Exhibit No.__(BGM-1CT)
Dockets UE-150204/UG-150205
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UITILITIES AND TRANSPORTATION COMMISSION	) DOCKETS UE-150204 and UG-150205 (*Consolidated*)
Complainant,	)
v.	)
AVISTA CORPORATION d/b/a AVISTA UTILITIES	)
Respondent.	)

REDACTED RESPONSE
TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

July 27, 2015

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EXHIBITS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite 400, Portland, Oregon 97204.

Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am an independent consultant representing industrial customers throughout the western United States. I am appearing on behalf of the Industrial Customers of Northwest Utilities ("ICNU"), a non-profit trade association whose members are large customers served by electric utilities throughout the Pacific Northwest, including Avista Corporation ("Avista" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I received Bachelor of Science degrees in Finance and in Accounting from the University of Utah. I also received a Master of Science degree in Accounting from the University of Utah. After receiving my Master of Science degree, I worked at Deloitte Tax, LLP, where I was a Tax Senior providing tax consulting services to multi-national corporations and investment fund clients. Subsequently, I worked at PacifiCorp Energy as an analyst involved in regulatory matters primarily involving power supply costs. I began performing independent consulting services in September 2013. I currently provide consulting services for utility customers, independent power producers, and qualifying facilities on matters ranging from power costs and revenue requirement to power purchase agreement negotiations. A further description of my educational background and work experience can be found in Exhibit No.___(BGM-2).

Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?

A. My testimony addresses the Company's request for an adjustment to its revenue requirement to reflect alleged earnings attrition. My testimony also addresses the remaining revenue requirement issues that were not settled in the Multiparty Settlement Stipulation filed on May 1, 2015.

Q PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.

A. Using arguments no different than those used in its prior rate cases—in fact, recycling much of the testimony from those proceedings—the Company suggests that the use of the Commission's long-standing revenue requirement methodologies will result in a level of revenue that is unreasonable. Instead, the Company proposes that the Commission approve a revenue requirement methodology based on the use of historical trends, a methodology which will increase revenue requirement above the levels otherwise calculated using the traditional ratemaking methodology. I strongly disagree with the Company's request for a rate increase based on claims of earnings attrition, as well as its proposal to use "trends" in place of traditional cost-based ratemaking. Given the information presented by the Company in this proceeding, the evidence suggests that the Company's requested rate increase is unwarranted, based on the Commission's traditional ratemaking methodology, and that the Company's rates should, in fact, be reduced.

Q. HOW HAVE YOU DETERMINED THAT THE COMPANY'S RATES SHOULD BE REDUCED?

A. On May 1, 2015, the majority of parties to this proceeding executed a Multiparty Settlement Stipulation, which, in addition to addressing known errors in the Company's filing, memorialized agreement on a number of revenue requirement issues in this proceeding. In response to Staff Data Request ("DR") 131, the Company updated its pro forma crosscheck study to reflect the terms of the Multiparty Settlement Agreement, as well as actual capital expenditures as of December 31, 2014. As will be discussed below, the pro forma cross check study is the only reliable evidence presented in this proceedings upon which to establish revenue requirement. Accordingly, my review has focused on the pro forma cross check study. Based on this review, I have developed the revenue requirement recommendation, on a Washington-allocated basis, detailed in Table 1, below, based on the calculations provided in Exh. No.___(BGM-3). A brief summary of each of the proposed revenue requirement adjustments is presented immediately following the table.

TABLE 1
Electric Revenue Requirement Adjustments

	$000
Company Proposed Increase (Initial Filing)	$33,229
Less: Impact of Settlement*	($22,307)
Increase after Settlement	**$10,922**
Revenue Requirement Adjustments:	
(a) Rate Base Period (AMA, YE 2014)	(15,475)
(b) Major Pro Forma Plant Additions	4,528
(c) Property Tax	(1,995)
(d) AMI Meter Retirement Deferral	(4,202)
(e) Colstrip & CS2 Maintenance	(2,486)
(f) Executive Compensation	(500)
(g) Corporate Jet	(744)
(h) Pro Forma Labor	(4,037)
(i) Pro Forma Benefits	(3,415)
Total Adjustments	**(28,326)**
Proposed Increase / (Decrease)	**(17,404)**

* Per Staff DR 131, Attach B

a. **Rate Base Period:** The Company has proposed to calculate rate base using a calendar year 2016 Average-of-Monthly-Average ("AMA") rate base period. The use of a 2016 rate base period is too far in the future to conform to the Commission's use of a modified historical test period. My recommendation is that the Commission establish rate base using calendar year 2014 AMA rate base balances, reducing electric revenue requirement by $15.4 million.

b. **Major Pro Forma Plant Additions:** The Company has proposed to use its overall capital budget through calendar year 2016 to establish rate base in this proceeding. I recommend that the Commission apply the same methodology recently approved in the Pacific Power & Light Company

("Pacific Power") 2014 general rate case,[1/] only allowing the Company to include "major" capital additions that have actually been placed into service, in this case limiting the pro forma plant additions to Project Compass, increasing revenue requirement by $4.5 million.

c. **Property Tax:** The Company has escalated its property tax calculations to be based on forecast plant balances and tax rates in 2016, an approach which is inconsistent with the use of a modified historical test period. I recommend that the Commission align the property tax calculation with the plant balances ultimately approved in this proceeding, reducing revenue requirement by $2.0 million based on my recommendations above.

d. **AMI Meter Retirement Deferral:** The Company has proposed to defer unrecovered investment costs related to a potential meter replacement program, including immediate amortization of the deferral in rates. The Commission should reject the accounting proposal because the program is too preliminary and the ratepayer benefits are too speculative to be reflected in rates at this time. In addition, there are several errors in how the Company has proposed to account for the deferral in revenue requirement. Eliminating the proposed impact of this deferral will reduce revenue requirement by $4.2 million.

e. **Colstrip & Coyote Springs 2 Maintenance:** The Company has proposed to increase the maintenance expense for Colstrip and Coyote Springs 2 ("CS2") based on major maintenance activities forecast in the 2016 rate period. Including major maintenance expense in revenue requirement is inconsistent with setting rates based on normalized results. I recommend that the Commission require the Company to normalize these major maintenance expenses by spreading this cost over the maintenance cycle of the respective plants, reducing revenue requirement by $2.5 million.

f. **Executive Compensation:** The Company has proposed to include costs associated with issuing restricted stock dividends to executives, costs which have historically been excluded from rates. In addition, a certain executive is earning at levels exceeding the salary of comparable executives in the Northwest. I propose that the Commission remove the restricted stock dividends from rates and apply a $325,000 cap on the level of executive salaries included in rates, reducing revenue requirement by $0.5 million.

g. **Corporate Jet:** Based on the $1.8 million corporate jet cost included in the Company's overall results, the cost for a Company employee to travel on the corporate jet is the equivalent of approximately $3,900 for a round trip flight per employee. This amount is excessive and should not be borne by ratepayers. I recommend that the Commission remove the cost associated

[1/] WUTC v. Pacific Power, Dockets UE-140762 *et al.*

with the corporate jet that exceeds the amount that the Company would have otherwise paid for its employees to travel on a commercial airline, reducing revenue requirement by $0.7 million.

h. **Pro Forma Labor:** The Company proposes to escalate labor expenses included in results to 2016 levels. The Company's proposed escalation is not consistent with the Commission's past practice on labor expense, as it extends too far beyond the end of the test period. In addition, due to an insufficient labor model, the Company has not provided sufficient evidence to support an increase to labor expense that would be consistent with past Commission policy. Accordingly, I propose to eliminate the labor expense adjustment, reducing revenue requirement by $4.0 million.

i. **Pro Forma Benefits:** The Company proposes to include pension expense and post-retirement medical expenses based on amounts estimated for 2016 in recently issued actuarial reports. In addition to being calculated for a period that is too far beyond the end of the test period to be consistent with past Commission practice, the proposed adjustment is being driven by changes to actuarial input assumptions developed by the Company after this case was filed. Accordingly, I recommend that the Commission eliminate the pro forma benefits adjustment, reducing revenue requirement by $3.4 million.

