

Exhibit No. MC-1T
Dockets UE-160228/UG-160229
Witness: Melissa Cheesman

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

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

Respondent.

**DOCKETS UE-160228 and
UG-160229 (*Consolidated*)**

TESTIMONY OF

MELISSA CHEESMAN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Restating Incentive Expenses,
Pro Forma Employee Benefits,
Pro Forma Pipeline Safety Labor,
Pro Forma Meter Deferral & Amortization*

August 17, 2016

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LIST OF EXHIBITS

- Exhibit No. MC-2, Restate Incentive Expenses (Electric 2.16, Gas 2.16)
- Exhibit No. MC-3, Avista's Initially Filed Restate Incentive Expenses (Electric 2.16, Gas 2.16)
- Exhibit No. MC-4, Avista's Updated Restate Incentive Expenses (Electric 2.16, Gas 2.16)
(Avista's 2nd Supplemental Response to UTC Staff Data Request No. 91).
- Exhibit No. MC-5, Avista's Response to UTC Staff Data Request No. 130
- Exhibit No. MC-6, Avista's Response to UTC Staff Data Request No. 129
- Exhibit No. MC-7, Avista's 2015 Incentive Plans
- Exhibit No. MC-8, Avista's Response to UTC Staff Data Request No. 102
- Exhibit No. MC-9, Pro Forma Employee Benefits (Electric 3.04, Gas 3.02)
- Exhibit No. MC-10, Avista's Initially Filed Pro Forma Employee Benefits (Electric 3.04,
Gas 3.02)
- Exhibit No. MC-11, Avista's Updated Pro Forma Employee Benefits (Electric 3.04, Gas 3.02)
- Exhibit No. MC-12, Avista's Initially Filed Pro Forma Pipeline Safety Labor (Gas 3.03)
- Exhibit No. MC-13, Avista's Response to UTC Staff Data Request Nos. 134 and 135
- Exhibit No. MC-14, Avista's Response to UTC Staff Data Request No. 136
- Exhibit No. MC-15, Pipeline FTE Alternative
- Exhibit No. MC-16, Attachment to Avista's Response to UTC Staff Data Request No. 91,
"Staff_DR_091 Supp 2 - Attach A - Summary of Changes.xlsx"
- Exhibit No. MC-17, Avista's Response to UTC Staff Data Request Nos. 161 and 162

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Melissa Cheesman. My business address is the Richard Hemstad
5 Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Regulatory Analyst in the Energy Section of the Regulatory
11 Services Division.

12

13 **Q. How long have you been employed by the Commission?**

14 A. I have been employed by the Commission since 2012.

15

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

17 A. I graduated magna cum laude from Seattle University, Albers School of Business
18 and Economics in 2010, with a Bachelor of Arts in Business Administration with a
19 focus in accounting. In 2012, I earned a Masters of Professional Accounting
20 (MPAC) degree from Seattle University, Albers School of Business and Economics.

21 I attended the Western NARUC Utility Rate School (2013) and the National
22 Association of Water Companies 2013, Staff Water Policy Forum. I have provided
23 accounting guidance in energy dockets UE-151871, UG-151872, and UE-160100.

1 Prior to moving to the energy section in June 2016, I audited and provided testimony
2 for solid waste general rate cases - dockets TG-140560, TG-130502, and TG-
3 130501.

4
5 **Q. Have you testified previously before the Commission?**

6 A. Yes. I have provided written and oral testimony before the Commission in a solid
7 waste adjudicated rate case, TG-140560. I also previously provided written
8 testimony before the Commission in support of a settlement agreement in dockets
9 TG-130501 and TG-130502.

10
11 **II. SCOPE AND SUMMARY OF TESTIMONY**

12
13 **Q. Please explain the purpose of your testimony.**

14 A. The purpose of my testimony is to respond to twelve of Avista Corporation's
15 ("Avista" or "Company") adjustments sponsored by the Company's witness, Ms.
16 Jennifer Smith.

