure and rate of return proposed by witnesses for Staff, AWEC, and Public  
19 Counsel. He demonstrates that, among other things, a 50% common equity ratio is appropriate,  
20 consistent with the Commission's ability to set a capital structure that can be hypothetical and  
21 provides a reasonable balance between safety and economy. Further, the cost of debt as filed at  
22 4.97% is the most appropriate cost of debt that should be used for the rate effective period  
23 beginning October 1, 2021 (and that the Company has a prudent interest rate hedging program).

1 Mr. Thies also reiterates what Ms. Andrews testifies to, namely that foregoing a full rate  
 2 of return on AMI, as proposed by Public Counsel and AWEC, is not appropriate, especially in  
 3 light of Commission Staff’s support for the project, and the fact that Avista has already foregone  
 4 \$17.6 million in returns while waiting for the recovery of our investment. Lastly, he continues  
 5 to support on rebuttal the Company’s original proposal related to the Tax Customer Credit.

6 Mr. McKenzie, the Company’s witness for return on equity, demonstrates that the ROE  
 7 recommendations of Staff, Public Counsel, and AWEC fall below a fair and reasonable level for  
 8 the Company’s utility operations. He testifies that:

- 9 • The ROE recommendations of the other witnesses fall below accepted  
10 benchmarks.
- 11 • Their discussion of current capital market conditions is incomplete and  
12 potentially misleading.
- 13 • The analyses of Staff, Public Counsel, and AWEC are undermined by  
14 numerous methodological flaws, including:
  - 15 ▪ Reliance on a range of historical data that fails to reflect investors’  
16 expectations and current capital market conditions.
  - 17 ▪ Application of financial models in a manner that is inconsistent with  
18 their underlying assumptions.
  - 19 ▪ Failure to evaluate model inputs and exclude illogical results.

20 Finally, their criticisms of his size adjustment, market return calculation, expected  
 21 earnings approach, and non-utility DCF analysis are without merit.

22 **Q. What is the second substantive issue you would like to highlight?**

23 A. There are a number of issues related to Colstrip included in this rate case. First,  
 24 as it relates to the Company’s investment in SmartBurn at Colstrip Units 3 and 4, Mr. Thackston  
 25 testifies that this issue was decided for Puget Sound Energy (PSE), but not for Avista. PSE  
 26 apparently did not provide the adequate supporting documentation that Avista has. The record  
 27 in this case is a different record – one that supports the inclusion of SmartBurn in rates. Mr.

1 Thackston states that Avista’s final decision to enter into a binding commitment to install  
2 SmartBurn was made in 2015 (not 2012) and was based on the independent report by TRC (TRC  
3 Environmental is a major engineering and consulting firm with specific environmental consulting  
4 expertise), presented at the time to all Colstrip owners. The contemporaneous TRC report  
5 concluded that, with SmartBurn, the owners would avoid the risk of any later required installation  
6 of the far more expensive Selective Catalytic Reduction (SCR) alternative. Based on the  
7 documentation available at the time (2015), no one (not even Staff nor the Sierra Club) could say  
8 with any certainty that SCR wouldn’t be required at some point in time; indeed, SCR was being  
9 employed elsewhere at the time. In short, Avista acted prudently to avoid the possibility of a  
10 substantial cost exposure (\$739 million) associated with SCR, should it be required, with a  
11 sensible investment in SmartBurn (\$26 million).

12 Mr. Thackston also addresses other investments at Colstrip. For the Dry Ash Disposal  
13 project, Avista and the other Colstrip Owners are legally required to address by July 1, 2022, by  
14 virtue of the Administrative Order on Consent (AOC). In order for the plant to operate beyond  
15 2022, and even get to 2025, the investment must be made at this time. The investment, to be  
16 completed in just over one year from now, is sufficiently known and measurable to be included  
17 in rates. The design, bidding and contracts are complete, with construction just starting with  
18 initial foundations being placed. The project will be in service in 2022 – it must be. As for Other  
19 Capital Invested at Colstrip, Unit No. 3 overhaul costs have become final and approved by  
20 Owners, after considerable discussion and debate. They are also known and measurable.