II. ATTRITION

Q. HOW HAS THE COMMISSION TRADITIONALLY APPLIED ATTRITION ADJUSTMENTS?

A. An attrition adjustment represents an undistributed increase to a utility's revenue requirement. It is undistributed because it is not tied to any specific known and measurable cost, nor an item which can be demonstrated to be used and useful for the provision of utility service. Rather, an attrition adjustment, as it has been historically applied by the Commission, represents an increase to a utility's revenues to address extraordinary circumstances, as an exception to the Commission's traditional revenue requirement methodologies. For example, the Commission approved attrition adjustments for a period in the early 1980s, in response to exceptionally high inflation and interest rates.[2/] Then, for nearly two decades, attrition adjustment requests were almost unheard of in Washington, after the Commission rejected a proposed attrition adjustment for Washington Natural Gas in 1993 stating: "An adjustment for attrition is an extraordinary measure, not generally included in general rate relief. A request for such an adjustment should be based on extraordinary circumstances …."[3/]

Q. WHY DOES THE COMPANY CLAIM THAT AN ATTRITION ADJUSTMENT IS WARRANTED IN THIS PROCEEDING?

A. The Company has been requesting revenues based on attrition factors since its 2011/2012 general rate case,[4/] and, in fact, its general rate increase requests since 2007 have included pro forma adjustments designed to replace historical ratemaking methodology, adjustments justified on similar bases as its current attrition claims.[5/] In contrast to the attrition adjustments approved in the early 1980s, however, the Company's proposal for an attrition adjustment in this proceeding has not been justified on the basis of extraordinary circumstances. Rather, the request has been largely justified on the basis of incorporating forward looking capital forecasts into rate base.[6/]

2/ WUTC v. Puget Sound Energy, Inc. ("PSE"), Dockets UE-111048 and UG-111049 (consolidated), Order 08 at ¶ 489 (May 7, 2012).

3/ WUTC v. Wash. Natural Gas, Docket UG-920840, Fourth Suppl. Order at 29-30 (Sept. 27, 1993).

4/ See WUTC v. Avista, Dockets UE-110876 *et al.*, Order 08/03 at ¶ 19 (May 14, 2012) (finding relation between attrition adjustment proposals and 2011 general rate case issues).

5/ See, e.g., WUTC v. Avista, Dockets UE-070804 *et al.*, Exh. No.___(SLM-1T) at 22:13-15 (regarding major capital expenditures planned in the future); WUTC v. Avista, Dockets UE-080416 and UG-080417 (*consolidated*), Exh. No.___(SLM-1T) at 29:8-13 (describing pro forma adjustments based on claims of rising materials costs, allegedly necessitating "recovery levels in excess from traditional, historic test-year computations"); WUTC v. Avista, Dockets UE-090134 *et al.*, Exh. No.___(SLM-1T) at 23:10-15 (repeating the 2008 general rate case claims); WUTC v. Avista, Dockets UE-100467 and UG-100468 (*consolidated*), Exh. No.___(SLM-1T) at 43:15-21 (repeating the 2008 and 2009 GRC claims).

6/ Exh. No.___(SLM-1T) at 4:14-12:3.

Q. IS THE COMPANY EXPERIENCING EXTRAORDINARY CIRCUMSTANCES?

A. No. Far from being in financial distress, the Company's net income has been growing rapidly. In 2014, the Company's net income, based on Generally Accepted Accounting Principles, increased by 72.8% from $111.1 million in 2013 to $192.0 million in 2014.[7/] This increase in net income has been accompanied by a steady increase in dividends to shareholders, as well as an aggressive stock repurchase program. In 2014, the Company paid $78.3 million in dividends and repurchased $79.9 million in common stock.[8/] Collectively, the Company will have returned approximately $158.2 million to shareholders through these two methods, representing an increase of 116% relative to the $73.3 million in dividends to shareholders in 2013.[9/]

Q. IS THE COMPANY UNDER-EARNING?

A. No. Commission Basis Reports ("CBRs") demonstrate that the Company has actually over-earned in recent years. The Company's last authorized rate of return was 7.64%, established in the 2011/2012 general rate case.[10/] Pursuant to CBRs filed in 2014 and 2015, the Company's actual return for gas and electric combined was 7.57% and 7.92%, respectively.[11/] These return amounts are comparable to, or exceeding, the Company's authorized return, indicating little need for an attrition adjustment.

7/ Avista Corporation, Form 10-k, Annual Report for the Fiscal Year Ended December 31, 2014 at 77 (Feb. 25, 2015). Available at: http://www.sec.gov/Archives/edgar/data/104918/000010491815000044/ava-20141231x10k.htm.

8/ Id. at 83.

9/ Id.

10/ Dockets UE-120436 *et al.*, Order 14/09 at ¶¶ 32, 112 (Dec. 26, 2012). For certain purposes, a 7.32% ROR was established in the Company's 2014 general rate case, which further establishes the extent of the Company's recent over-earning. See WUTC v. Avista, Dockets UE-140188 and UG-140189 (consolidated), Order 05 at ¶¶ 52-53 (Nov. 25, 2014).

11/ Docket UE-140529; Docket UE-150698.

In addition, if the Company's electric operation is viewed separately, the indication of over-earning is even more apparent. Specifically, the Company reported that its electric return on equity for Washington was 11.53% actual and 10.60% normalized in 2014, based on the traditional AMA rate base methodology.[12/] These are both well above the last authorized return on equity level of 9.8%.[13/] Given the fact that the Company has been earning in excess of its authorized returns, I strongly disagree with the Company's continuing attrition claims and projections of attrition well into the future.[14/]

Q. DOES THE FACT THAT THE COMPANY HAS BEEN FILING ANNUAL RATE INCREASES MITIGATE THE NEED FOR AN ATTRITION ADJUSTMENT?

A. Yes. In every year since 2005, the Company has either filed a general rate case or received a rate increase that is similar in size to that typically requested in a general rate case.[15/] The Company claims that it will be subject to continuing attrition over the next five years (and, presumably beyond).[16/] Yet, by filing annual rate cases, the Company is mitigating the impact of regulatory lag and the need for extraordinary rate relief through an attrition adjustment.

12/ Exh. No.___(BGM-4C) (the Company's Response to Staff Data Request ("DR") 148).

13/ Dockets UE-120436 *et al.*, Order 14/09 at ¶¶ 32, 112.

14/ See also Exh. No.___(BGM-4C) (the Company's Responses to ICNU DRs 197 and 203, and Staff DR 111) (demonstrating Avista has failed to consider the ability of its customers to continually fund attrition claims).

15/ Avista has filed a general rate case in every year over the period of 2005 to 2015, excepting two years: 2006 and 2013. In 2006, however, the Company requested a $28.9 million, or 8.8% rate increase related to production and transmission costs outside of a general rate case, in Docket UE-061411. Likewise, while 2013 did not include a general rate case filing, the Company received a very significant rate increase as part of a multi-year rate order issued in the 2011/2012 general rate case.

16/ E.g., Exh. No.___(MTT-1T) at 10-11; Exh. No.___(SLM-1T) at 11-12.

Q. SHOULD THE COMMISSION APPROVE AN ATTRITION ADJUSTMENT IN THIS PROCEEDING?

A. No. In contrast to the Commission's decisions in the 1993 Washington Natural Gas proceeding, the Company's proposed attrition adjustments have not been premised on the existence of "extraordinary circumstances."[17/] Rather, it has been proposed as a permanent exception to the Commission's traditional ratemaking methodology that relies on the use of a "modified" historical test year.[18/]

In this proceeding, the Company has justified its request for an attrition-based revenue requirement calculation based upon the preparation of a pro forma cross check study, a proposal which is quite different than the attrition adjustments approved in the early 1980s. The Company has demonstrated through the pro forma cross check study that its proposed attrition adjustment is representative of discrete pro forma costs and revenue requirement items. Accordingly, if the Commission were to approve the Company's attrition revenue requirement, it would also implicitly approve the pro forma revenue requirement items detailed in the pro forma cross check study. Many of the pro forma adjustments included in the pro forma cross check study, however, are revenue requirement items that the Commission has traditionally not allowed to be used for ratemaking. Thus, it would be a departure from the Commission's long-standing ratemaking methodologies, recently reaffirmed in the Pacific Power 2014 general rate

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17/ See., e.g., Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 39, Att. A) (showing investment needs have actually become *less* costly since 1993, as when comparing 50 year factor differentials for such significant categories as transmission plant).

18/ Dockets UE-140762 *et al.*, Order 08 at ¶ 20 (Mar. 25, 2015). See also Dockets UE-111048 and UG-111049 (consolidated), Order 08 at ¶¶ 93-94 (May 7, 2012) (quoting from a WUTC order that "describes the long-standing practice in Washington that relies on a so-called modified historic test year approach").

case, if the Commission were to approve the Company's proposed attrition revenue requirement methodology.[19]

Q. IS IT NECESSARY FOR THE COMMISSION TO REVIEW THE ATTRITION STUDY IN THIS PROCEEDING?

A. No. Because the Company has presented the pro forma cross check study and demonstrated that its attrition revenue requirement would require the Commission to approve of costs that have historically not been allowed in rates, it is not necessary for this Commission to undertake the academic exercise of reviewing merits of the trend-based attrition revenue requirement studies presented in the Company's initial filing.

