Exh. BAE-1T
Dockets UE-240006/UG-240007
Witness: Betty A. Erdahl

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION,** **Respondent**	**DOCKETS UE-240006 & UG-240007 (Consolidated)**

TESTIMONY OF

BETTY A. ERDAHL

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Summary of Staff's Responsive Case; MYRP Policy and Recommendation; Equity; Wildfire Balancing Account and Resiliency Plan Spending; Insurance Balancing Account; and Decoupling

July 3, 2024

TABLE OF CONTENTS

LIST OF EXHIBITS

Exh. BAE-2	Avista's Response to UTC Staff Data Request No. 69 and Attachment A
Exh. BAE-3	Avista's Response to UTC Staff Data Request No. 75
Exh. BAE-4	Avista's Response to UTC Staff Data Request No. 72
Exh. BAE-5	Avista's Response to UTC Staff Data Request No. 73 and Attachment A
Exh. BAE-6	Avista's Response to UTC Staff Data Request No. 77
Exh. BAE-7	Avista's Response to UTC Staff Data Request No. 32
Exh. BAE-8	S&P Global Rating, "A Storm Is Brewing: Extreme Weather Events Pressure North American Utilities' Credit Quality", November 2023
Exh. BAE-9	Office of the Insurance Commissioner Washington State, "Liability Insurance Markets Conditions for Washington State Electric Utility Companies", January 1, 2023
Exh. BAE-10	Anthony Nordman & Isaac Hall, "Up in Flames: Containing Wildfire Liability for Utilities in the West", Tulane Environmental Law Journal, vol. 33:55 (2020)

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Betty A. Erdahl, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My email address is betty.erdahl@utc.wa.gov.

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

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

Q. Would you please state your educational and professional background?

A. I graduated from Washington State University in 1988 with a Bachelor of Arts degree in accounting. I have also completed relevant coursework such as the "Basics of Regulation" offered by New Mexico State University; the Rate Making Process Technical Program; the USTA class on Understanding Separations, Access Charges, and Settlements; as well as Utility Ratemaking: The Fundamentals and the Frontier. Before joining the Commission, I worked for two years as an accountant in the financial sector. I have worked at the Commission since June 1991 and in my current position since July 2013.

Q. Have you previously testified before the Commission?

A. Yes. I sponsored testimony on behalf of Commission Staff in a number of contested proceedings including, as relevant here, Avista's 2014, 2017, 2019, and 2020 general rate cases.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. I provide an overview of Staff's responsive case and introduce the witnesses sponsoring testimony on behalf of Staff. I also present recommendations as the Staff witness addressing the following issues: (1) multiyear rate plan (MYRP) policy and recommendations, including the review of provisional plant and performance metrics and allowing a power cost update to remove Colstrip effective January 1, 2026; (2) equity; (3) Avista's wildfire balancing account and resiliency plan spending; (4) Avista's insurance balancing account; and (5) decoupling.

Q. Please summarize your recommendations on the issues you address in this case.

A. Staff recommends the Commission: reject the MYRP; require Avista to file a provisional plant rate schedule starting in its next general rate case; order an extension of the retrospective plant review period, from four months to six months; accept Avista's proposed changes to all but four reporting metrics, add an additional metric; allow a power cost update to remove Colstrip from power costs and update power costs effective January 1, 2026; continue the wildfire and insurance balancing accounts; increase the baseline expense amounts in each of the balancing accounts; and extend decoupling through the earlier of either Avista's next general rate case or the Commission's issuance of a decision concerning the issue in its Performance Based Ratemaking Docket (U-210590).

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

A. Yes. I prepared Exhibits BAE-2 through BAE-10.

- Exh. BAE-2 - Avista's Response to UTC Staff Data Request No. 69 and Attachment A
- Exh. BAE-3 - Avista's Response to UTC Staff Data Request No. 75
- Exh. BAE-4 - Avista's Response to UTC Staff Data Request No. 72
- Exh. BAE-5 - Avista's Response to UTC Staff Data Request No. 73 and Attachment A
- Exh. BAE-6 - Avista's Response to UTC Staff Data Request No. 77
- Exh. BAE-7 – Avista Response to UTC Staff Data Request No. 32
- Exh. BAE-8 – S&P Global Rating, "A Storm Is Brewing: Extreme Weather Events Pressure North American Utilities", Credit Quality, November 2023
- Exh. BAE-9 – Office of the Insurance Commissioner Washington State, Liability insurance markets conditions For Washington state electric utility companies, January 1, 2023
- Exh. BAE-10 – Anthony Nordman & Isaac Hall, *Up in Flames: Containing Wildfire Liability for Utilities in the West*, Tulane Environmental Law Journal, vol. 33:55 (2020)