17
18 **Q. Which restating and pro forma adjustments are uncontested by Staff?**

19 A. Staff has reviewed and does not contest the following four adjustments:

- 20 1. Deferred FIT Rate Base (Electric 1.01, Gas 1.01)
21 2. FIT/DFIT/ITC/PTC Expense (Electric 2.06) and FIT/DFIT Expense (Gas
22 2.06)
23 3. Pro Forma Labor Non-Exec (Electric 3.02, Gas 3.00)

1 4. Pro Forma Labor Exec (Electric 3.03, Gas 3.01)

2

3 **Q. Which Cross Check adjustments did you review?**

4 A. I reviewed the following four Cross Check adjustments that Avista uses to support
5 the reasonableness of its electric and natural gas Attrition Study:

- 6 1. Cross Check Labor Non-Exec (Electric 4.02, Gas 4.00)
- 7 2. Cross Check Labor Non-Exec (Electric 18.03, Gas 18.01)
- 8 3. Cross Check 2017 AMI Capital & Expense (Electric 4.03, Gas 4.03)
- 9 4. Cross Check 2018 AMI Capital & Expense (Electric 18.05, Gas 18.06)

10

11 **Q. What is Staff's position regarding the above Cross Check adjustments?**

12 A. Avista is not requesting rate recovery of the Cross Check adjustments (balances).¹
13 Ms. Joanna Huang's testimony presents Staff's opinions on the Cross Check
14 adjustments.²

15

16 **Q. Please identify the adjustments that Staff is contesting.**

17 A. Staff has reviewed and now contests the remaining four adjustments. These four
18 adjustments relate to short-term employee incentives, employee benefits, proposed
19 pipeline Full-Time Employees (FTEs), and electric meter deferral. Avista's proposed
20 adjustments are sponsored by Ms. Smith, in her direct testimony.³ For additional
21 discussion on Avista's electric meter deferral please refer to the testimony sponsored

¹ Smith, Exh. No. __ (JSS-1T) 5:1-7.

² Huang, Exh. No. JH-1T in Section III.B.

³ Smith, Exh. No. __ (JSS-1T).

1 by the Company's witness Karen Schuh in her direct testimony.⁴ In Exhibit
2 No. ___(JSS-2) and Exhibit No. ___(JSS-3), Ms. Smith labeled the four adjustments
3 that Staff contests, as follows:

- 4 • Restate Incentive Expenses (Electric 2.16) and Restating Incentive
5 Adjustment (Gas 2.14)
- 6 • Pro Forma Employee Benefits (Electric 3.04, Gas 3.02)
- 7 • Pro Forma Pipeline Safety Labor (Gas 3.03)
- 8 • Pro Forma Meter Deferral & Amortization (Electric 3.07)

9 I maintain the Company's designated titles and numbers for these adjustments
10 throughout my testimony with the exception of Restating Incentive Adjustment (Gas
11 2.14). In my testimony and exhibit, I refer to this adjustment as "Restate Incentive
12 Expenses (Gas 2.14)," and to the restating adjustment for both electric and gas,
13 collectively, as "Restate Incentive Expenses (Electric 2.16, Gas 2.14)."
14

15 **Q. Please summarize your testimony.**

16 **A.** For the four contested adjustments identified above, Staff proposes the following:

- 17 • Restate Incentive Expenses (Electric 2.16, Gas 2.14) – Staff proposes to
18 restate test period short-term incentives based on corrections and updates to
19 Avista's initially filed adjustment.
- 20 • Pro Forma Employee Benefits (Electric 3.04, Gas 3.02) – Staff proposes to
21 pro form Avista's employee retirement and medical benefits based on the 12-
22 month period ending December 31, 2015.

⁴ Schuh, Exh. No. ___ (KSS-T1) 39: 18 - 41:2.