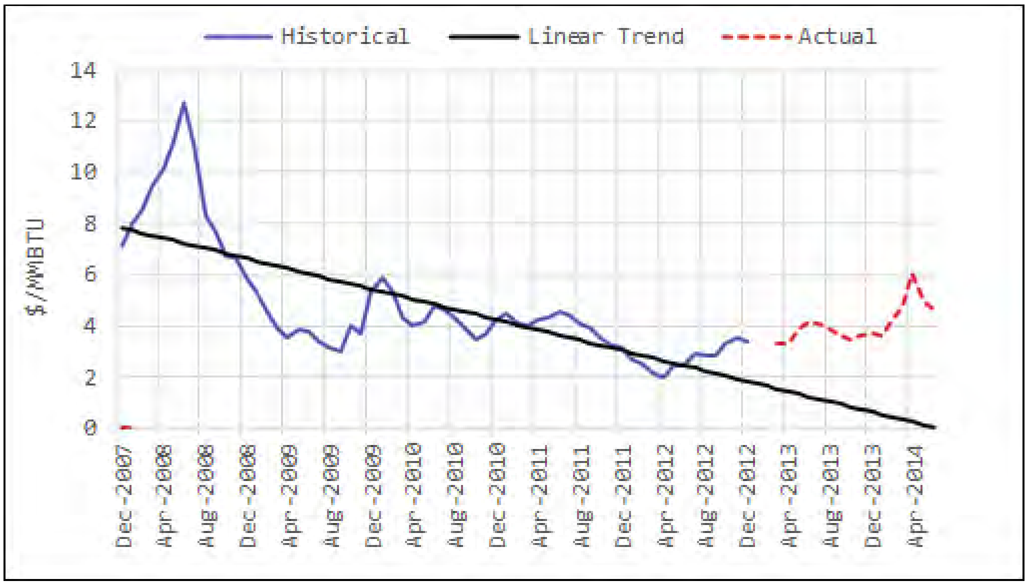
Q. NOTWITHSTANDING, DO YOU AGREE WITH THE COMPANY'S PROPOSED ATTRITION REVENUE REQUIREMENT METHODOLOGY?

A. No. There are many conceptual and technical shortcomings inherent in using historical trends to establish rates. For example, in my testimony in the Company's 2014 general rate case, I noted that the unreliability of historical trending analyses is demonstrated by an illustration of natural gas price forecasting; using price data from 2007-2012, linear trending analysis would have produced a 2014 forecast price *below zero*.[20] Figure 1, below, represents that figure, demonstrating the potentially illogical results that can occur by blindly relying on historical trends to establish a forecast.

19/ Dockets UE-140762 *et al.*, Order 08 at ¶ 20; accord Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 196). But cf. id. (the Company's Response to ICNU DR 43) (claiming inaccurately, as contrary to the Commission orders, that the filed electric attrition study is based on approved ratemaking methodology).

20/ Dockets UE-140188 and UG-140189 (consolidated), Exh. No.___BGM-1CT at 15:4-12.

FIGURE 1
Henry Hub Natural Gas Prices
Trending Forecast Based On Pricing 2007 – 2012
(Source: Energy Information Administration)



Q. DOES THE USE OF A TRENDING STUDY PENALIZE THOSE UTILITIES THAT ARE WORKING TO CONTROL COSTS?

A. Yes. A trend-based revenue requirement methodology is also flawed because only those utilities with rapidly increasing costs and capital expenditures benefit from a trend-based attrition allowance. A utility that is working hard to reduce its costs and prioritize capital expenditures could, in fact, be penalized and subject to a negative attrition adjustment under such a methodology. In its 2014 general rate case, representatives for Pacific Power cited such reasoning in opposition to the use of a trend-based attrition allowance methodology.[21/] One of Pacific Power's reasons in that case for not proposing an attrition allowance adjustment similar to that proposed by the Company was that the "existing mechanisms assume a consistent level of growth in the costs that PacifiCorp is

21/ Dockets UE-140762 *et al.*, Exh. No.___RBD-1T at 11:8-17.

actively managing to control."[22/] It is bad policy to reward those utilities with rapidly escalating costs, while penalizing those utilities that are undertaking efforts to control costs. Such a policy will send a strong incentive for a utility to disregard cost controls and to engage in unrestrained spending on capital projects.

Q. DOES THE COMPANY HAVE AN INCENTIVE TO OVER-SPEND ON CAPITAL IN ORDER TO INCREASE ITS EARNINGS?

A. Yes. It has been widely documented that utilities subject to rate of return regulation have an incentive to over-invest in capital in order to increase earnings.[23/] This phenomenon is often referred to as the Averch-Johnson Effect, based on the economists who first developed the model to describe the phenomenon, and has a real and significant impact on how utility operations are managed. For example, in presentations to shareholders, utilities, including the Company, are often quick to point out the efforts undertaken to increase rate base. In [redacted] According to Board minutes, [redacted][24/] Immediately following [redacted][25/]

[22/] Id.

[23/] See Harvey Averch & Leland L. Johnson, *Behavior of the Firm Under Regulatory Constraint*, 52 AM. ECON. REV. 996, 1052 (1962).

[24/] Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 220C, Conf. Att. A at 75).

[25/] Id. (the Company's Response to ICNU DR 220C, Conf. Att. A at 76); accord id. (the Company's Response to ICNU DR 220C, Conf. Att. A at 92).

Q. WHY IS IT CRITICAL THAT POLICIES BE PUT IN PLACE TO DETER UTILITY OVERSPENDING ON CAPITAL?

A. A utility has control over the level of capital that it deploys. Thus, absent regulatory policies to deter over spending, ratepayers will have no protection against unconstrained capital spending on the part of the utility. Traditionally, the Commission's adherence to a modified historical test period has served to partially check this incentive to overspend. If the modified historical test period is abandoned in favor of a trend-based revenue requirement methodology, not only would that check be eliminated, but utilities would be provided with an even greater incentive to overspend.

Q. DOES A TREND-BASED REVENUE REQUIREMENT METHODOLOGY PROVIDE GREATER INCENTIVE FOR UTILITY OVERSPENDING?

A. Yes. The utility would have the ability to increase the amount of capital expended in order to influence the trending rates used in a trend-based revenue requirement methodology. This results in a self-fulfilling cycle, in which the utility must continue to spend exponentially in rate base in order to sustain the increasing trends in capital expenditures, a result which increases the utility incentive to overspend. As Staff observed in the Commission's recent investigatory docket on attrition, "projections of future levels of expense and rate base may become a self-fulfilling prophesy [sic] …. [a] utility may 'prove' its projections of the future to be true by modifying its business decisions to create the projected future."[26/] Public Counsel echoed and amplified this point, noting "that projections may become a 'self-fulfilling prophecy' where there is an

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26/ Re Investigation of Possible Ratemaking Mechanisms to Address Utility Earnings Attrition, Docket U-150040, Staff Comments at 8.

incentive for rates of capital expenditure to be driven by an effort to match earlier projections."[27/]

Q. HAVE YOU FOUND ANY EVIDENCE OF THIS INCREASED INCENTIVE TO OVERSPEND ON CAPITAL?

A. Yes. The Company has stated that it "manages the actual capital expenditures each year to be close to the planned amount."[28/] More specifically, this is accomplished by means of the Capital Planning Group's ("CPG") [redacted][29/] In practice, the Company is able to ensure that actual capital expenditures match original forecasts on an annual basis via expenditure ramping near the end of the year. The CPG "has a list of shovel-ready work that can be activated in November should there be any available funds."[30/] Such late-year ramping can be seen in both actual expenditures in 2014 and forecast expenditures in 2015.[31/] This is evidence that the Company is deploying capital, without regard to cost minimization, to achieve specified targets of rate base levels.

Further evidence of this increased incentive to overspend is apparent when considering the Company's spending practices before and after it began requesting explicit "attrition" adjustments in 2012. In the three years prior to express "attrition" claims, 2009-2011, the Company actually spent only between 88-95% of its planned

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27/ Id., Public Counsel ("PC") Comments at 20.

28/ Exh. No. BGM-4C (the Company's Response to ICNU DR 212).

29/ Id. (the Company's Response to ICNU DR 20C, Conf. Att. C at 63); accord id. (the Company's Response to PC DR 72) ("CPG approves or declines the requests based on managing a total budget amount").

30/ Id. (the Company's Response to ICNU DR 69, Att. A at 37).

31/ Id. (the Company's Response to Staff DR 143 Rev. 2, Att. A & B).

capital budget; in the three full years since, 2012-2014, the Company has actually spent 102-108% of its budget.[32/]

This change, begun in 2012, was welcomed by the Finance Committee of the Board of Directors, who "acknowledged *with pleasure* that the 2012 capital spend was not significantly under budget[,] which had been the case historically."[33/] The fact that the Company described the over-budget capital program as a positive business development is disturbing from a ratepayer perspective, and is an indication that, not only does the Company have an incentive to over spend, but that it is acting on that incentive.