III. INTRODUCTION OF STAFF WITNESSES

Q. Please introduce the other Staff witnesses testifying in this proceeding and the subjects of their testimony.

A. The following witnesses present testimony and exhibits for Staff:

- Kristen Hillstead (Exh. KMH-1T) presents Staff's calculation of the Company's electric and natural gas revenue requirements. Staff witness Hillstead also addresses pro forma adjustments to non-executive labor (Adj. 3.05), incentive expense (Adj. 3.08), miscellaneous operations and maintenance expense (Adj. 3.14), and power purchase agreement interest expense (Adj. 3.23), as well as Avista's proposal to increase its residential basic charge for electric and natural gas service.
- David Parcell (Exh. DCP-1T) addresses Avista's cost of capital and Staff's recommended rate of return.
- John Wilson (Exh. JDW-1CT) addresses Avista's pro forma power costs, the $65.8 million (system basis) power cost portfolio forecast error adjustment, and Avista's proposal to eliminate the dead and sharing bands within its Energy Recovery Mechanism and replace them with a 95/5 cost sharing mechanism.
- Sofya Shafran Atitsogbe Golo[1] (Exh. SSAG-1T) presents Staff's recommendations regarding Avista's distributional planning equity and aligning it with the Clean Energy Transformation Act (CETA); she also provides an

[1] Sofya Shafran Atitsogbe Golo shall be referred to as Staff witness Atitsogbe.

update concerning distributional planning within Avista's Integrated Resource Plan (IRP).

IV. STAFF'S CASE AND RECOMMENDATIONS

A. Overall Revenue Requirement and Rate Design

Q. What is Staff's recommendation on overall revenue requirement?

A. Staff witness Hillstead recommends the Commission authorize revenue increases of \$8.3 million for electric and \$11.3 million for natural gas. The cost of Colstrip Unit 4 is collected through its own tracker and not included in base rates.

Staff witness Parcell recommends an overall rate of return (ROR) of 7.18 percent, which is based on a return on equity (ROE) of 9.5 percent and a capital structure composed of 48.5 percent equity.[2] This compares to Avista's two-year MYRP request for an overall ROR of 7.61 percent based on a ROE of 10.4 percent and a capital structure that includes 48.5 percent equity.[3]

---

[2] Parcell, Exh. DCP-3, P 1.
[3] Christie, Exh KJC-1T at 14, Table 2.

Q. What adjustments to revenue requirement does Staff contest?

A. Staff contests the cost of capital, power cost portfolio error adjustment, pro forma labor non-exec expense, pro forma incentive expense, pro forma operations and maintenance expense, and pro forma power purchase agreement interest expense.

B. Residential Basic Charge

Q. What is Staff's recommendation regarding Avista's proposed residential basic charge increase for electric and natural gas customers?

A. The Commission should reject Avista's proposal to increase the residential basic charges to $15.00 for both electric and natural gas service. As presented in Staff witness Hillstead's testimony, Staff recommends the Commission approve an increase of $1.00 to its residential basic charges, bringing the basic charge for electric service to $10.00 and $10.50 for natural gas service.

V. MYRP POLICY

A. Reject MYRP

Q. What does Staff recommend with respect to the two-year MYRP proposed by Avista?

A. Staff recommends the Commission reject Avista's proposed two-year MYRP.

Q. Why does Staff recommend the Commission reject the two-year MYRP proposed in this rate case?

A. First, RCW 80.28.452(9) requires the Commission to align, to the extent practical, the timing of approval of a multiyear rate plan of an electrical company with its Clean Energy Implementation Plan (CEIP) filed pursuant to RCW 19.405.060. Avista is required to file its next CEIP by October 1, 2025.[4] CETA is a half-decade old at this point, and Staff believes approval of this filing as a traditional rate case will allow Avista to develop its next rate case alongside its CEIP, which Avista should be finalizing as it prepares the rate case.

Second, one of the intended benefits of filing MYRPs is to eliminate regulatory burden.[5] Since that law passed, 2024 is the second year in which both Puget Sound Energy (PSE) and Avista have filed MYRPs at the same time (literally within days or weeks of each other). These clustered MYRPs result in additional filings, including an annual plant review filing for each year of the MYRP. This adds to the workload of the Commission, Commission Staff, and every interested party that intervenes in both cases. It is in the public interest to realign the two largest utilities' general rate cases so that they will not be filed at the same time every two years, allowing the Commission and all non-company parties to dedicate more resources to each general rate case. Avista is the natural candidate for moving the filing cycle given that it must file a CEIP in 2025 and PSE will not do so given the

---

[4] WAC 480-100-640(1). Unless otherwise ordered by the commission, each electric utility must file with the commission a CEIP by October 1, 2021, and every four years thereafter.
[5] RCW 80.28.425.

recent passage of Engrossed Substitute House Bill 1589 which impacts the content, type, and timing of PSE's filings.

B. Review of Plant Provisionally Included in Rates

Q. Did Avista's 2022 general rate case include a rate plan with provisional plant additions for 2023 and 2024?

A. Yes, it did.

Q. Does provisional treatment of plant from the 2022 GRC create problems with double recovery in this case?

A. No. Avista prepared this general rate case on a blank slate using a new modified historic test year, rather than incrementally building off the final rate year from the last GRC. To the extent that pro forma or provisional plant identified in the last GRC is already in service, it would appear in the historic test year.[6] To the extent that plant additions were not included in the last GRC, Avista's method of preparing this rate case makes these plant additions incremental to the test year, which prevents double counting them.