- 1 • Pro Forma Pipeline Safety Labor (Gas 3.03) – Staff proposes completely
2 removing estimated compensation for 2017 pipeline FTEs.
- 3 • Pro Forma Meter Deferral & Amortization (Electric 3.07) – Staff proposes
4 completely removing the Company’s deferral and amortization of electric
5 meters adjustment pursuant to Order 01, Docket UE-160100.⁵

7 III. DISCUSSION

9 A. RESTATING ADJUSTMENT

11 **Q. What is the Commission’s standard practice for restating adjustments?**

12 A. Restating adjustments, by definition, adjust the booked operating results for any
13 defects or infirmities in actual recorded results that can distort test period earnings.
14 Restating actual adjustments are also used to adjust from an as-recorded basis to a
15 basis that is acceptable for rate making. Restating actual adjustments could include:
16 removing prior period amounts; eliminating below-the-line items that were recorded
17 as operating expenses in error; adjusting from book estimates to actual amounts; or
18 eliminating or normalizing extraordinary items recorded during the test period.⁶

⁵ *In the Matter of the Petition of Avista Corp.*, Docket UE-160100, Order 01 (Mar. 15, 2016).

⁶ WAC 480-07-510(3)(e)(ii).

1 **1. Restate Incentive Expenses (Electric 2.16, Gas 2.14)**

2
3 **Q. Please summarize the Company's proposed restating adjustment on short-term**
4 **incentive expenses (Electric 2.16, Gas 2.14).**

5 A. Avista's short-term incentive program is one component of the Company's overall
6 compensation package offered to its employees.⁷ The short-term incentive program
7 has performance targets for both executive and non-executive employees.⁸ For
8 executives, the targets include: earnings per share; general utility operation and
9 maintenance ("O&M") cost per customer; customer satisfaction; reliability index; and
10 response time. For non-executives, the performance targets are the same, except that
11 earnings per share are not included.

12 The Company *restates* the actual short-term executive and non-executive
13 incentives for the test period ending September 30, 2015, by using *projected* 2016
14 O&M labor expenses and an average of six-year percentage payouts.⁹ Avista starts
15 with a test period non-executive incentive expense of approximately \$8.6 million and
16 restates it using projected 2016 O&M non-executive labor expenses. For the
17 executive incentive expense, the basis of the Company's adjustment is test period
18 O&M incentive expenses and projected 2016 O&M-related executive labor
19 expenses. Because the Company attempts to adjust *test period* incentive expenses

⁷ See Exhibit No. MC-8; Avista's Response to UTC Staff Data Request No. 102, for Avista's additional discussion regarding its incentive plans.

⁸ See Exhibit No. MC-7, Avista's 2015 Incentive Plans, for a full description of the executive and non-executive plans. The incentive plans describe incentives for "executives" and "non-executives," but sometimes refers to "non-executives" as "employees."

⁹ The average of six-year percentage payouts calculation in the Company's initial filing used data from calendar years 2009 to 2014.

1 with projected 2016 O&M labor expenses, Avista's proposed adjustment more
2 closely resembles a pro forma adjustment than a restating adjustment.¹⁰

3 The approximate impact of the Company's proposed adjustment to short-term
4 incentives increases electric net operating income by \$800,000 and has zero effect on
5 rate base. Additionally, the approximate impact increases gas net operating income
6 by \$318,000 and has zero effect on rate base.

7
8 **Q. Why is Staff contesting this adjustment?**

9 A. The initial workpapers provided by the Company contained three calculation errors,
10 identified by Staff, which must be corrected.¹¹ The Company was made aware of
11 these errors and corrected two of the three in response to Staff data requests and
12 discussions with Staff.¹² The two errors that the Company corrected pertained to:
13 updating the non-executive test period incentive expense using only the portion
14 related to O&M (approximately \$5.2 million instead of \$8.6 million);¹³ and,
15 incorrectly reducing Account 920 for executive incentives related to earnings per
16 share.¹⁴

17 An error still remains in the Company's updated calculations. The
18 Company's updated restating calculation adjusted test period incentive expenses

¹⁰ Cheesman, Exh. No. MC-3, Avista's Initially Filed Restate Incentive Expenses (Electric 2.16, Gas 2.16).

¹¹ See *id.*

¹² Exh. No. MC-4, Avista's Updated Restate Incentive Expenses (Electric 2.16, Gas 2.16) (Avista's 2nd Supplemental Response to UTC Staff Data Request No. 91); see *id.*

¹³ See Exh. No. MC-2, Restate Incentive Expenses (Electric 2.16, Gas 2.14), for greater detail of this adjustment. It is important to make this update in order for the restating adjustment to have congruency.