Q. IS RATE BASE CALCULATED FROM A TREND USED AND USEFUL?

A. No. If the Commission were to disregard the pro forma cross check study, and instead establish revenue requirement solely on the Company's proposed trending methodology, it would allow the Company to earn a return on capital expenditures that have not been determined to be prudent and in the public interest. The Commission, under its rate fixing authority, has an obligation to evaluate whether rates are, among other things, just, reasonable, and non-discriminatory.[34/] In order to make such an evaluation, the capital items under evaluation by the Commission for inclusion in rates must be discrete, known and measurable capital items, which have been demonstrated to be used and useful for the provision of providing utility service.[35/] If a trending analysis is used, however, the undistributed increase in rate base resulting from the reliance on historical trends would not represent known and measurable capital items, nor could it be determined whether the increase was the result of capital that is used and useful. Rather, in the absence of relying

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32/ Id. (the Company's Response to ICNU DR 202).

33/ Id. (the Company's Response to ICNU DR 69, Att. A at 54) (emphasis added).

34/ RCW § 80.28.020.

35/ E.g., Dockets UE-140762 *et al.*, Order 08 at ¶¶ 165, 169.

on the pro forma cross check study, the trending adjustment to rate base would represent an abstract layer of "padding" added to rate base to reflect some future, unknown expenditure to the utility. Because it is not actually known what the attrition capital expenditure will be, however, the Commission has no basis to demonstrate that the inclusion of such unknown capital expenditures in rate base are used and useful.

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE COMPANY'S REQUEST FOR AN ATTRITION ADJUSTMENT.

A. I strongly disagree with the Company's request for an attrition adjustment in this proceeding, as it would disregard some of the key ratepayer protections against utility overspending.[36/] The Company is financially healthy and has presented no valid reason why the Commission should depart from its established revenue requirement methodologies used to set rates for other electric utilities in this state. Approving an attrition adjustment would likely continue the Company's path of overearning. Accordingly, I recommend that the Commission reject the Company's claims of attrition, as well as its trend-based revenue requirement methodology.

III. REVENUE REQUIREMENT ADJUSTMENTS

Q. WHAT WAS THE STARTING POINT FOR YOUR REVENUE REQUIREMENT RECOMMENDATIONS?

A. The following revenue requirement recommendations are based on the pro forma revenue requirement calculations provided by the Company in response to Staff DR 131,

[36/] See., e.g., Exh. No.___(BGM-4C) (the Company's Responses to ICNU DRs 61 and 62) (containing further proof of attrition methodology flaws, including the concession that even historical trending is "insufficient for capturing the impact of surging capital-related expenses").

specifically Attachment B.[37/] The calculation of these adjustments can be found in Exh. No.___(BGM-3).

a. Rate Base Period

Q. WHAT RATE BASE PERIOD HAS THE COMPANY PROPOSED TO USE IN THIS PROCEEDING?

A. The Company has proposed to use a forecast calendar year 2016 rate base period, calculated on an AMA basis.[38/]

Q. DO YOU AGREE WITH THE USE OF A CALENDAR YEAR 2016 AMA RATE BASE PERIOD?

A. No. While I agree with calculating rate base on an AMA basis, the use of calendar year 2016 to establish rate base pushes too far in the direction of a future test year approach to be consistent with the "modified" historical test period traditionally used by this Commission. In fact, the Company's proposal would push even further than what is often allowed in those states that do permit a future test period. For example, Portland General Electric Company recently filed a rate case before the Oregon Public Utility Commission ("OPUC") using a calendar year 2016 future test year.[39/] For rate base, however, Portland General Electric Company used a more near-term rate-base calculation than the Company has proposed in this proceeding, calculating rate base as of December 31, *2015*.[40/]

37/ Exh. No. BGM-4C (the Company's Response to Staff DR 131, Att. B).

38/ Exh. No.___(JSS-1T) at 34:4-10.

39/ Re Portland Gen. Elec. Co., Request for a General Rate Revision, OPUC Docket UE 294, PGE/200, Tooman-Brown/1:9-10.

40/ Id. at 23:1-6.

Q. WHAT RATE BASE PERIOD DO YOU PROPOSE?

A. I recommend the use of a calendar year 2014 rate base period, calculated on an AMA basis. This would allow the Company to roll forward its rate base from the test period, year ending September 30, 2014, by three months, yet still conform to the Commission's use of a modified historical test period.

Q. WHY DO YOU PROPOSE TO USE A CALENDAR YEAR 2014 RATE BASE PERIOD?

A. My proposal to roll forward the rate base period is based upon my review of Staff DR 131, Attachment B. In that attachment, the Company recalculated its pro forma cross check study by updating rate base to be based on actual plant in service as of December 31, 2014, identifying a number of errors in its originally filed case. For example, when the Company updated its 2014 rate base calculation based on actual data through the end of calendar year 2014, it reduced EOP 2014 rate base by $39.5 million,[41/] resulting in a rate base amount that was $4.4 million lower than included in its year-end September 2014 results of operations. This reduction appears to be partially due to an error in the Company's calculation of Accumulated Deferred Income Taxes ("ADIT") and double counting of certain capital items previously reflected in the Company's 4th quarter capital forecast. Because the September 2014 rate base amounts have been demonstrated to be unreliable, for purposes of this proceeding, I propose to roll the rate base period forward to be based upon what appears to be more reliable data for calendar year 2014.

41/ Based on a comparison of 2014 EOP rate base in Staff DR 131, Att. B, and the pro forma cross check study included in the Company's initial filing.

Q. HOW DID YOU CALCULATE THE CALENDAR YEAR 2014 AMA RATE BASE BALANCES?

A. I used the AMA rate base balances included in the Company's CBR for 2014, as detailed on page 4 of Exh. No.___(BGM-3).

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF USING A CALENDAR YEAR 2014 RATE BASE PERIOD WITH AMA BALANCES?

A. Relative to Staff DR 131, Attachment B, the impact of removing all pro forma plant additions, which will be addressed below, and converting to a calendar year 2014 AMA rate base period, is a $15.5 million reduction to revenue requirement on a Washington basis.

b. Major Pro Forma Capital Additions

Q. WHAT LEVEL OF PRO FORMA CAPITAL HAS THE COMPANY PROPOSED TO INCLUDE IN THIS PROCEEDING?

A. The Company has proposed to include its long-term capital forecast in rates, including capital additions, through the end of calendar year 2016. The Company's proposal consists of 78 and 72 different projects in calendar years 2015 and 2016, respectively.[42/] Collectively, the Company's proposal would require the Commission to approve a total of 150 different projects, many of which are non-discrete "blanket" capital accounts consisting of numerous, and often undetermined, underlying capital projects. The Company proposal regarding post-test-year capital would increase capital by $480.0 million and $356.7 million in 2015 and 2016, respectively, or $836.7 million in total.[43/]

42/ See Exh. No.___(KKS-4) at 3-8.

43/ Id.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED LEVEL OF POST-TEST-YEAR CAPITAL?

A. No. In addition to being excessive relative to the level of post-test-year capital approved by the Commission in other proceedings, the use of a capital forecast, particularly one that pushes more than two years beyond the end of the test period, does not correspond to my understanding of the Commission's policy on pro forma capital—which was recently reaffirmed, approximately four months ago, in the 2014 Pacific Power general rate case. In this case, the Company has presented no substantial evidence to justify deviating from past Commission practice.

Q. HOW DO YOU PROPOSE THAT THE COMMISSION EVALUATE THE MAJOR PRO FORMA CAPITAL ADDITIONS IN THIS PROCEEDING?

A. Because the facts in this case are not materially different than in the 2014 Pacific Power general rate case, I recommend that the Commission consistently apply the principles and policies regarding pro forma capital additions recently re-articulated in that proceeding.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMMISSION'S POLICY ON MAJOR PRO FORMA CAPITAL ADDITIONS?

A. The Commission's policy on major pro forma capital additions has been established over a long series of contested proceedings, extending back several decades. In the Pacific Power 2014 general rate case, the Commission reaffirmed its policy, stating that its "long-standing practice is to consider post-test-year capital additions on a case-by-case basis following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases."[44/] According to the Commission, "[t]his approach provides the Commission with

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44/ Dockets UE-140762 *et al.*, Order 08 at ¶ 165 (citing Docket UE-130043, Order 05 at ¶ 198 (Dec. 4, 2013)).

flexibility when evaluating relevant factors without being confined by 'too rigid an approach' through a consistent, bright-line standard."[45/]

Q. WHAT HAVE UTILITIES TYPICALLY BEEN REQUIRED TO DEMONSTRATE TO INCLUDE POST-TEST-YEAR CAPITAL IN RATES?

A. In order to be considered under the Commission's standard, the Commission has historically required a utility to meet its burden of proof to demonstrate that the pro forma plant is "used and useful for service in this state."[46/] Pursuant to this burden of proof, the Commission has historically required the utility to demonstrate "'quantifiable' benefits to ratepayers in Washington,"[47/] in order for a major pro forma addition to be includible in rates.