21 **Q. What is the third substantive issue you would like to summarize here in your**  
22 **testimony?**

23 A. The third substantive issue is related to Avista’s decision to join the Western

1 Energy Imbalance Market (EIM) operated by the California Independent System Operator  
2 (CAISO) and the recovery of costs associated with this initiative. On rebuttal, the Company  
3 through the testimony of Company witness Mr. Kinney proposes to include a \$3.4 million value  
4 of EIM benefits, representing a pro-rata share of the annual \$5.8 million of benefits for the seven-  
5 month period of market participation. This \$3.4 million system benefit represents a Washington  
6 reduction of \$2.2 million to Power Supply expense and baseline associated with the seven months  
7 of EIM operation during the rate period.

8 Mr. Kinney's rebuttal testimony demonstrates that the Company's costs associated with  
9 joining the EIM are known and the Commission should accept the Company's filed cost recovery  
10 for incremental EIM capital and expense. Importantly, the witnesses do not dispute Avista's  
11 decision to the join the EIM or the associated incremental capital and expenses costs associated  
12 with the Company joining the EIM. The witnesses only have issues with the Company's  
13 proposed recovery method.

14 **Q. What is the fourth substantive issue you would like to summarize here in**  
15 **your testimony?**

16 A. The Company believes (and Staff supports) that its investment in AMI is prudent,  
17 and that Avista should be able to recover the cost of the investment including a full rate of return,  
18 counter to the arguments of Public Counsel and AWEC. Company Joint witnesses Ms.  
19 Rosentrater/Mr. La Bolle states that the AMI project is complete, in service, and functioning as  
20 intended. Further, the net benefits are substantial (even just measuring "quantified" savings).  
21 Neither Staff, AWEC nor Public Counsel object to the Company's AMI investment per se; rather,  
22 Public Counsel and AWEC argue that the Company should be denied a return on its investment  
23 with a \$14.6 million impact on earnings.



1 Company Joint witnesses Ms. Rosentrater/Mr. La Bolle provides detailed testimony that,  
2 unlike PSE, Avista has demonstrated substantial progress in “optimizing” its AMI system across  
3 the various “use cases” cited by the Commission when it denied PSE a return on its AMI  
4 investment. As already shown in the Company’s AMI business case, we have added several  
5 energy conservation use cases based on AMI data, as noted in the excerpt below.<sup>30</sup>

6 The American Council for an Energy-Efficient Economy, in their recent article  
7 “Leveraging Advanced Metering Infrastructure to Save Energy,”<sup>31</sup> presents  
8 multiple energy efficiency use cases, summarized below, designed to more  
9 effectively leverage the value of the AMI platform in helping the utility and its  
10 customers reduce energy consumption and lower costs. Avista has already  
11 expanded plans from its initial business case for AMI and has either implemented  
12 or is actively developing conservation initiatives for every use case described in  
13 the report.  
14

15 We have operationalized these “use cases” to enhance the value and capability of our many  
16 existing energy efficiency programs. We have added new conservation programs to our AMI  
17 business case, and we have plans for implementing time-varying retail rates, consistent with the  
18 needs identified in our Electric Integrated Resources Plan. Further, in addition to expanding AMI  
19 to support energy conservation, the Company has added new areas of financial benefit resulting  
20 from our initiative to make more complete use of AMI data for our customers.

21 **Q. What is the fifth substantive issue you would like to summarize here in your**  
22 **testimony?**

23 A. Company witness Mr. Howell and Ms. Andrews, on rebuttal, address the  
24 Company’s Wildfire Resiliency Plan, and ratemaking treatment for the capital and expenses  
25 associated with it. The risk of wildfires is a real threat across Avista’s service territories, and as  
26 discussed by Mr. Howell, the Company’s 10-year Wildfire Plan expenditures, both capital and

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<sup>30</sup> Exh. JDD-2r; pages 20, 21.

<sup>31</sup> Leveraging Advanced Metering Infrastructure to Save Energy. Rachel Gold, et al. The American Council for an Energy-Efficient Economy (ACEEE). January 2020.