¹⁴ The executive incentives related to earnings per share are not booked in Account 920, but the amount was removed from that account pursuant to the Company's adjustment. Instead, these incentives are booked in Account 417.1. The Company, correctly, does not include Account 417.1 in its revenue request in this rate case.

1 using projected O&M 2016 labor expenses: approximately \$41.2 million for non-
2 executives; and approximately \$1.0 million for executives.¹⁵ The calculation should
3 have used the test year's O&M labor expense: approximately \$39.5 million for non-
4 executives; and \$980,759 for executives.¹⁶ Restating test period O&M incentive
5 expenses with projected O&M 2016 labor expenses lacks congruency because
6 projected O&M 2016 labor expenses do not agree – relating to when these expenses
7 are incurred – with test period O&M incentive expenses, upon which the adjustment
8 is based.¹⁷ This is in conflict with the very nature of a restating adjustment.

9
10 **Q. Has Avista provided Staff with any additional information relevant to this**
11 **adjustment?**

12 A. Yes. The Company provided Staff with an update to include results from calendar
13 year 2015 in the average of six-year percentage payouts for both executive and non-
14 executive incentives.¹⁸ With regards to the average of six-year percentage payouts,
15 averaging data smooths fluctuations to reduce the output to one reasonable result.¹⁹

¹⁵ Executive projected 2016 labor expense must be reduced by the weighted-average percentage Award Opportunity and by the percentage relating to O&M Incentive Opportunity to arrive at the Executive O&M projected 2016 labor expense (labeled as “Potential Payout @ 100%” in Exhibit MC-4).

¹⁶ See Exh. No. MC-2, Restate Incentive Expenses (Electric 2.16, Gas 2.14) for greater detail of this adjustment. Executive test year labor expense must be reduced by the weighted-average percentage Award Opportunity and by the percentage relating to O&M Incentive Opportunity to arrive at the Executive O&M test year labor expense (labeled as “Incentive Opportunity @ 100%”).

¹⁷ The dictionary definition of the word congruent is: “matching or in agreement with something.” *Congruent Definition*, MERRIAM-WEBSTER.COM, <http://www.merriam-webster.com/dictionary/congruent> (last visited Aug. 12, 2016). For example, an adjustment restating an expense based on the results of another expense is only reasonable when both expenses are temporally (relating to time) in agreement.

¹⁸ Exh. No. MC-5, Avista's Response to UTC Staff Data Request No. 130.

¹⁹ 1 Leonard Saul Goodman, *The Process of Ratemaking* 150 (1988), describing “Discretion and Judgment of Data averaging.”

1 Its appropriateness depends on the circumstances and whether it reaches a balanced
2 and fair rate decision.²⁰ In this instance, Staff supports the use of averaging.

3 Because the test year lies only minimally in calendar year 2014 and the
4 results from the entire calendar year of 2015 are known, for this adjustment Staff is
5 agreeable to updating both the executive and non-executive short term incentives
6 based on an average of six-year percentage payouts that includes the results from all
7 of calendar year 2015.

8 The Company also provided support for the non-executive incentive loader
9 percentages used in its adjustment.²¹ Staff believes it is justifiable to update these
10 percentages with 2015 results for the same reasons as the average of six-year
11 percentage payouts.

12
13 **Q. What is Staff's recommendation for Restate Incentive Expenses (Electric 2.16,**
14 **Gas 2.14).**

15 A. Staff recommends that the Company's initial adjustment be updated consistent with
16 the calculations and information provided by the Company to reflect corrections to
17 the non-executive O&M incentive expense and Accounts 920 and 417.1. Staff
18 recommends that calendar year 2015 results be used to update: the average of six-
19 year percentage payouts for both the executive and non-executive incentive
20 expenses; and the non-executive incentive loader.

21 The approximate impact of Staff's recommendation decreases electric net
22 operating income by \$560,000 and has zero effect on rate base. The approximate

²⁰ *Id.* at 149, describing "Discretion and Judgment of Data averaging".

²¹ See Exh. No. MC-6, Avista's Response to UTC Staff Data Request No. 129.