Q. HAS THE COMMISSION TYPICALLY APPROVED SMALL PROJECTS FOR INCLUSION ON A POST-TEST-YEAR BASIS?

A. While it has not adopted a formal bright-line standard to determine whether a plant addition rises to the level of being a "major" plant addition, and thus, eligible to be included in rates on a post-test-year basis, the Commission has typically not considered small or routine capital additions for inclusion in rates on a post-test-year basis, noting in the Pacific Power 2014 general rate case that "the relative size of many of the Company's proposed plant additions in this case falls short of any reasonable definition of 'major.'"[48/]

45/ Id. (citing Docket UE-130043, Order 05 at ¶¶ 198-199).

46/ Id. at ¶ 166 (citing Docket UE-050684, Order 04 ¶ 49 (Apr. 17, 2006)).

47/ Id. (citing Docket UE-050684, Order 04 at ¶ 51).

48/ Id. at ¶ 170.

Q. DOES THE COMPANY'S FILING LEND ITSELF TO A CASE-BY-CASE REVIEW OF ITS PROPOSED CAPITAL ADDITIONS?

A. No. While the Company presented a voluminous amount of data for the 150 capital projects proposed for 2015 and 2016, it would be impractical within the scope of the evidentiary record in this proceeding for the Commission to evaluate the merits of each and every pro forma capital project proposed by the Company. The Commission, by only considering post-test-year rate base additions that are "major," has traditionally not performed the level of case-by-case review of pro forma capital additions requested by the Company in this proceeding.

With respect to pro forma capital, the Commission has stated that "the amount typically cannot be an estimate, a projection, the product of a budget forecast, or some similar exercise of judgment – even informed judgment – concerning future revenue, expense or rate base."[49/] In this case, however, the majority of capital items are not discrete capital items which the Commission has any ability to review on the basis of being known and measureable and used and useful. Rather, the majority of capital amounts in question represent "blanket" budgets for non-discrete spending on particular activities.

For example, the largest capital item under the category "Electric Transmission / Distribution" in 2015 is for a project called "Reconductors and Rebuilds."[50/] The Company budgeted $14.2 million of capital spending for this category in 2015, yet it is representative of a series of small projects, for which no meaningful review can take

49/ Id. at ¶ 167 (quoting WUTC v. PSE, Docket Nos. UE-090704 *et al.*, Order 11 ¶ 26 (Apr. 2, 2010)).
50/ Exh. No.___(KKS-5), Att. No.___ETD-11.

place in this proceeding to evaluate whether the capital amounts in question are known and measurable and used and useful.

Q. WHAT PROJECTS DO YOU RECOMMEND THE COMMISSION REVIEW?

A. Based on my review of the list of 2015 capital additions presented in Exh. No.___(KKS-4), I propose that the Commission limit its review to those projects with a capital budget in excess of $10.0 million. While I do not agree that it would be appropriate for the Commission to establish any sort of "bright-line" for determining which capital additions are "major" and which are not, there seems to be a natural threshold in the Company's filing at the $10.0 million level, with only a few large projects exceeding that amount. Excluding the "blanket" capital, which do not represent a discrete capital item that can be reviewed by the Commission, my proposal is for the Commission to limit its review of post-test-year capital additions to the following six projects, which the Company suggested in its initial filing will be placed into service in calendar year 2015:

- GP-2, Hydro – Clark Fork Settlement Agreement;
- GP-5, Hydro – Little Falls Plant Upgrade;
- GP-6, Hydro – Nine Mile Rehab;
- GP-15, Hydro – Post Falls South Channel Gate Replacement;
- GP-16, Hydro – Cabinet Gorge Unit 1 Refurbishment; and
- ET-5, Customer Information and Work & Asset Management System ("Project Compass").

All other projects in excess of $10.0 million appeared to be blanket capital accounts and were excluded from my analysis. For example, ET-4, Technology Refresh to Sustain Business Process, was excluded from my analysis because it was not related to the addition of a discrete application but, rather, for routine replacements of and upgrades to existing applications and hardware.[51/] In addition, I did not review project NGD-1, Aldyl A Replacement, notwithstanding the fact that its capital budget exceeded $10.0 million, because my testimony only addresses electric issues. Finally, my review did not consider any projects expected to be placed into service in calendar year 2016, as those additions will occur too far beyond the test period to be considered in the Commission's review.

Q. WHAT IS THE RESULT OF YOUR REVIEW OF THE ABOVE SIX POST-TEST-PERIOD CAPITAL PROJECTS?

A. Based upon my review of the above six projects, I recommend that the Commission reject all projects, with the exception of Project Compass.

Q. PLEASE SUMMARIZE YOUR REVIEW OF THE CLARK FORK SETTLEMENT AGREEMENT.

A. The Company proposed to include approximately $14.0 million in capital associated with capital work performed related to the Clark Fork Settlement Agreement, which reflects the capital cost of implementing various requirements in accordance with agreements between the Company and several other interested parties.[52/] The project itself does not represent a single capital project, but a variety of project activities, indicating that this project may be better considered as "blanket" project and excluded from the analysis. Based on the Company's workpapers, it is impossible to demonstrate what specific capital items have been placed into service and to measure any sort of quantifiable ratepayer benefit associated with those capital projects. For example, it is not clear from

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51/ See Exh. No.___(KKS-5) at Att. No.___ET-4.1.

52/ Exh. No.___(KKS-5) at Att. No.___GP-2.

the data presented by the Company whether the actual capital placed into service was a fish ladder, a recreation facility, or some other item constructed pursuant to the settlement.

In addition, the actual amount of capital that the Company has placed into service related to this project is not clear. In recent Company data responses, the amounts that the company alleges have been placed into service have varied considerably. For example, the Company recently indicated that it expected $18.4 million of capital to be placed into service before the end of 2015, with approximately $10.0 million in service as of June 2015.[53/] Yet, in a response issued just a few weeks prior, the Company indicated that it expected $11.9 million to be placed into service before the end of 2015, with $6.4 million actually placed into service as of June 2015.[54/]

Due to these vast discrepancies in data as well as the fact that this category does not represent discrete capital items that the Commission may feasibly review, I recommend that the Commission not allow the Company to include this capital item as a post-test-year capital addition as it has not met its burden of proof on this issue.

Q. PLEASE SUMMARIZE YOUR REVIEW OF THE LITTLE FALLS PLANT UPGRADE.

A. The Company forecast $14.3 million of capital related to the Little Falls Plant Upgrade in 2015.[55/] The Little Falls Plant Upgrade represents replacement of nearly all of the equipment at the Little Falls Hydro Facility.[56/] The full amount of capital was expected

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53/ Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 255, Att.. A).

54/ Id. (the Company's Response to Staff DR 143 Revised 2, Att. B) (see Erval No. 6103).

55/ Exh. No.___(KKS-4) at 3.

56/ Exh. No.___(KKS-5) at Att. No.__GP-5.

to be placed into service in April of 2015.[57/] Yet, the Company recently indicated that only $3.6 million of capital has been transferred to plant between January and June of 2015, related to this project.[58/] Due to this large discrepancy, as well as the fact that the actual amount of capital placed in service should not be considered to be "major" for purposes of being included on a post-test-year basis, I recommend that the Commission not allow the Company to include the Little Falls Plant Upgrade capital item in rates as a post-test-year capital addition.

Q. PLEASE SUMMARIZE YOUR REVIEW OF THE NINE MILE REHAB PROJECT.

A. The Company has proposed to include $51.3 million in capital related to the Nine Mile Rehab Project, a capital project to "rehabilitate and modernize the 4 unit Nine Mile Hydroelectric Development."[59/] The Company originally planned the majority of the facility's capital to be placed into service in December 2015.[60/] Notwithstanding, the Company has only placed in service approximately $3.1 million related to this project through June of 2015 and no longer expects the major part of the project to be completed before the end of the calendar year.[61/] Because there is no indication that this project will be completed in time to be reviewed in this proceeding, I propose that it not be included as a post-test-year capital addition.

57/ Id.

58/ Exh. No. BGM-4C (the Company's Response to ICNU DR 255, Att. A).

59/ Exh. No.___(KKS-5) at Att. No.__GP-6.

60/ Id.

61/ Exh. No.___(BGM-4C) (the Company's Response to Staff DR 143 Revised 2, Att. B) (see Erval No. 4140).

Q. PLEASE SUMMARIZE YOUR REVIEW OF THE POST FALLS SOUTH CHANNEL GATE REPLACEMENT.

A. The Company proposes to include $11.0 million in post-test-period capital related to the Post Falls South Channel Gate Replacement project, a capital maintenance project that the Company claimed was necessary to comply with FERC Dam Safety directives.[62/] The Company originally expected the capital related to this project to be placed into service in May of 2015.[63/] This project was not placed into service as planned, although the Company expects the project to be completed in August.[64/] Because of this variance, I propose that the Commission not allow this project in rates on a post-test-year basis.