Q. Is Staff concerned about Avista classifying 2023 and 2024 plant additions as pro forma adjustments in this rate case?

---

[6] Schultz, Exh. KJS-1T at 13, Illustration No. 3.

A. Yes. Because 2023 and 2024 plant additions were categorized as provisional in the last general rate case, they are subject to refund based on the outcome of the annual provisional capital compliance report review (retrospective plant review). Pro forma plant is not refundable, and Staff wants to ensure that ratepayers maintain the ability to receive a refund (if applicable). The 2023 retrospective plant review is currently being analyzed and the outcome is unknown.

Q. How does Staff propose to address this concern?

A. With the transition to multiyear rate plans, it seems more practical to categorize all plant as provisional, subject to a prudence examination, including those projects placed in service that were not identified in the last general rate proceeding. These plant additions would then be subject to refund, based on the results of the annual retrospective plant review.

Q. Are there any other risks associated with classifying 2023 and 2024 plant as pro forma rather than provisional?

A. Yes. Again, some of the pro forma plant in this case was identified as provisional in the last GRC. Accordingly, that plant is at issue, or will be at issue, during the 2023 and 2024 annual provisional retrospective plant review. This creates duplicative work as Staff and the other parties would be required to review the same plant in both the prior GRC's annual retrospective plant reviews and in this GRC; it also creates the potential for inconsistent prudency determinations by the Commission.

Q. What should the Commission do if 2023 and 2024 plant retains its classification as pro forma in this GRC?

A. The Commission will know the outcome of the 2023 retrospective review before it enters its order in this matter, but will not know the outcome of the retrospective review for 2024 as Avista will not file the report for those plant additions until March 2025. The Commission, accordingly, will need to order that any costs disallowed in the 2023 retrospective plant review be disallowed in this GRC and order that 2024 plant placed in service is subject to review in the annual retrospective plant review occurring in Dockets UE-220053 and UG-220054, and subject to refund based on the outcome of that review.

Q. Does Staff have any other recommendations here?

A. Yes. The use of a separate tariff schedule for provisional rates is encouraged in the Used and Useful Policy. As such, PSE has separate tariff schedules for property that is provisionally included in rates. If the Commission determines that the property was properly included in rates, and that no refunds are due, PSE transfers the rates subject to refund to a different tariff schedule. This clearly distinguishes plant that is provisional and refundable from plant that has been deemed prudent and included in base rates. The Commission should order Avista to use the same process, which simplifies review. For administrative efficiency, Staff recommends that the new provisional schedule start in Avista's next general rate case.

Q. Does Staff have any other recommendations regarding plant additions and its retrospective review?

A. Yes. After gaining experience with the retrospective review, Staff recommends that the Commission order an extension of the review period, from four months to six months. The longer review period does not harm the Company, as it is collecting revenue on a provisional basis, and is simply waiting for a final determination by the Commission as to whether the Company must refund some part of the provisional rates. The longer review period will afford the other parties more time for the final review of the provisional plant, which Staff has come to view as desirable given the parties' workload and the effort involved with the review process (comparable to a miniature, plant-only rate case).

C. Performance Measures

Q. What is Avista's proposal related to its performance measures?

A. Avista agreed to report on 92 metrics in its last general rate case and it developed three additional metrics in coordination with the settling parties.[7] Avista proposes to report on 48 metrics[8] by consolidating some of the metrics into different reports and eliminating other metrics due to duplication.[9]

[7] Bonfield, Exh. SJB-1T at 2:26-3:23.
[8] Bonfield, Exh. SJB-3.
[9] Bonfield, Exh. SJB-1T at 7:12-14.

Q. Does Staff recommend Avista maintain any of the metrics it proposed to eliminate?

A. Yes, Staff recommends the Company keep the following metrics:

- Total revenue occurring through riders and associated mechanisms not captured in the MYRP;
- Percentage of known low-income customers that participate in demand response, distributed energy resources, or renewable energy utility programs;
- Percentage of utility-owned and supported EVSE by use case located within and or providing direct benefits and services to highly impacted communities and vulnerable populations; and
- Critical Infrastructure Report.[10]

Q. Why does Staff recommend that the Commission require Avista to keep these metrics?

A. In Docket UE-230172, the Commission ordered PacifiCorp to provide the first three metrics listed above.

In Docket U-210151,[11] Avista proposed eliminating the annual reporting requirement of its Critical Infrastructure Report. However, Staff recommended maintaining the reporting requirement while allowing Avista to combine the report with its annual reliability report because the information provided is necessary to monitor the state of utilities' security. The Commission did not eliminate this filing

[10] Bonfield, Exh. SJB-4, Line 21.
[11] In Order 01 in Docket U-210151, the Commission approved Staff's proposed modifications to seven utility filings required by order.

requirement for Avista in Docket U-210151 nor should it do so here, as Staff's position has not changed.

Q. Does Staff recommend the Commission require any new metrics?

A. Yes. Staff recommends the Commission require Avista to provide annual reporting on connection timelines for new service requests associated with new construction of single family and multi-family housing.

Q. What information should this report include?

A. Reporting should include at a minimum:

- the date the request for new service was received;
- the date the application for new service was approved;
- the date temporary service was provided (if applicable); and
- the date permanent service was provided.