1 impact of Staff's recommendation decreases gas net operating income by \$87,000
2 and has zero effect on rate base.

3
4 **Q. What information forms the basis of your recommendation?**

5 A. I reviewed the Company's 2015 Executive Officer Annual Cash Incentive Plan, the
6 2015 Employee (Non-Officer) Incentive Plan, 2009 to 2015 incentive payout
7 percentages, the Company's initially-filed workpapers, and the Company's responses
8 to UTC Staff Data Request Nos. 91, 102 (for more narrative regarding Avista's
9 incentive plan goals), 129, and 130.²² My review of this information formed the basis
10 of my recommendation.

11
12 **Q. How is Staff's recommendation consistent with Commission standards for
13 restating adjustments?**

14 A. Staff's adjustment restates test period short-term O&M incentive expense by
15 averaging extraordinary payouts to reflect a historical average of six-year percentage
16 payouts based on test period O&M non-executive and executive labor costs. Going
17 forward this adjustment will need to be reviewed to determine whether a historical
18 average of six-year percentage payouts provides a fair and reasonable result.

19
20 **Q. Have you prepared any exhibits detailing Staff's recommendation?**

21 A. Yes, please refer to the following.

²² This material can be found in Exh. Nos. MC-3 through MC-8, attached to my testimony.

- 1 • Exhibit No. MC-2, Restate Incentive Expenses (Electric 2.16, Gas 2.14) for
- 2 Staff's cumulative analysis.
- 3 • Exhibit No. MC-3, Avista's Initially Filed Restate Incentive Expenses
- 4 (Electric 2.16, Gas 2.16).
- 5 • Exhibit No. MC-4, Avista's Updated Restate Incentive Expenses (Electric
- 6 2.16, Gas 2.16) (Avista's 2nd Supplemental Response to UTC Staff Data
- 7 Request No. 91).
- 8 • Exhibit No. MC-5, Avista's Response to UTC Staff Data Request No. 130.
- 9 • Exhibit No. MC-6, Avista's Response to UTC Staff Data Request No. 129.
- 10 • Exhibit No. MC-7, Avista's 2015 Incentive Plans.
- 11 • Exhibit No. MC-8, Avista's Response to UTC Staff Data Request No. 102.

12

13 **B. PRO FORMA ADJUSTMENTS**

14

15 **Q. What is the Commission's standard practice for pro forma adjustments?**

16 A. Staff witness Ms. Huang addresses the Commission's policy on pro forma
17 adjustments in Exhibit JH-1T, Section IV.A. Pro forma adjustments of costs that are
18 not offset by other factors must be known and measurable and cannot be mere
19 estimates of future expenses.²³

²³ See WAC 480-07-510(3)(e)(iii) and *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-090134, Order 10, ¶ 45 (Dec. 22, 2009), explaining the known and measurable concept.

1 **1. Pro Forma Employee Benefits (Electric 3.04, Gas 3.02)**

2
3 **Q. What is the basis of the Company’s proposed pro forma employee benefits**
4 **adjustment (Electric 3.04, Gas 3.02)?**

5 A. The Company engaged a third-party firm to provide an actuarial valuation report of
6 Avista’s pension and post-employment benefits for the fiscal year ending
7 December 31, 2014, along with an estimated and forecasted summary of net periodic
8 benefit costs and pension expense for years 2015 through 2019.

9
10 **Q. Please summarize the Company’s proposed pro forma employee benefits**
11 **adjustment (Electric 3.04, Gas 3.02).**

12 A. Avista initially proposed to adjust test period retirement and medical benefits to
13 reflect estimated and forecasted cost increases determined by an actuary analysis
14 provided by third-party firms. The approximate impact decreases electric net
15 operating income by \$750,000 and has zero effect on rate base. Additionally, the
16 approximate impact decreases gas net operating income by \$224,000 and has zero
17 impact on rate base.

18
19 **Q. Why is Staff contesting this adjustment?**

20 A. Staff is contesting this adjustment because the estimated and forecasted costs
21 determined by an actuary analysis provided by third-party firms are not known and
22 measurable. This adjustment should be based on known and measurable data, which
23 the Company has for calendar year 2015.