Q. PLEASE SUMMARIZE YOUR REVIEW OF THE CABINET GORGE UNIT 1 REFURBISHMENT.

A. The Company proposes to include approximately $11.4 million of capital related to the Cabinet Gorge Unit 1 Refurbishment program, a major overhaul of the generation unit.[65/] The Company originally forecast the project to go into service in May of 2015. Similar to the Post Falls South Channel Gate Replacement project, this project was not placed into service as planned and the Company now suggests that the project will be completed in August.[66/] Since the project has not been completed, I propose that the Commission reject this project for potential inclusion in rates on a post-test-year basis.

Q. PLEASE SUMMARIZE YOUR REVIEW OF PROJECT COMPASS.

A. Project Compass, the Company's new customer information system , was originally forecast to be placed into service in early 2015, with a total capital budget of $95.1

62/ Exh. No.___(KKS-5) at Att. No.__GP-15.

63/ Id.

64/ Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 255 Att. A).

65/ Exh. No.___(KKS-5) at Att. No.__GP-16.

66/ Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 255 Att. A).

million. My understanding is that Project Compass has been placed into service. While I also understand that the project was subject to budget overages, I am not addressing the prudence of Project Compass in this testimony, though I reserve the right to modify this recommendation to the extent other parties' evaluation of the project demonstrates imprudent management.

Q. HOW DO YOU PROPOSE TO ACCOUNT FOR THIS POST TEST-YEAR CAPITAL IN THE COMPANY'S REVENUE REQUIREMENT?

A. Project Compass was placed in service after the end of the test period. Accordingly, my proposal is to include the undepreciated plant balance in rate base, excluding the revenue requirement impacts of depreciation and ADIT. Depreciation and ADIT did not begin to accrue until after the end of the test period. Accordingly, it would be inconsistent to include in September 2014 test period results the depreciation expense accrued for this project in 2015, as doing so has the potential to result in double counting of depreciation expense.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF INCLUDING PROJECT COMPASS IN RATE BASE?

A. After allocating Project Compass to Washington electric service, the rate base impact is approximately $44.2 million. The revenue requirement impact detailed in Exh. No.___(BGM-3) is an increase of approximately $4.2 million on a Washington basis.

c. Property Tax

Q. WHAT IS YOUR PROPOSAL RELATED TO PROPERTY TAXES?

A. The Company calculated pro forma property tax expense based on the level of pro forma capital that it has proposed in this proceeding. The pro forma adjustment related to property taxes was approximately $3.3 million. I propose to adjust this pro forma property tax figure by making it consistent with the ultimate level of capital approved by the Commission in this proceeding, as well as calculating it over the rate base period used in this proceeding.

Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT THAT YOU HAVE CALCULATED TO REFLECT YOUR RATE BASE RECOMMENDATIONS ABOVE?

A. Based on the calculations performed by the Company in its initial filing, updating the property tax calculations to be consistent with a 2014 rate base period will result in a $2.0 million reduction to revenue requirement on a Washington basis.

Q. HOW DID YOU CALCULATE THIS AMOUNT?

A. I used the tax calculations provided by the Company in its workpapers in its initial filing. Specifically, I have used the property taxes calculated by the Company as accrued for calendar year 2015, based on calendar year 2014 plant balances. My understanding is that the Project Compass capital expenditures consist largely of intangible plant, which would not be subject to property tax, so no adjustment was made to reflect post-test-year capital for Project Compass.

d. AMI Meter Retirement Deferral

Q. PLEASE PROVIDE AN OVERVIEW OF THE AMI METER RETIREMENT DEFERRAL.

A. The Company has proposed to begin an expensive program to replace existing, working meters with new technologically advanced meters that use Advanced Meter Infrastructure ("AMI") technology.[67/] Exh. No.___(DFK-5) includes the Company's business case proposal for the AMI meter replacement program, developed on February 6, 2015,

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[67/] Exh. No.___(KKS-1T) at 26.

contemporaneous to the Company's initial filing. As the Company stated, it has "entered the initial planning phase of a program to deploy advanced metering for its electric and natural gas customers in its Washington service area."[68] Based on the business case document, the Company plans to undertake this project over a five year period, ending in 2020.[69] In connection with the Company's program, it has proposed to defer the unrecovered investment in the retired meters and to begin immediately amortizing the account balance, notwithstanding the fact that it has not commenced activities to begin replacing meters.

Q. WHAT IS YOUR RECOMMENDATION ON THE AMI METER RETIREMENT DEFERRAL?

A. I recommend that the Commission reject the Company's accounting proposal on the basis that it is too preliminary at this point to evaluate a deferral for this project. In addition, the Company's revenue requirement calculations are fundamentally flawed because it did not remove the rate base or depreciation associated with the existing meters when accounting for the deferral in revenue requirement. Finally, I do not believe that the project meets the Commission's standards for a deferral. The impact of eliminating this adjustment from the Company's revenue requirement calculations, on a Washington-allocated basis, is a $4.2 million reduction to revenue requirement.

Q. WHAT IS THE COMPANY'S DEFERRAL REQUEST RELATED TO THE AMI METER REPLACEMENT?

A. The Company has proposed to establish a deferral to collect approximately $20.2 million in alleged unrecovered investment associated with undepreciated meters.[70] The

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68/ Exh. No.___(DFK-5) at 4.

69/ Id. at 23.

70/ Exh. No.___(KKS-1T) at 27:7-11; Exh. No.___(JSS-1T) at 34:11-19.

Company's proposal would establish an accounting deferral, amortizing the unrecovered investment over a ten year period beginning at the pendency of this proceeding.[71/] The $4.2 million revenue requirement impact of this deferral consists of two components. First, the Company requests a return on the unrecovered investment in undepreciated meters. This first component of the deferral resulted in a revenue requirement increase of approximately $2.1 million. Second, the Company proposed to begin amortizing the unrecovered investment account balance. This second component of the deferral resulted in a revenue requirement increase of approximately $2.1 million.

Q. HAS THE COMPANY ACCOUNTED FOR THE DEFERRAL CORRECTLY IN REVENUE REQUIREMENT?

A. No. Irrespective of the merits of the AMI meter replacement program, the Company's alleged revenue requirement impact of its accounting proposal is fundamentally flawed. The Company has proposed to increase rate base by $20.2 million to reflect unrecovered investment in the meters that it intends to retire early, yet it did not remove the retired meters from rate base. While the Company suggests that this adjustment has no impact on rate base,[72/] it did in fact increase rate base in its adjustment calculation. In addition, the Company's proposal to begin immediate amortization of the deferred account balance did not consider the fact that its results currently reflect the depreciation expense associated with the retired meters. Accordingly, this is another form of double counting reflected in the Company's adjustment.

71/ Id.

72/ Exh. No.___(JSS-1T) at 34:16-17.

Q. SHOULD THE COMPANY BE ALLOWED TO RECOVER UNRECOVERED INVESTMENT IN METERS WHILE THOSE METERS ARE STILL IN SERVICE?

A. No. As discussed above, the nature of the Company's AMI meter replacement program is preliminary, and the Company has not yet undertaken any actions to begin removing undepreciated meters. Accordingly, transferring the rate base associated with these meters in this proceeding into an unrecovered investment regulatory account would be equally preliminary.

Q. IS THIS FURTHER EVIDENCE OF WHY THE TREND-BASED REVENUE REQUIREMENT SHOULD NOT BE USED?

A. Yes. Because the additional $4.2 million associated with this deferral was only reflected in Company's pro forma cross check study. Thus, the only proper way for the Commission to approve such a deferral would be in the context of its traditional cost-based revenue requirement methodology, not through a speculative deferral.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO UNDERTAKE THE AMI METER REPLACEMENT PROGRAM?

A. No. I disagree with the notion of the Company's proposal, which would replace perfectly good meters with new technologically advanced meters. The Company claims that there will be $10.2 million of net annual benefits, consisting of $15.4 million of annual benefits and $5.2 million of annual costs.[73/] Notwithstanding the speculative nature of many of the benefit categories, on a present value basis, the Company only forecast $7.5 million in net present value revenue requirement benefits associated with the project.[74/] Based upon my review of the Company's analysis underlying Illustration No. 6 in Exh. No.___(DFK-1T), however, the Company's net present value revenue requirement

[73/] Exh. No.___(DFK-5) at 20.

[74/] Exh. No.___(DFK-1T) at 14:19-15:20.

calculations did not account for the cost to customers associated with recovering the $20.2 million in stranded investment associated with early retirement of meters that are currently used and useful. After considering this stranded investment, the economics do not work in customers' favor.