Q. Why does Staff recommend Avista be required to report this information?

A. Staff believes insight into interconnection timelines is in the public interest for several reasons. First, Washington is currently experiencing a housing crisis which is driven in part by limited housing supply and availability. The Washington State Department of Commerce's housing needs projections indicate the state will need to add 1.1 million homes over the next 20 years.[12] In the last few years, the Washington State Legislature has passed legislation to encourage greater housing density,[13] allow for more accessory dwelling units,[14] simplified design review processes,[15] as well as provided additional funding in the state budget to support construction of more affordable housing. The public has an interest in knowing how responsive utilities are in providing electric service necessary to make new housing ready for occupancy.

Second, recent changes to state building codes require Electric Vehicle (EV) Charging Infrastructure to be included in new construction[16] to support decarbonization of transportation. Understanding how quickly utilities energize new EV infrastructure will provide valuable data as Avista plans for the future. Finally, Avista proposes significant expenditures related to new revenue in this rate case. It seems reasonable to provide rate payers with insight into how quickly those investments result in adding new customers and generating additional income for the Company.

Q. Does Staff agree with Company witness Bonfield that it is not necessary for the Commission to approve a performance incentive mechanism (PIM) in this case?

---

[12] Wash. State Dept. of Commerce, Planning for Housing in Washington, available at https://deptofcommerce.app.box.com/s/6z6bjbnbat83wikpp23yiuktutm0z4zv (last visited June 27, 2024).
[13] LAWS OF 2023, ch. 332.
[14] LAWS OF 2023, ch. 334.
[15] LAWS OF 2023, ch. 333.
[16] WAC 51-50-0429.

A. Yes. Staff agrees that a PIM should not be approved in this case.[17] The Commission is exploring alternatives to traditional cost of service rate making in Docket U-210590, including PIMs. Staff does not believe the PIM, as suggested by Avista, aligns with the interim policy statement in the PBR docket. The interim policy statement indicates that the use of a PIM requires exemplary performance or innovative solutions toward the state's energy sector goals, and that the Commission will not use a PIM to reward routine business activities.[18]

D. Power Cost Update

Q. If the Commission accepts Staff's recommendation to reject the MYRP, how should the change to power costs removing Colstrip be handled?

A. The Commission should allow the Company to file a power cost update with a rate effective date of December 31, 2025. This will provide Avista with the opportunity to update power cost while removing Colstrip from rates on or before December 31, 2025, to comply with CETA.[19] Staff recommends that Avista's power cost update remove Colstrip and update fuel expenses and market sales for resale.

---

[17] *See* Bonfield, Exh. SJB-1T at 11:14-15.
[18] *In re Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Ratemaking*, Docket U-210590, Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms, at 8 ¶ 29 (April 12, 2024).
[19] RCW 19.405.030.

VI. EQUITY

Q. Is Avista incorporating equity into its business processes?

A. Yes, Avista is working to incorporate equity into its business processes and developing a plan that will be filed with the Commission[20] as a compliance item by the end of this year. Mr. Thackston presents the Company's view that this rate case is not the venue to evaluate whether Avista has complied with the settlement's requirements.[21]

Q. Does Staff agree with the Company on this point?

A. Yes. The appropriate place to measure compliance is in the Company's compliance filing. Staff can offer little more than general comments on Avista's efforts concerning equity and capital planning due to timing of this GRC and the equity compliance filing. This puts Staff in an awkward position assessing the Company's equity progress in this case.

Q. Please explain how Avista is incorporating equity into its business processes.

A. Avista asserts that it is presently incorporating equity into its business processes through several efforts. These include adopting a Diversity, Equity, and Inclusion Strategy; making the Senior Vice President, Chief Strategy and Clean Energy Officer (Company witness Thackston) responsible for incorporating equity considerations

[20] Erdahl, Exh. BAE-2.
[21] Thackston, Exh. JRT-1T at 13:16.

into Avista's processes and policies; adopting an equitable business planning charter; and launching its equitable business planning project.

Q. Is Avista required to address distributional equity analysis?

A. Yes. In the 2022 GRC Avista and parties entered into a multi-party settlement agreement.[22] The agreement stipulated that Avista would develop methods and standards for distributional equity analysis (DEA) and file them for Commission approval within 24 months of the order approving the settlement.[23] In that order, the Commission conditioned approval by changing the agreed upon process from one led by Commission Staff to one led by the Commission.[24] Company witness Thackston explained that Avista is on track to meet its equity timeline obligations per their Preliminary Roadmap.[25] While Staff understands the development of methods and standards for DEA is incomplete due to the Commission's pending actions, Staff still expects to see a report on progress made by Avista by the end of 2024.