1 expense, are necessary to protect lives and property, ensure emergency preparedness, align  
2 operating practices with fire threat conditions, and protect Avista's energy delivery  
3 infrastructure.

4 Ms. Andrews discusses in her testimony that approval of the Company's proposed  
5 Wildfire O&M expenses balancing account would allay any concerns by the Parties over the  
6 Company's wildfire expenses not "matching" that approved in this case, and would ensure  
7 customers pay no more, or no less than actual wildfire expenses incurred.

8 Avista believes that the Commission should approve the Wildfire Deferred Accounting  
9 Petition, consolidated with this GRC by the Commission on December 23, 2020, requesting  
10 authorization to defer incremental expenses associated with Avista's Wildfire Plan beginning  
11 January 1, 2021, until new rates go into effect. Approval of Avista's petition would allow the  
12 Company to set these costs aside for an opportunity to recover these costs in a future rate  
13 proceeding. There is simply no reason why Avista should be denied recovery of Wildfire costs  
14 (during the interim period before new rates go into effect – i.e., January 1, 2021 through  
15 September 30, 2021) when Staff is otherwise entirely supportive of our Wildfire Plan. Further,  
16 the Commission should approve wildfire capital additions through December 2021 on an AMA  
17 basis of \$11.2 million, and O&M expenses of \$4.3 million planned during the rate effective  
18 period.

19 **Q. Do Company Joint witnesses Mr. DiLuciano/Mr. La Bolle address the**  
20 **electric write-offs proposed by Public Counsel in Exh. JD/LL-1T?**

21 A. Yes, they address the criticisms raised by Public Counsel witnesses Messrs.  
22 Alvarez and Stephens regarding capital investments made in our electric transmission and  
23 distribution system, particularly in the areas of Grid Modernization and Substation Rebuilds. She

1 states that Avista has for many years used a structured and disciplined approach for determining  
2 equipment replacement. Avista’s “lifecycle cost analysis” is a rigorous analytical process that  
3 considers myriad factors to arrive at the reasonably lowest cost for managing system upgrades  
4 and replacements. Finally, they state that Public Counsel’s “use it until it breaks” philosophy,  
5 which it argues is superior to Avista’s lifecycle cost analysis, is unsupported and will place  
6 hardships on customers, while actually increasing costs over time. In summary, any disallowance  
7 is without merit.

8 **Q. Would you please provide a summary of the other key issues in this rate**  
9 **proceeding.**

10 A. Yes. Company witnesses Mr. Kalich and Mr. Schlect provide testimony related  
11 to power supply and transmission-related issues. Mr. Kalich discusses the conclusion of the  
12 Commission-directed power supply workshops resulting in, with the exception of two issues, a  
13 more uniform methodology for setting base power supply costs. He discusses items included in  
14 the proposed 60-day power supply update, a methodology agreed to by the parties in the  
15 workshop process, plus how various other changes will be part of this update. He also discusses  
16 Mr. Mullins proposal that would affect the 5-year average availability calculation for Colstrip.

17 Mr. Schlect rebuts the testimony of AWEC witness Mr. Mullins who recommends  
18 forecasting short-term and non-firm wheeling revenues for the Company based solely upon  
19 actual revenues recognized in the 2019 test year, rather than using a three-year average. He also  
20 provides good news, in that the Company was able to successfully negotiate two new long-term  
21 firm point-to-point transmission service agreement with Idaho Power for 100 MW of service  
22 commencing on May 1, 2021 (Contract 1) and May 1, 2022 (Contract 2). The annual revenue to  
23 the Company under the agreements at current transmission rates is \$2,400,000 each, on a system

1 basis, and would be included in Mr. Kalich's 60-day update (Contract 2 will be pro-rated, given  
2 it will commence seven months into the rate year).

3 Finally, Company witnesses Mr. Bonfield, Mr. Miller, and Ms. Knox address key issues  
4 related to the proposed IEP special contract, low-income rate assistance and programs, and rate  
5 spread, rate design, cost of service and other assorted issues.

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes, it does.