BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

AVISTA CORPORATION D/B/A AVISTA UTILITIES

Respondent.

DOCKETS UE-220053, UG-220054 and UE-210854 (*Consolidated*)

RESPONSE TESTIMONY OF SEBASTIAN COPPOLA ADDRESSING THE FULL MULTIPARTY SETTLEMENT STIPULATION ON BEHALF OF THE WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL PUBLIC COUNSEL UNIT

EXHIBIT SC-1CT

July 29, 2022

Shaded information is Designated as Confidential per Protective Order In Docket UE-220053, UG-220054, and UE-210854 (*Consolidated*)

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I. INTRODUCTION & SUMMARY

Q. Please state your name and business address.

A. My name is Sebastian Coppola. My business address is 5928 Southgate Rd., Rochester, Michigan 48306.

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

A. I am President of Corporate Analytics, Inc., a business consulting firm specializing in financial and strategic business issues in the fields of energy and utility regulation.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel).

Q. Please describe your professional qualifications.

A. I have more than 40 years of experience in public utility and related energy work, both as a consultant and utility company executive. I have been an independent consultant for more than 20 years. Before that, I spent three years as Senior Vice President and Chief Financial Officer of SEMCO Energy, Inc. with responsibility for all financial operations, corporate development and strategic planning for the company's Michigan and Alaska regulated gas utility operations and non-regulated businesses. During the period at SEMCO Energy, I also had responsibility for certain storage and pipeline operations as President and COO of SEMCO Energy Ventures, Inc. Prior to SEMCO, I was Senior Vice President of Finance for MCN Energy Group, Inc., the parent company of Michigan

Consolidated Gas Company and various non-utility businesses with operation in natural gas pipelines, storage, and electric generation.

During my 24-year career at MCN and MichCon, I held various analytical, accounting, managerial and executive positions, including Manager of Gas Accounting with responsibility for maintaining the accounting records and preparing financial reports for gas purchases and gas production. Over the years, I also held the positions of Treasurer, Director of Investor Relations, Director of Accounting Services, Manager of Corporate Finance, and Manager of Customer Billing. Additionally, I have been responsible for and have managed several new pipeline and construction projects, as well as the implementation of information technology projects.

I have testified in several regulatory proceedings before various regulatory commissions. I have prepared and/or filed testimony in general rate case proceedings, revenue decoupling reconciliations, gas conservation programs, gas cost and power supply cost recovery reconciliation mechanisms, and pipeline and meter infrastructure replacement cases.

Q. In addition to your experience with natural gas utilities, what experience do you have with electric utilities?

A. I have performed rate case analyses and filed testimony in several electric general rate cases addressing issues on revenue requirement, sales level determination, operation and maintenance expenses, cost allocations, cost of capital, cost of service and rate design, various cost tracking mechanisms and integrated resource plans. In addition, I have performed analyses of power costs and filed testimony in power supply cost recovery mechanisms, including reconciliation of annual power supply costs.

In my position as Senior Vice President of Finance at MCN Energy Group, I had responsibility for project financing of independent power generation plants in which MCN was an owner. In this regard, I was intricately involved with and became knowledgeable concerning PURPA qualified cogeneration plants in Michigan and other states. In addition, I was involved in negotiating the development and financing of power generation and electricity distribution plants in other countries, such as India.

Exhibit SC-2 describes my regulated-energy qualifications in more detail and lists cases in which I have testified in different jurisdictions.

Q. Have you previously filed testimony before the Washington Utilities & Transportation Commission?

A. Yes. I have assisted Public Counsel in various regulatory proceedings before the Washington Utilities and Transportation Commission (WUTC or Commission), including the filing of testimony in Avista Corporation's rate case Dockets UE-120436 and UG-120437 (consolidated); PacifiCorp's rate case Docket UE-130043; and Puget Sound Energy's Power Cost Adjustment mechanism in Dockets UE-130583, UE-130617, UE-131099, and UE-131230. In addition, in March 2013, I prepared reports on behalf of Public Counsel analyzing the natural gas price hedging programs and gas procurements practices of gas utilities in the state of Washington, in Dockets UG-121501, UG-121592, UG-121434 and UG-121569.

More recently, I assisted Public Counsel in the Northwest Natural Gas general rate case in Docket UG-200994, which concluded in a settlement of that case.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

Exhibit SC-2	Sebastian Coppola Qualifications & Expertise
Exhibit SC-3	Cost of Capital Rate Year 1 and 2 revenue requirement adjustments
Exhibit SC-4	Settlement Agreement Cost of Capital Rate Year 1 and 2 revenue requirement adjustments
Exhibit SC-5C	Avista's Confidential Response to Public Counsel's Data Request No. 104C, with Attachment A, on insurance costs
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Q. What is the purpose of your testimony?