Q. How well did Avista's address equity in this GRC?

A. Not as well as Staff had hoped. Company witness Vermillion asserts that senior leadership is incorporating equity into strategic focus areas.[26] However, throughout this case, there were limited visible efforts to incorporate equity considerations

[22] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-220053, UG-220054 & UE-210854, Order 10/04, Attach. A at 10 ¶ 18 (Dec. 12, 2022) (Order 10/04).
[23] *Id* at Attach. A at 10 ¶ 19.
[24] Order 10/04 27, ¶ 76.
[25] Thackston, Exh. JRT-1T at 24:3-25:6.
[26] Vermillion, Exh. JDV-1T at 14:13.

beyond the senior leadership strategy. While the Company's equity witness, Thackston, demonstrated a vested interest in equity, Staff needs more concrete details of actions that infuse equity into all that Avista does, especially in the capital business cases. Company witness DiLuciano provided the capital business cases, but they failed to clearly demonstrate equity in the programs or projects presented.[27] Witness DiLuciano discusses costs and benefits, but a robust discussion about to whom project benefits flow, or remarks on the Company's equity framework and progress thereon, is wholly absent.

Q. Can you elaborate on the Equity, Inclusion, and Diversity initiatives within the Company's senior management and leadership teams?

A. The Company's strategic outlook highlights equity as a crucial element for maximizing customer benefits. Launched in 2022, the Equity, Inclusion, and Diversity Strategy aims to diversify suppliers and broaden the application of the equity lens, thereby better identifying and addressing customer needs.[28] Avista seems to be committed to implementing Organizational Change Management to fully integrate equity across the organization. Although the initial roadmap seemed vague, Avista acknowledges the information provided in testimony about the process of incorporating equity into its overall culture were illustrative of steps needed to complete the compliance filing due at the end of this year.[29]

---

[27] DiLuciano, Exh. JDD-2.
[28] Erdahl, Exh. BAE-2.
[29] Erdahl, Exh. BAE-3.

Avista's development of a strategic framework is currently in progress but not yet complete, owing to the ongoing creation of two critical analyses: a Comprehensive Equity Impact Analysis and a Sprint Equity Analysis. [30] These analyses are pivotal in guiding resource selection and ensuring that equity considerations are fully integrated into decision-making processes. The results from these analyses will be instrumental in completing the strategic framework.

Q. Did Staff review the formalization of equity related duties for the Senior Vice President, Chief Strategy and Clean Energy Officer?

A. Yes, and Staff supports the idea of a high-level executive at Avista having responsibility for the Company pushing forward equity. However, Avista cannot, at this point, tell Staff what the Senior Vice President, Chief Strategy and Clean Energy Officer's specific equity-related duties are, nor how the Company plans to measure whether he is properly carrying them out. This leaves Staff unable to offer any specific critique of the Company's plans for Mr. Thackston's role.[31]

Q. What about the Equitable Business Planning Charter?

A. Avista has adopted the Equitable Business Planning charter, which will govern the incorporation of equity into its capital business planning processes. A number of the Company's senior executives are members of the project team, and the charter defines their roles at a very high level.[32] Avista has apparently begun taking the steps

---

[30] Erdahl, Exh. BAE-3.
[31] Erdahl, Exh. BAE-4.
[32] Erdahl, Exh. BAE-5.

necessary to implement the charter; again, the charter provides no specific actions, duties, or metrics for measuring progress, making it difficult for Staff to provide detailed analysis of the effort.

Q. Did Staff review Avista's launch of its equitable business planning process?

A. Yes. So far, Avista has been gearing up to make its compliance filing and declined to settle on "a process or strategy" for the project.[33] The Company is undertaking efforts internally and plans to work with its Equity Advisory Group as it moves forward.[34] Staff will offer a more detailed analysis in Avista's next rate case as it begins to put into practice its equity efforts.

Q. Does Staff have other equity concerns related to Avista's operations?

A. Yes. Avista's approach to incorporating the cost of carbon allowance compliance instruments in power supply cost forecasts and dispatch decisions may result in additional environmental and health burdens for vulnerable populations and highly impacted communities.

Q. What is the Climate Commitment Act (CCA)?

A. The CCA established a market-based program to gradually reduce carbon pollution in order to achieve the greenhouse gas limits set in state law while generating funds for new energy and transportation infrastructure. Businesses producing enough

[33] Thackston, Exh. JRT-1T at 20:17-18.
[34] Erdahl, Exh. BAE-3; Erdahl, Exh. BAE-6.

emissions to be covered by the program must acquire allowance instruments equal to the total amount of emissions they produce and then submit those allowances to the Department of Ecology (DOE) at the end of the compliance period.[35] The money raised by DOE in the quarterly auction of allowances is being used to invest in an equitable, clean energy future in our state.

Q. What are carbon allowance instruments and how are they acquired?

A. An allowance, like a permit, allows businesses to emit up to one metric ton of carbon dioxide equivalent. Allowances may be obtained via allocation of no cost allowances (awarded based on the utilities forecast[36] to offset emission obligations for thermal plant dispatch used to serve retail load in Washington) or through purchase at either quarterly auctions hosted by DOE or secondary markets.[37]

Q. Does Avista currently include the cost of carbon allowances when making dispatch decisions for its carbon emitting resources?

A. No, Avista does not include these costs when making dispatch decisions in daily operations.[38, 39]

---

[35] RCW 70A.65.
[36] RCW 70A.65.120.
[37] WAC 173-446.
[38] Kinney, Exh. SJK-1T at 56:15-17.
[39] Erdahl, Exh. BAE-7 (Avista Response to UTC Staff DR No. 32).