1 **Q. Has Avista provided Staff with any additional information relevant to this**
2 **adjustment?**

3 A. Yes. In response to UTC Staff Data Request No. 80, Avista provided its most recent
4 actuarial valuation report regarding pension and post-employment benefits for the
5 fiscal year ending December 31, 2015, along with an estimated and forecasted
6 summary of net periodic benefit costs and pension expense for years 2016 through
7 2020. The Company updated its pro forma employee benefits adjustment in response
8 to UTC Staff Data Request No. 91. Avista's updated adjustment reflects the most
9 recent estimations and forecasts for 2017, summarizing net periodic benefit costs and
10 pension expense for that year.

11

12 **Q. Please summarize Staff's recommendation for Pro Forma Employee Benefits**
13 **(Electric 3.04, Gas 3.02).**

14 A. Staff recommends using retirement and medical benefit expenses recorded in
15 calendar year 2015, not estimations for 2017, to update those in the test period. The
16 approximate impact decreases electric net operating income by \$871,000 and has
17 zero effect on rate base. Additionally, the approximate impact decreases gas net
18 operating income by \$259,000 and has zero effect on rate base.

19

20 **Q. What information forms the basis of your recommendation?**

21 A. In addition to discussions with the Company regarding hardcoded figures in their
22 workpapers, I reviewed the Company's initially filed workpapers on pro forma

1 employee benefits and Avista's third supplemental response to UTC Staff Data
2 Request No. 91.²⁴

3
4 **Q. What is the regulatory basis for Staff's recommendation?**

5 A. Staff's recommendation of increasing retirement and medical benefits expenses to
6 account for the change between 2015 results and the test period is known and
7 measurable and provides reasonable results for retirement and medical benefits going
8 forward.

9
10 **Q. Have you prepared any exhibits detailing Staff's recommendation?**

11 A. Yes, please refer to the following exhibits.

- 12 • Exhibit No. MC-9, Pro Forma Employee Benefits (Electric 3.04, Gas 3.02)
13 for Staff's analysis.
- 14 • Exhibit No. MC-10, Avista's Initially Filed Pro Forma Employee Benefits
15 (Electric 3.04, Gas 3.02).
- 16 • Exhibit No. MC-11, Avista's Updated Pro Forma Employee Benefits
17 (Electric 3.04, Gas 3.02).

18

²⁴ This material can be found in Exh. Nos. MC-10 and MC-11, attached to my testimony.

1 **2. Pro Forma Pipeline Safety Labor (Gas 3.03)**

2
3 **Q. Please summarize the Company's adjustment.**

4 A. The Company proposes to increase gas labor costs to reflect Avista's interpretative
5 operational integration of the American Petroleum Institute (API) Recommended
6 Practice (RP) 1173 by estimating the cost of additional FTEs considered essential to
7 implement RP 1173. The approximate impact decreases gas net operating income by
8 \$68,000 and has zero effect on rate base.

9
10 **Q. Why is Staff contesting this adjustment?**

11 A. The Company's proposed pro forma adjustment attempts to capture in the test period
12 estimated annualized O&M wage expenses for employees that the Company has not
13 yet hired.²⁵ Additionally, the Company estimates the percentage of proposed wages
14 allocated to O&M expenses. These adjustments are not known and measurable. The
15 Company has only roughly estimated its wages and its allocation and has yet to hire
16 for any of these positions.

17 Staff agrees that pipeline safety is paramount. But adding estimated and
18 forecasted amounts to the test year based on Avista's interpretation of RP 1173 does
19 not overcome the regulatory requirement that such pro forma adjustments be known
20 and measurable.

21

²⁵ See Exh. No. MC-12, Avista's Initially Filed Pro Forma Pipeline Safety Labor (Gas 3.03).