A. I have been asked by Public Counsel to perform an independent analysis of Avista Corporation's (Company or Avista) multiyear electric and gas general rate case filings in Consolidated Dockets UE-220053, UG-220054 and UE-210854, and the Full Multiparty Settlement Stipulation (Settlement) of those cases that the Company and parties[1] filed on June 28, 2022, and supporting testimony filed July 8, 2022. This testimony presents a report of that analysis with related recommendations in regard to certain topics.

Q. What topics are you addressing in your testimony?

A. I will address the following major topics with regard to both the Company rate case filing and the Settlement Agreement:

1. Adjustments to the Company's filed revenue requirement for the multiyear plan and the Settlement Agreement;
2. Adjustments to certain operations and maintenance (O&M) expenses;
3. Adjustments to certain provisional capital additions forecasted by the Company for the multiyear plan;
4. Adjustments to O&M cost offsets related to capital additions; and
5. An adjustment to revenue requirement pertaining to the financial benefit derived by the Company from participation in the Energy Imbalance Market (EIM).

[1] The parties to the Settlement Agreement include Avista, Commission Staff, Alliance of Western Energy Consumers, NW Energy Coalition, The Energy Project, Sierra Club, WalMart, and Small Business Utility Advocates.

The absence of a discussion of other matters in my testimony does not indicate that I agree with those aspects of Avista's rate case filings. Instead, the narrow focus of my testimony is a consequence of focusing on certain issues within the available resources. Other Public Counsel witnesses will address other topics. To the extent that their testimony and recommendations affect the revenue requirement, I have incorporated their recommended changes into my calculation of the revenue requirement.

II. SETTLEMENT AGREEMENT

Q. What is your general assessment of the Settlement?

A. Certain revenue requirement aspects of the Settlement filed by Avista and other parties do not serve the public interest and are not in the best interest of Avista's customers. The Settlement increases rates for electric customers by $38 million, or 6.9 percent, in Rate Year 1 (RY1), with an additional $12.5 million in Rate Year 2 (RY2) for a cumulative increase of 9 percent.[2] For natural gas customers, the Settlement increases rates by $7.5 million in RY1 and an additional $1.5 million in RY2, for a cumulative increase of 4.8 percent.[3]

The Settlement is a "black box" settlement of revenue requirement issues, which does not present a full accounting and disclosure of important cost and revenue issues within Avista's rate case filing. The Settlement identifies only an

[2] Full Multiparty Settlement Stipulation, ¶ 10 (filed June 28, 2022); *see also* The Revised Full Multiparty Settlement Stipulation Joint Testimony, Exh. JT-1Tr; The Revised Full Multiparty Settlement Stipulation, Exh. JT-2r (filed July 8, 2022).

[3] Full Multiparty Settlement Stipulation, ¶ 10.

overall rate of return of 7.03 percent as a component of revenue requirement, while specifying no rate base or other revenue requirement components.[4]

Therefore, in my testimony I will address proposed revenue requirement adjustments to the Settlement within the context of the Company's initial rate case filing, which identifies the specific cost items with which Public Counsel disagrees.

The adjustments I recommend below to the Company's originally proposed revenue demonstrate the rate increases contained within the Settlement are still excessive and unnecessary. Therefore, I recommend that the Commission modify or reject the proposed Settlement and adopt Public Counsel's proposed revenue requirement.

III. SUMMARY CONCLUSIONS & RECOMMENDATIONS

Q. Please provide a summary of your conclusions and recommended adjustments to the Company's proposed revenue deficiency.

A. In its initial filing for the electric business, the Company filed for base rate increases of $52.9 million in RY1 and $17.1 million in RY2.[5] The base rate increases represent an overall increase to customer rates of 9.6 percent in RY1 and an additional 2.8 percent in RY2, for a cumulative increase of 12.4 percent.[6]

For the gas business, the Company proposed rate increases of $10.9 million in RY1 and $2.2 million in RY2.[7] These base rate increases represent an

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4 *Id.* ¶ 11.
5 Direct Testimony of Dennis P. Vermillion, Exh. DPV-1T at 18:7–17.
6 *Id.*
7 *Id.*

overall increase to customer rates of 9.5 percent in RY1 and an additional 1.7 percent in RY2, for a cumulative increase of 11.2 percent.[8]

RY1 increases would go into effect in December 2022 and RY2 rate increases would go into effect in December 2023. According to the rate case filing, these two rate increases would allow the Company to recover projected cost increases through the end of December 2024.[9]

Based on my analysis of the topics identified above and adjustments other Public Counsel witnesses propose, I have determined that Avista has overstated its request for rate increases in RY1 and RY2. Public Counsel's proposed adjustments to the revenue requirement demonstrate that the Company has a revenue requirement deficiency of only $0.4 million in the electric business in RY1 and $2.8 million in RY2.[10] They also demonstrate that in the natural gas business, the Company has a revenue deficiency of $1.7 million in RY1 and $0.2 million in RY2.[11] Table 1 below shows Public Counsel's proposed adjustments that reduce the Company's excessive rate increases to reasonable levels.[12]