Q. Does Avista plan to incorporate the cost of carbon allowances in future dispatch decisions?

A. No. Avista does not intend to incorporate carbon costs in future plant dispatch decisions unless required to do so by the Commission.[40]

Q. Is that problematic, from an equity standpoint?

A. Yes. The failure to include allowance costs in dispatch may result in thermal units, which pollute, being dispatched too frequently. This creates equity concerns where those thermal units are located in or near vulnerable populations or highly impacted communities.

Q. How does Washington State law define vulnerable populations?

A. RCW 19.405.020 (40) defines "vulnerable populations" as "communities that experience a disproportionate cumulative risk from environmental burdens due to: (a) Adverse socioeconomic factors, including unemployment, high housing and transportation costs relative to income, access to food and health care, and linguistic isolation; and (b) Sensitivity factors, such as low birth weight and higher rates of hospitalization."

Q. How does Washington State law define highly impacted communities?

---

[40] Erdahl, Exh. BAE-7.

A. RCW 19.405.020(23) defines "highly impacted community" as "a community designated by the department of health based on cumulative impact analysis in RCW 19.405.140 or a community located in census tracts that are fully or partially on "Indian country" as defined in 18. U.S.C. Sec. 1151."

Q. What does Washington State law say regarding vulnerable populations, highly impacted communities, and the public interest?

A. RCW 19.405.010(6) states that, "The legislature recognizes and finds that the public interest includes, but is not limited to: The equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacted communities[.]"

Q. Which Avista-owned thermal resources are located in close proximity to vulnerable populations and highly impacted communities?

A. Boulder Park and Northeast Combustion Turbine are located within vulnerable population census areas and the Kettle Falls Biomass Facility is located within a highly impacted community.[41]

Q. What does Staff recommend regarding carbon allowances?

[41] Erdahl, Exh. BAE-7.

A. Staff recommends that the Commission direct Avista to include the cost of carbon allowance instruments in its forecasting and day-to-day dispatch decisions. This recommendation is further detailed in the testimony of Staff witness Wilson.

Q. Do other Washington utilities incorporate the cost of carbon allowances in their dispatch decisions?

A. Yes. PSE applies a CCA allowance instrument cost adder into costs associated with thermal fleet dispatch to supply secondary and wholesale market sales. PSE determines if the dispatch of the thermal fleet for sales is economic by subtracting the cost of production and associated costs of CCA allowance purchases to cover greenhouse gas emissions from the wholesale market price of electricity.

Q. Has the Commission previously indicated a preference for including CCA allowance costs in dispatch decisions?

A. Yes. In Order 01, Docket No. UE-230805, the Commission indicated its support for PSE including CCA costs when making dispatch decisions to avoid the risk of potential prudence concerns related to future power costs.

Q. What would be the result of including CCA allowance costs in dispatch decisions?

A. Including CCA allowance costs in dispatch decisions could result in reduced dispatch of Avista's thermal resources under certain market conditions, such as low market power prices, which could reduce Avista's wholesale and secondary sales revenues as compared to what they would be without including the costs.

Q. Why is the public interest not served by Avista's decision to "optimize" its carbon emitting resources?

A. As previously mentioned, several of Avista's thermal resources are located within vulnerable populations and highly impacted communities Avista's decision to deploy these resources more frequently results in the generation of additional emissions, an environmental and health burden that is borne by those residing near the resource.

VII. WILDFIRE BALANCING ACCOUNT AND RESILIENCY PLAN SPENDING

Q. What does Avista propose to do in this rate case as regards its Wildfire Balancing Account?

A. The Company proposes to revise the baseline of its Wildfire Balancing Account from $5.1 million to $8.3 million and have it remain at that amount over its proposed Two-Year Rate Plan.[42]

Avista also requests that the Commission approve a carrying charge at the Company's actual cost of debt, updated semi-annually (January 1 and July 1) on the existing deferred wildfire balance and any new deferred balance going forward.[43]

[42] Andrews, Exh. EMA-1T, at 19:4-6.
[43] Andrews, Exh. EMA-1T, at 24:11-17.

Q. How is the increase to the Wildfire Balancing Account baseline calculated?

A. The Company proposes to set its updated wildfire balancing account baseline to its estimated 2025 level of Washington allocated Wildfire Resiliency Plan expenses.[44]

Q. Does Staff agree with Avista's proposed change to the baseline in its Wildfire Balancing Account?

A. Yes. The updated wildfire baseline amount is based on the Washington portion of the Company's expected wildfire expense in 2025. If more or less than the baseline amount in this balancing account is spent, it will be collected from or refunded to ratepayers.

Q. Does Staff agree with Avista's proposed change to the carrying charge in Avista's Wildfire Balancing Account?

A. Yes. Staff supports the accrual of interest on this deferred balance because the circumstances were outside of the utility's control and the costs were unexpected and significant.

Q. Does Staff have concerns about the treatment for future wildfire expenses?

A. Yes. In Avista's 2020 GRC, the Commission determined that Avista faced extraordinary circumstances concerning its wildfire risk and approved the

---

[44] Andrews, Exh. EMA-1T, at 19:6-10.