Q. SHOULD THE COMMISSION APPROVE THE AMI METER REPLACEMENT PROGRAM?

A. No. At this time the evidence underlying the AMI meter replacement program is too preliminary for the Commission to approve the project. The data underlying the project contains numerous errors and inconsistencies, and the customer benefits of such a program cannot be concretely determined. For example, when challenged over discrepancies between filed business case documentation for the $158.5 million "Washington AMI" project and subsequent business case versions supplied in discovery, the Company conceded that it filed initial documentation prior to the establishment of an actual project management team—i.e., submitting capital project assessment scores "performed as a *preliminary exercise*" until such time as "a deeper dive assessment" could be performed.[75/] Not only does the filing of such "preliminary" information violate the Commission's express known and measurable standard against reliance on estimates, but the Commission recently applied this standard to reject similarly unsupported capital additions in Pacific Power's last general rate case. With Pacific Power "more or less ignoring … known and measurable standards" through the presentation of "scant data concerning most of its proposed post-test period adjustments," the Commission stated that the inadequate record in that case demonstrates why it requires "increasingly

75/ Exh. No.___(BGM-4C) (the Company's Response to PC DR 73) (emphasis added); accord id. (the Company's Responses to Staff DR 63, Att. A, ICNU DR 204, and PC DR 67) (demonstrating further the lack of managerial oversight in approving such a significant and expensive capital program).

concrete support for *pro forma* adjustments the later in time plant additions are put in service."[76/]

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THE DEFERRAL REQUEST RELATED TO THE AMI METER REPLACEMENT PROGRAM.

A. Based on the above, I recommend that the Commission reject the Company's proposal for a deferral related to the AMI meter replacement program. The project is too preliminary and the benefits are too speculative for the Commission to approve the ratemaking proposed by the Company.

e. Colstrip and CS2 Maintenance Expense

Q. WHAT IS THE COMPANY'S PROPOSAL RELATED TO O&M EXPENSE FOR COLSTRIP AND CS2?

A. While the Company originally proposed to include the pro forma operations and maintenance ("O&M") expense associated with Colstrip and CS2 in power supply expense and the Energy Recovery Mechanism ("ERM"),[77/] parties have agreed, through the May 1, 2015 Multiparty Settlement Stipulation, to remove Colstrip and CS2 O&M from power supply expense and the ERM, and to address the associated revenue requirement in the remainder of this proceeding.[78/] The Company's original proposal to include the Colstrip and CS2 O&M expense was justified on the alleged basis that the ultimate amount of O&M is outside of the Company's control, as both plants are jointly owned and the amounts incurred on a year-to-year basis are variable.[79/] Because of major maintenance planned in the rate period, the Company's expectation is that O&M expense

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76/ Dockets UE-140762 *et al.*, Order 08 at ¶ 169.

77/ Exh. No.___(WGJ-1T) at 4:17-23, 14:7-15:21.

78/ Multiparty Settlement Stipulation at 4.

79/ Exh. No.___(WGJ-1T) at 14:12-15:7.

for these plants will be $3.1 million higher in the rate period than in the historical test year.[80/] As a result of the Multiparty Settlement Stipulation, this incremental O&M expense is now being proposed in general revenue requirement as a pro forma adjustment.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED LEVEL OF COLSTRIP AND CS2 O&M EXPENSE?

A. No. Including expenses related to major maintenance activities is not representative of normalized conditions. As the Company discusses in testimony, major maintenance expense is periodic, occurring only once every few years.[81/] Therefore, by definition, including major maintenance expenses in revenue requirement in the test year in which they are expected to occur will not result in rates that are representative of normalized conditions. The presumption that the major maintenance costs should be included in revenue requirement the year that they are incurred assumes that the Company will file a rate case every year (a scenario neither the Commission nor non-utility stakeholders have traditionally supported), making upward and downward adjustment depending on whether a major outage is expected in the rate year.

Q. WHAT DO YOU PROPOSE RELATED TO THE COST OF MAJOR MAINTENANCE EXPENSES?

A. I propose that the Company include a normalized level of expense associated with the major maintenance at Colstrip and CS2 by including an amount in rates that is the average expense over the maintenance cycle. For purposes of Colstrip, which undergoes major maintenance every 3 years, the amount of cost reflected in normalized operations would be one-third the cost of the major maintenance. For purposes of CS2, which

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80/ Id. at 15:3-5.

81/ Id. at 14:12-15:2.

undergoes major maintenance once every 24,000 hours (about once every four years), the cost of major maintenance would be included at one-fourth the cost of major maintenance. My calculation of normalized major maintenance expense is detailed in Exh. No.___(BGM-3), page 8.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR RECOMMENDATION?

A. The impact of this adjustment is a reduction to Washington electric revenue requirement of $2.5 million.

f. Executive Compensation

Q. WHAT IS YOUR RECOMMENDATION RELATED TO EXECUTIVE COMPENSATION?

A. My recommendation on executive compensation has two components. First, I recommend that the Commission remove the restricted stock dividends from results, as those dividends have historically been excluded from rates and assigned to shareholders. Second, based on my review of the level of executive compensation for other regional public utility executives, I recommend that the Commission establish a $325,000 per executive cap on the level of executive compensation reflected in revenue requirement.[82/]

Q. HOW DOES THE COMPENSATION OF COMPANY EXECUTIVES COMPARE TO OTHER REGIONAL UTILITIES?

A. I performed an analysis of the compensation of key executives at public power utilities in the Northwest. The information that I collected can be found in Exh. No.___(BGM-3), pages 10-12. Based on my review, many of these executives are earning substantially

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82/ See also Exh. No.___(BGM-4C) (the Company's Responses to ICNU DRs 31 and 212) (combining to demonstrate that, despite an executive incentive plan purportedly "designed to drive cost control," Avista has not reinstated a capital expenditures performance component to the plan that, until 2009, rewarded executives for capital expenditure control).

less than executives at the Company. The highest paid public power executive that I have identified has compensation of $325,000.

Q. IS IT APPROPRIATE TO COMPARE THE SALARIES OF PUBLIC POWER EXECUTIVES TO EXECUTIVES AT AN INVESTOR OWNED UTILITY?

A. Yes. Many of the public power executives manage utilities that are of a comparable size and complexity to the Company. For example, Snohomish Public Utility District provides electrical service to a number of customers comparable to the number of customers served by the Company. The primary difference between the public power executives and the Company's executives is that the executives at the Company report primarily to shareholders, rather than to customers. Thus, for purposes of establishing rates, any amounts paid in excess of what a public utility executive makes should be assumed to be for the benefit of shareholders and not for the benefit of ratepayers. Moreover, Avista executives are also compensated for non-utility operations, providing further reason to be conservative in favor of ratepayers when allocating benefits between ratepayers and shareholders. This is especially the case, given the lack of formal documentation and quantifying analysis when Company executives estimate percentages of their time spent on non-utility operations.[83/]

Q. WHY HAVE YOU PROPOSED TO EXCLUDE RESTRICTED STOCK DIVIDENDS FROM RESULTS?

A. The Company states that it has included approximately $325,000 of costs associated with providing restricted stock dividends to executives.[84/] The Company, however, has previously excluded the restricted stock portion of its long term executive incentive plan

83/ Id. (the Company's Response to ICNU DR 210).

84/ Exh. No.___(JSS-1T) at 21:11-22:2.

("LTIP") due to "amounts focusing on shareholder value."[85/] While the Company now claims this was only an "oversight" in attempting to justify charging ratepayers for restricted stock,[86/] the Company plainly states in its 2014 proxy statement (in bold font): "We are not amending or otherwise altering the LTIP in any respect and are not asking you to approve any amendments to the LTIP."[87/] Thus, in addition to the fact that the very nature of a dividend is a return of shareholder capital, there is no reason for the Commission to depart from past practice regarding restricted stock dividends. Accordingly, the above amount should be excluded from revenue requirement.

Q. DO YOU HAVE ANY CONCERS WITH DIRECTOR FEES?

A. Yes. The Commission has required a 50/50 split between customers and shareholders of director fees and meeting costs, but Company is only splitting meeting costs evenly.[88/] If the Company also evenly split director fees, electric revenue requirement would be reduced by $45,000.[89/] The Company cites to paragraph 137 of the 2009 GRC Order to argue that fees should be treated like insurance,[90/] but paragraph 142 of the 2009 GRC Order explicitly states that fees treatment is "[i]n contrast" to a previous Commission discussion on insurance.[91/] The Company's claim that it has not been splitting fees evenly since 2010 is irrelevant, since all intervening general rate cases have been settled, and the Commission's directive in the 2009 GRC Order still controls.

85/ Dockets UE-120436 *et al.*, Exh. No.___(KSF-1T) at 29:24-26.

86/ Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 216).

87/ Avista Notice of May 8, 2014 Annual Meeting and 2014 Proxy Statement at 52, available at: https://www.avistacorp.com/home/Documents/Reports/Avista2014Proxy.pdf (emphasis added).

