

**Exh. CRM-8
Dockets UE-170485/UG-170486
Witness: Chris R. McGuire**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-170485 and
UG-170486 (*Consolidated*)**

**EXHIBIT TO
TESTIMONY OF**

Chris R. McGuire

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Avista Response to UTC Staff Data Request No. 266

October 27, 2017

AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	WASHINGTON	DATE PREPARED:	10/17/2017
CASE NO.:	UE-170485 & UG-170486	WITNESS:	Mark Thies
REQUESTER:	UTC Staff	RESPONDER:	Lauren Pendergraft
TYPE:	Data Request	DEPT:	Finance
REQUEST NO.:	Staff – 266 - Supplemental	TELEPHONE:	(509) 495-2998
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REQUEST:

Please refer to Avista’s response to UTC Staff Data Request No. 97. In its response, the Company states: “The goal of the Company’s Interest Rate Risk Management Plan is to reduce cash flow volatility related to future interest rate variability (associated with forecasted debt issuances).”

- a. Does reducing cash flow volatility directly benefit ratepayers? If so, how?
- b. Does reducing cash flow volatility indirectly benefit ratepayers? If so, how?
- c. Does reducing cash flow volatility benefit shareholders? If so, how?

RESPONSE:

- a. Yes, by entering into interest rate swaps prior to debt issuances, the majority of the underlying interest rate is fixed and customers are protected from interest rate risk on the hedged portion.
- b. The benefits of the interest rate risk mitigation plan are discussed in part a.
- c. No. There are no benefits to shareholders.

Supplemental – 10/16/2017

- a. Yes, reducing cash flow volatility related to future interest rate variability benefits customers (ratepayers), as explained below.

Cash flow volatility results from future interest payments on long-term debt that is utilized to fund future utility capital expenditures and maturing debt for customers. Debt issuances are significant in size, and are priced on a single day. There is no certainty on future interest payments until the debt is priced. This is due to the fact that the interest rate for the future interest payment cannot be locked into until the day the debt is priced. Interest rate swaps are a tool utilized to lock in a portion of the interest rate in advance of the debt pricing. Entering into multiple interest rate swaps over time reduces the concentration risk that is present when pricing debt issuances on a single date, and therefore reduces cash flow and interest rate volatility. It benefits customers by protecting them from the rate impact of increasing interest rates. As further explained in Staff_DR_098-Revised, if interest rates were unhedged and interest rates increased, the customers’ additional exposure to interest rate costs could have exceeded \$72 million. The practice of hedging interest rate risk is not unlike hedging a portion of natural gas commodity costs in the Company’s Purchased Gas Adjustment (PGA) - an accepted practice to protect customers from the variability of purchased natural gas costs.

The overall interest rate on the debt portfolio used to fund utility capital expenditures is utilized as a component in the cost of capital. The cost of capital is used to determine a portion of the revenue requirement related to rate base. Reducing interest rate variability reduces variability in customers’ rates and lowers some of the risk of interest rates rising further.