Company's balancing account to empower it to address those circumstances.[45] Four, nearly five, years later, Staff finds it increasingly difficult to distinguish between spending that is strictly and exclusively to mitigate wildfire risk and spending which results in other shared benefits, such as enhanced reliability and reduced storm damage.

Q. Does Staff believe that wildfire costs are becoming a typical cost of doing business?

A. Yes. Wildfire was once considered extraordinary and now resiliency actions are increasingly becoming typical and normal costs for all electric utilities.[46]

Q. Given those observations, does Staff have any additional proposals regarding the wildfire balancing account?

A. Yes. Staff recommends that, in its next proposed GRC, the Commission require Avista to: (1) fold all costs that result in other shared benefits, in addition to wildfire mitigation, into base rates instead of being part of the wildfire balancing account; and (2) clearly identify and report learnings from any enhanced grid hardening (i.e., undergrounding) wherever those projects are located on Avista's electric transmission and distribution grid.

---

[45] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-200900, UG-200901 & UE-200894, Order 08/05, Docket UE-200900, at 2 (Sept. 27, 2024); id. at 84 ¶¶ 237-38"Avista has demonstrated that the circumstances are not normal, but extraordinary. We cannot know, at this time, when the relative threat, risk, and cost of wildfires will no longer be extraordinary and will become normal.").

[46] *See, e.g.*, LAWS OF 2023, Ch. 132, § 2.

Q. What costs does Staff consider to be strictly and exclusively related to mitigation of wildfire risk?

A. Costs involved with weather monitoring and the establishment of prescribed system operating parameters; undergrounding equipment in specific, high-fire risk areas; accelerated vegetation management (identification and removal of risk trees); and the development of public power cutoff protocols and mechanisms.[47] These actions were strictly and exclusively related to mitigation of wildfire risk in the specific timeframe in which they occurred. The actions occurred during the aftermath of catastrophic wildfire events across the region, growing public safety concerns, and in response to U-210254.

Q. What are some examples of spending which Staff considers resulting in shared benefits?

A. Vegetation management benefits not only wildfire resiliency, but also enhances reliability and reduces storm damage. Grid hardening has those same types of benefits.

Q. Does Staff recommend phasing out the wildfire balancing account?

A. Yes. Staff believes that focus and expedited action were initially necessary to recognize and react to growing wildfire risk. However, Staff also realizes that as wildfire planning and mitigation programs have been codified, these practices are

[47] *See generally* Howell, Exh. DRH-3.

becoming a typical part of doing business for all electric utilities in Washington State. A tracker is not necessary for such costs; they should instead become a part of base rates.

VIII. INSURANCE BALANCING ACCOUNT

Q. What does Avista propose in this rate case concerning its Insurance Balancing Account?

A. The Company proposes to continue the use of its currently approved "Insurance Expense Balancing Account" and to adjust the baseline for that account for electric from $8.3 million to $12.8 million and for natural gas from $1.7 million to $2.2 million.[48]

Avista also requests that the Commission approve a carrying charge at the Company's actual cost of debt, updated semi-annually (January 1 and July 1) on existing deferred insurance balance and any new deferred balance going forward.[49]

Q. How does Avista calculate its updated baseline for the Insurance Balancing Account?

A. The Company proposes to increase its insurance balancing account baseline to the 2025 pro forma amount, and have it remain at that amount through its proposed two-year rate plan.[50] Avista estimates its 2025 pro forma insurance expense by increasing

[48] Andrews, Exh. EMA-1T, at 24:20-25:5.
[49] Andrews, Exh. EMA-1T at 32:20-33:18.
[50] Andrews, Exh. EMA-1T at 28:23-29:2.

insurance premiums for general liability, directors and officers (D&O) liability, property insurance, and other insurance expense.[51]

Q. What was the origin of Avista's Insurance Balancing Account?

A. The Commission approved a two-way Insurance Expense Balancing Account that would track the variability in insurance expenses Avista incurs to address the unprecedented increases and volatility in its insurance costs, and to defer the difference in actual insurance expenses, up or down, over the Two-Year Rate Plan.[52]

Q. Are these extraordinary and volatile increases in insurance costs due to factors outside the Company's control?

A. Yes. In Avista's last MYRP, the Commission found, "…that the record supports the creation of an Insurance Balancing Account, as agreed to in the Settlement, in particular because of the unique circumstances and terms presented."[53, 54, 55] Staff has not seen any indication that Avista's insurance costs have become less volatile.

Q. How does Avista characterize its forward-looking view of the price volatility and availability of general liability insurance?