88/ Compare Docket UE-090134, Order 10 at ¶ 142 (Dec. 22, 2009) ("2009 GRC Order"), with Exh. No.___(JSS-1T) at 45:5-7.

89/ Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 219).

90/ Id.

91/ 2009 GRC Order at ¶ 142.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. My recommendation will result in a reduction to revenue requirement of approximately $0.5 million on a Washington basis. The calculation of this adjustment can be found in Exh. No.___(BGM-3), page 9.

g. Corporate Jet

Q. WHAT AMOUNT OF REVENUE REQUIREMENT IS INCLUDED IN ELECTRIC RESULTS IN CONNECTION WITH THE CORPORATE JET?

A. The corporate jet cost the Company approximately $1,754,851 in the test period.[92/] Of that amount, approximately $849,713.31 is reflected in electric results.[93/]

Q. HOW MANY FLIGHTS DID THE COMPANY MAKE IN THE TEST PERIOD?

A. Based on a review of Avista flight logs,[94/] the Company made 72 different flights in the year ending in April of 2014, comprising a total of 174 flight legs. A summary of the flight logs over this period can be found in Exh. No.___(BGM-3), pages 14-15. On average, there were approximately five employees on each flight. Over the course of the year, the flights made by the Company were the equivalent of approximately 900 one-way airline tickets. While most of the flights were within the region, the Company did make some flights outside of the Northwest to places such as Las Vegas and New York.

Q. HOW DOES THE COST OF TRAVEL IN THE CORPORATE JET COMPARE TO TRAVEL ON COMMERCIAL AIRLINES?

A. It is more expensive for the Company's employees to travel on the corporate jet than it would be if they purchased commercial airline tickets. On average, it cost $1,950 per leg (i.e., one-way), per passenger on the corporate jet. This is the equivalent of $3,900 for a

92/ Exh. No.___(BGM-4C) (the Company's Response to ICNU DR 243).

93/ Id.

94/ Id. (the Company's Response to ICNU DR 240). As the actual flight log attachment produced in discovery is quite voluminous, it is not included in the exhibit.

round trip flight per passenger. Considering that most of the Company's flights are to locations within the region, such as Olympia, the cost of the corporate jet is an order of magnitude greater than what it would cost if the Company's employees were to purchase commercial airline tickets. For example, a one-way flight between Spokane and Seattle typically costs less than $100.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING RELATED TO THE CORPORATE JET?

A. I propose to remove the cost associated with the corporate jet that exceeds the amount that the Company would have otherwise paid for its employees to travel on a commercial airline. Based on the calculation detailed in Exh. No.___(BGM-3), I demonstrate that the Company paid $1.4 million more in connection with the corporate jet than it would have otherwise paid for its employees to travel on a commercial airline. After allocation to Washington, this results in a Washington-allocated revenue requirement adjustment of $0.7 million.

Q. HOW DID YOU CALCULATE THE COST THAT THE COMPANY WOULD HAVE OTHERWISE PAID FOR ITS EMPLOYEES TO TRAVEL ON A COMMERCIAL AIRLINE?

A. I took the average cost of a one-way ticket to the common destinations where the Company flies—Olympia, Washington; Boise, Idaho; and, Salem, Oregon. Based on my review, the average cost of a one-way ticket from Spokane to these destinations is approximately $79 per ticket. I then applied a risk-adjustment, grossing that amount up by 100% to reflect the fact that the Company may have to purchase flights outside of the region. Accordingly, I assumed the average cost of a one-way ticket for the Company to be $159, the equivalent of $318 round trip.

h. Pro Forma Labor

Q. WHAT IS THE COMMISSION'S PAST POLICY ON PRO FORMA LABOR EXPENSE?

A. The Commission has allowed pro forma adjustments to test year costs, if they are known and measurable and occur within 12 months after the end of the test year.[95/]

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S LABOR MODEL?

A. Unlike other utilities, that use full-time-equivalent ("FTE") models to determine the level of normalized labor expense for ratemaking, the Company has proposed to rely on its actual book payroll expenses in the test period, with an escalation adjustment made to the overall level of expense to estimate 2016 rate year wages. Based on the Company's workpapers, this escalation adjustment is approximately 3% per year between the test period and the 2016 rate year.

Q. HAS THE COMPANY DEVELOPED ITS PRO FORMA LABOR ADJUSTMENT IN A MANNER THAT IS CONSISTENT WITH THE COMMISSION'S PAST POLICY?

A. No. The Company has proposed to escalate labor expenses 27 months, to the end of 2016. This length of time is too far beyond the end of the test period to be consistent with the Commission's policy. A similar escalation proposal that extended 27 months beyond the end of the test period was recently rejected in Pacific Power's 2014 general rate case.[96/]

95/ WUTC v. PacifiCorp, Docket UE-100749, Order 06 at ¶¶ 226-235 (Mar. 25, 2011).

96/ Dockets UE-140762 *et al.*, Order 08 at ¶¶ 31- 41.

Q. DO YOU AGREE WITH HOW THE COMPANY HAS MODELED LABOR EXPENSE?

A. No. While the Company applies an escalation factor that it claims is supported by the Compensation Committee of the Board of Directors,[97/] it has not applied the escalation factors to employee wages per FTE. Rather, it has applied the increase to what appears to be overall payroll expense. This approach is not as precise as a typical FTE model. For example, a typical FTE model will break out labor by capital and expense. The Company's model does not provide the information necessary to determine the amounts that would be expected to be assigned to capital on a pro forma basis. In addition, it is not possible to evaluate how changes in FTE levels might impact the Company's labor expense. Based on the Company data responses, total employee compensation actually declined from $250.7 million in 2013 to $238.5 million in 2014.[98/] Absent an FTE labor model, however, it is impossible to know what amount of that change was driven by changing FTE levels and what was driven by reduced wages.

Q. WHAT DO YOU PROPOSE?

A. Due to the deficiencies in the Company's labor model, I recommend that the Company's pro forma adjustment be rejected. Absent a showing of FTE levels in the post-test-period, it is not possible develop a calculation of pro forma labor expense that is consistent with the Commission's known and measurable standard. Eliminating this adjustment will reduce Washington revenue requirement by $4.0 million.

To the extent that the Commission determines that a pro forma adjustment is warranted using the Company's model, I recommend that it be limited to the known wage

97/ Exh. No.___(JSS-1T) at 25:18-26:1.

98/ Exh. No.___(BGM-4C) (the Company's Responses to ICNU DRs 245 and 246). As the attachments to these data responses are extremely voluminous, they are not included in the exhibit.

increases expected through the end of 2014. This adjustment would also exclude any incremental labor expense associated with Project Compass, which should be evaluated in the context of an overall FTE model. This alternate treatment would result in a reduction to the Company's pro forma labor expense of $3.4 million on a Washington basis.

i. Pro Forma Benefits

Q. HOW DID THE COMPANY ACCOUNT FOR PRO FORMA BENEFITS IN THIS PROCEEDING?

A. The Company's pro forma pension and retiree medical expense were based on largely estimated expenses for 2016 as calculated in actuarial reports by Towers Watson and Mercer. These expense amounts were updated to more recent information in response to Staff DR 131, based on actuarial reports provided in PC DR 38.[99] Based on Staff DR 131, the Company is proposing to increase the level of pension and medical expense by approximately $6.8 million, with approximately $3.2 million of the increase allocated to Washington electric rates. [redacted].[100] [redacted][101]

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[99] Id. (the Company's response to PC DR 38, Att. A-C).

[100] Id.

[101] Id.

Q. IS THE COMPANY'S PROPOSAL TO USE 2016 PENSION EXPENSE CONSISTENT WITH PAST COMMISSION POLICY?

A. No. The use of an estimate for 2016 is too far beyond the end of the test period to be used under the modified historical test period approach. In addition, the interest rate assumption that was updated in Staff DR 131 is entirely under the control of the Company and it would not be appropriate for the Company to update that assumption so far into the proceeding.[102/]

Q. BASED ON THIS INFORMATION, SHOULD THE COMPANY BE ALLOWED TO MAKE A PRO FORMA ADJUSTMENT TO ITS PENSION AND POST RETIREMENT MEDICAL EXPENSE?

A. No. Between the Company's proposal to calculate pension expense on a calendar year 2016 basis and its proposal to update the actuarial assumptions used to calculate that value, I do not believe that it has submitted sufficient evidence to support a pro forma adjustment that conforms to Commission policy. Accordingly, I recommend a revenue requirement adjustment to remove the pro forma pension expense adjustment, reducing revenue requirement by $3.4 million on a Washington basis.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

102/ See Dockets UE-140762 *et al.*, Order 08 at ¶¶ 79-80 (cautioning that new evidence presented at the rebuttal stage may not be accepted by the Commission in the future).