1 **Q. Has the Company made progress towards hiring the new FTEs?**

2 A. Yes. Based on the Company's responses to UTC Staff Data Request Nos. 134 and
3 135, the Company filled the Washington/Idaho Inspector position in June 2016. The
4 Company states that the inspector union position was contracted at \$34.37 per hour
5 (approximately \$71,500 annually). In UTC Staff Data Request No. 136, I asked the
6 Company to update its "Pipeline Safety Position Adjustment.xlsx" workpaper to
7 reflect any newly-hired pipeline positions. The Company responded, "Until such
8 time as an offer has been extended and accepted, no updates are necessary at this
9 time."²⁶ Staff is unsure how the Company's responses can be reconciled.

10
11 **Q. Please summarize Staff's recommendation for Pro Forma Pipeline Safety Labor**
12 **(Gas 3.03).**

13 A. Staff's recommendation is to completely remove Avista's adjustment because it is
14 not known and measurable. Alternatively, the Commission could conclude that only
15 the Washington/Idaho Inspector has been hired.

16
17 **Q. What information forms the basis of your recommendation?**

18 A. I have reviewed the Company's initially filed workpapers, and Avista's responses to
19 UTC Staff Data Request Nos. 134, 135, and 136.²⁷ Additionally, I have discussed RP
20 1173 with the Commission's Pipeline Safety Staff.

21

²⁶ See Exh. No. MC-14, Avista's Response to UTC Staff Data Request No. 136.
²⁷ This material can be found in Exh. Nos. MC-12 through MC-14, attached to my testimony.

1 **Q. What is the regulatory basis for Staff's recommendation?**

2 A. The Company's pipeline safety labor adjustment is based solely on management's
3 estimation of future new positions and estimated allocations to O&M Expenses; it
4 does not reach the threshold of being "known and measurable." Absent such a
5 demonstration, Staff recommends eliminating this expense.

6 Alternatively, if the Commission were to accept the Company's estimated
7 allocation to O&M expense, zero out the other positions that have not yet been hired,
8 and add only the Washington/Idaho Inspector at \$71,500 to the Company's initially
9 filed workpapers; the impact on rates would decrease gas net operating income by
10 approximately \$3,000, but the impact on rate base would be zero.²⁸

11

12 **Q. Have you prepared any exhibits detailing Staff's recommendation?**

13 A. Yes, please refer to the following exhibits.

- 14 • Exhibit No. MC-12, Avista's Initially Filed Pro Forma Pipeline Safety Labor
15 (Gas 3.03).
- 16 • Exhibit No. MC-13, Avista's Response to UTC Staff Data Request Nos. 134
17 and 135.
- 18 • Exhibit No. MC-14, Avista's Response to UTC Staff Data Request No. 136.
- 19 • Exhibit No. MC-15, Pipeline FTE Alternative.

20

²⁸ See Exh. No. MC-15, Pipeline FTE Alternative.

1 **3. Pro Forma Meter Deferral & Amortization (Electric 3.07)**

2
3 **Q. Does the Commission rely on any other standards when reviewing pro forma**
4 **adjustments?**

5 A. Yes. The Commission, as well as Staff, has a strong preference for adhering to the
6 matching principle wherever possible.²⁹ The matching principle is an important basic
7 accounting guideline in which incurred expenses should be recorded in the same
8 period in which the corresponding revenues are earned.

9
10 **Q. Has the Commission recently provided guidance for evaluating adjustments for**
11 **meter deferral and amortization?**

12 A. Yes. In Order 01 of Docket UE-160100, the Commission detailed how the retirement
13 and deferral of Avista’s existing meters should be evaluated, stating:

14 Avista Corporation[] . . . [is permitted to] defer accounting the
15 remaining net book value of its existing electric meters as the meters
16 are removed from service to a regulatory asset account, Other
17 Regulatory Assets – 182.3 . . . subject to the condition that this Order
18 is effective on the date Avista Corporation executes contracts with
19 vendors and moves forward with its AMI investment as outlined in its
20 Amended Petition.

21 Avista Corporation must file with the Commission an annual
22 report by January 31 of each year, beginning January 31, 2017,
23 documenting the actual number of meters retired in the previous
24 calendar year and the net book value of those meters at the time of
25 retirement.

26

²⁹ See *Wash. Utils. & Trans. Comm’n v. Pacific Power & Light, Co.*, Docket UE-140762, Order 08, n. 57 (Mar. 25, 2015).