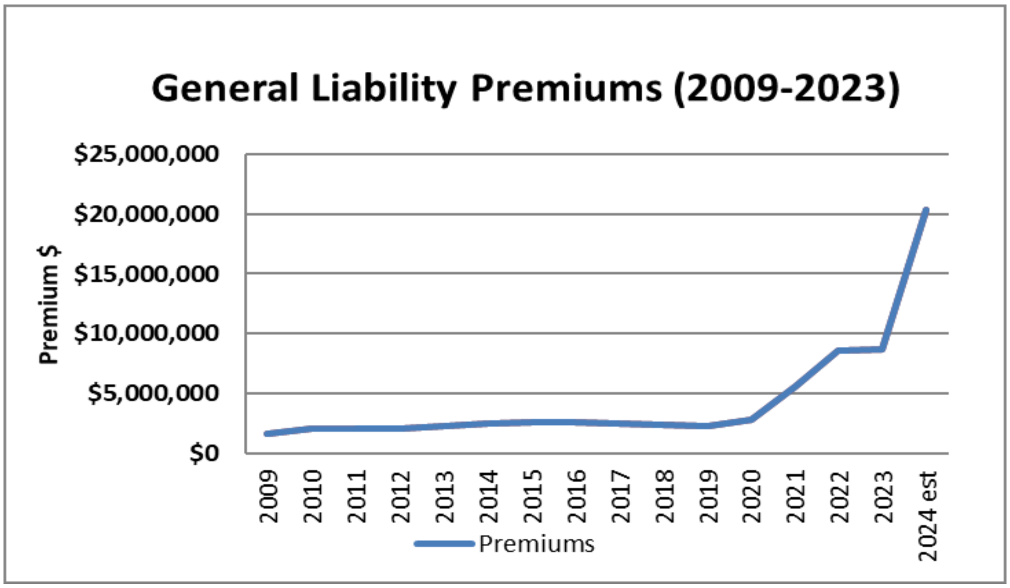
---

[51] Andrews, Exh. EMA-1T at 28:12-21.
[52] Order 10/04 at 50-51 ¶¶ 140-141.
[53] Order 10/04 at 50, ¶ 140.
[54] *See* Order 10/04 at 51, ¶ 141.
[55] Andrews, Exh. EMA-1T at 31:5-15.

A. The Company indicates significant upward price volatility and reduced availability of coverage from its traditional sources of that coverage.[56]

Chart No. 1 below depicts the unprecedented volatility in premiums for general liability insurance. The Company provided a second chart indicating that volatility will increase in the upcoming years.[57]

<u>Chart No. 1 – General Liability Insurance Premiums (2009 – 2024)</u> [58]



Q. Does Staff agree with this characterization?

A. Staff is unsure about the forward-looking view of the price volatility and availability of general liability insurance, and has not yet seen evidence of the volatility in the

[56] Andrews, Exh. EMA-1T at 31:15-21 and EMA-2C.
[57] Andrews, Exh. EMA-2C (providing 2025 and 2026 estimates).
[58] Andrews, Exh. EMA-1T at 35:4-14.

insurance market for utilities leveling off.[59, 60, 61]

Q. Does Staff support Avista's proposal to continue its Insurance Balancing Account?

A. Yes. Staff recommends Avista be allowed to continue its insurance balancing account since there has not been evidence of conditions becoming more stable. It protects the ratepayers and the Company from over or under-collection of insurance expense.

Q. Does Staff support Avista's proposal to increase the insurance balancing account baseline?

A. Yes. Staff believes it is reasonable to increase the baseline amount to Avista's 2025 estimated level because this increase includes Avista's estimates for its 2025 pro forma insurance expense. The Company estimates insurance premiums based on annual review analysis of its policies prior to renewal, including actual invoices and estimated premiums to determine the appropriate expense level.

Q. Does Staff agree with Avista's proposed change to the carrying charge in Avista's Insurance Balancing Account?

---

[59] Erdahl, Exh. BAE-8 (S&P Global Rating, "A Storm Is Brewing: Extreme Weather Events Pressure North American Utilities" Credit Quality, November 2023).
[60] Erdahl, Exh. BAE-9 (Office of the Insurance Commissioner Washington State, *Liability Insurance Markets Conditions for Washington State Electric Utility Companies*, January 1, 2023).
[61] Erdahl, Exh. BAE-10 (Anthony Nordman & Isaac Hall, *Up in Flames: Containing Wildfire Liability for Utilities in the West*, Tulane Environmental Law Journal, vol. 33:55, 2020)).

A. Yes. Staff supports the accrual of interest on this deferred balance because insurance costs have increased dramatically over recent years and the circumstances are outside of the utility's control.

IX. EXTENSION OF DECOUPLING

Q. What is decoupling?

A. Decoupling is a mechanism that breaks the link between a utility's energy sales and revenues. It was designed to make the company indifferent to a decrease in sales associated with energy efficiency programs.

Q. Does Staff support Avista's request to extend decoupling through 2025?

A. Yes, in fact staff recommends the company's decoupling be extended through its next general rate case or until a decision is made in the Commission's PBR Docket U-210590, whichever occurs first.

Q. Why does Staff recommend an extension of Avista's decoupling?

A. The purpose of decoupling is to incent certain behavior – specifically to incent investment in conservation by eliminating the throughput incentive. Revenue decoupling is a form of performance-based regulation and a common element of performance-based (PBR) frameworks.

The Commission is evaluating the merits of decoupling mechanisms as a form of PBR in its policy proceeding, Docket U-210590. It would be premature to eliminate revenue decoupling before the Commission has had an opportunity to determine whether decoupling should continue as a form of PBR.

Q. Does this conclude your testimony?

A. Yes.