1 **Q. Please summarize the Company's adjustment.**

2 A. The Company proposes to transfer an estimated \$18.6 million of undepreciated
3 electric meters from distribution plant to a regulatory asset. The net impact to electric
4 rate base is zero.

5 Additionally, because this adjustment transfers distribution plant to a
6 regulatory asset there is a reduction in depreciation expense and an increase in
7 amortization expense. The approximate impact decreases the electric net operating
8 income by approximately \$749,000.

9
10 **Q. Why is Staff contesting this adjustment?**

11 A. Referring to the Commission decision in Order 01, Docket UE-160100,³⁰ which is
12 not effective until the Company executes its vendor contracts, the Company may
13 defer the remaining undepreciated value of existing electric meters from distribution
14 plant to Other Regulatory Assets – 182.3, as the meters are removed from service.
15 The Company initially proposed transferring the total undepreciated balance for
16 existing electric meters to a regulatory asset account. The Company's proposed
17 adjustment does not reflect the Commission's decision in Order 01 from Docket
18 UE-160100.

³⁰ *In the Matter of the Petition of Avista Corp.*, Docket UE-160100, Order 01, ¶¶ 6-10 (Mar. 15, 2016), granting the Company's amended petition subject to several conditions, including the following: (a) that approval of the Company's amended petition is not effective until the Company executes the vendor contracts; (b) any proposed transfer of the electric meters from plant-in-service to a regulatory asset account (182.3) will not take place until the date the contracts are executed; (c) the Company should not interpret the Commission's decision as a guarantee that amounts recorded in a regulatory asset account will be recoverable in a future period; and, (d) the Company should not interpret the Commission's decision as preapproval of the Company's AMI investment and makes no determination of prudence.

1 In response to Staff discovery, the Company removed its Pro Forma Meter
2 Deferral & Amortization (Electric 3.07) adjustment: explaining that, when applying
3 Order 01(from Docket UE-160100), “the deferred regulatory asset during the 2017
4 rate period on an AMA basis would not be material.”³¹ The Company has, therefore,
5 removed the regulatory asset balance (restoring distribution plant) and removed the
6 impacts on depreciation and amortization expense.

7
8 **Q. Please summarize Staff’s recommendation for Pro Forma Meter Deferral &
9 Amortization (Electric 3.07).**

10 A. Staff’s recommendation is to completely remove Avista’s adjustment. Avista
11 received the regulatory permission it needs to accomplish the deferrals at the
12 appropriate time. Staff recommends that this adjustment be updated consistent with
13 the Company’s response to UTC Staff Data Request No. 91, resulting in the
14 adjustment’s removal.

15
16 **Q. What information forms the basis of your recommendation?**

17 A. I reviewed the Company’s testimony, the Company’s response to UTC Staff Data
18 Request No. 91, and Order 01 in Docket UE-160100.

19

³¹ See Exh. No. MC-16, UTC Staff_DR_091 Supp 2 - Attach A - Summary of Changes.xlsx.

1 **Q. Have you prepared an exhibit to support the Company's most recent response**
2 **to UTC Staff Data Request No. 91?**

3 A. Yes, please refer to Exhibit No. MC-16, Attachment to Avista's Response to UTC
4 Staff Data Request No. 91, "Staff_DR_091 Supp 2 - Attach A - Summary of
5 Changes.xlsx," outlined item number (4), in cell C14.

6
7 **Q. Have you prepared an exhibit regarding the status of Avista's executed vendor**
8 **contracts for the AMI meters or installation of supporting computer hardware**
9 **and software systems?**

10 A. Yes. For Avista's narrative response to Staff's data request on this issue, please refer
11 to Exhibit No. MC-17, Avista's Response to UTC Staff Data Request Nos. 161 and
12 162.

13
14 **Q. Is there anything else you would like to add?**

15 A. Yes. I represented Staff in Docket UE-160100 regarding the appropriate accounting
16 treatment and deferral of Avista's existing electric meters at the Commission's
17 regularly scheduled Open Meeting on March 10, 2016.

18

19 **Q. Does this conclude your testimony?**

20 A. Yes.

21