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[8] *Id.*
[9] Avista's rate case application filed on January 20, 2022, and supporting schedules.
[10] Sebastian Coppola, Exh. SC-43.
[11] *Id.*
[12] *Id.*

Table 1: Revenue Requirement Adjustment

		Electric		Natural Gas	
Line #	($000)	**RY1**	**RY2**	**RY1**	**RY2**
1	**Revenue Requirement - As Filed**	**$ 52,852**	**$ 17,133**	**$ 10,922**	**$ 2,172**
	PC Adjustments:				
2	Lower Rate of Return	(23,024)	(898)	(5,794)	(227)
3	O&M Reductions	(10,373)	(4,894)	(2,064)	(945)
4	Rate Base Reductions	(7,242)	(8,662)	(1,425)	(774)
5	O&M Offsets Reversal	234	170	37	11
6	EIM Benefit	(12,065)			
7	**PC Adjusted Revenue Requirement**	**$ 382**	**$ 2,849**	**$ 1,676**	**$ 237**

Public Counsel's adjustments to the Company's filed case include:

1. A lower rate of return of 6.46 percent, in contrast with the Company originally proposed rate of 7.31 percent.[13] Based on Public Counsel's lower cost of capital, the reduction in revenue requirement in RY1 as compared to the original filing is $23.0 million for the electric business and $5.8 million for the natural gas business. Exhibit SC-3 shows RY2 revenue requirement adjustments pertaining to the cost of capital.[14] Public Counsel witness David Garrett discusses the basis for the lower cost of capital in direct testimony.[15]
2. Proposed adjustments to the Company's revenue requirement for several reductions to O&M expenses, such as insurance costs, employee benefits and other miscellaneous expenses for both rate years and businesses. The

[13] *See* Direct Testimony of David J. Garrett, Exh. DJG-1T at 3:1–7.
[14] *See* Coppola, Exh. SC-3.
[15] *See* Garrett, Exh. DJG-1T.

reduction in revenue requirement for RY1 for O&M expense items is $10.4 million for the electric business and $2.1 million for the natural gas business. For RY2, the O&M revenue requirements adjustments are a reduction of $4.9 million for the electric business and $0.9 million for the gas business. Exhibit SC-44 shows the respective amounts and details for each rate year and business. Later in my testimony, I will discuss the specific adjustments.

3. Reductions to forecasted capital additions in each of the two rate years and for both the electric and natural gas business. The Company included large increases in capital spending for the forecasted years 2022–2024 that are not adequately supported by evidence of increased installation of equipment and work activities. I recommend that the Commission reduce the revenue requirement for the electric business by $7.2 million in RY1 and $8.7 million in RY2 for the electric business, and similarly for the gas business by $1.4 million in RY1 and $0.8 million in RY2. Exhibits SC-40 and SC-41 provide more details.[16] I will discuss the specific proposed capital addition disallowances later in my testimony.

4. Based on the proposed capital adjustments, I recommend that the Commission approve the following rate base amounts for each rate year and for each business:

[16] *See* Coppola, Exhs. SC-40 & SC-41.

Table 2: Public Counsel Adjusted Rate Base

Line #	($000)	Electric RY1	Electric RY2	Natural Gas RY1	Natural Gas RY2
11	**Rate Base:**				
12	Avista Filed Rate Base	$2,045,841	$2,125,576	$514,942	$ 535,042
13	PC Adjustments	(38,482)	(48,447)	(6,896)	(3,207)
14	Adjusted Rate Base	$2,007,359	$2,077,129	$508,046	$ 531,835

5. The Company included O&M offsets for some capital programs, and a portion of those O&M offsets have been reversed for capital additions that have been removed from the Company's case. Exhibit SC-42 shows the respective adjustment amounts.
6. Public Counsel also recommends that additional projected financial benefits from the Company's participation in the EIM should decrease revenue requirement for RY1 by $12.1 million. Public Counsel believes additional power cost reductions will accrue to Avista's benefit from the EIM during RY1, which the Company has not captured in its rate case filing. Public Counsel witness Robert Earle discusses this issue further in direct testimony.[17]
7. In conjunction with the rate increase filing, Avista proposed to accelerate the pass-through to customers of Excess Deferred Income Tax (EDIT) Credits in the amount of $25.5 million for the electric business and $12.5 million for the natural gas business.[18] In the Settlement, the Settling Parties agree that the Residual Tax Customer Credit of approximately $27.6 million (electric) and $12.5 million (natural gas) will be returned to

[17] *See* Direct Testimony of Robert Earle, Exh. RLE-1T.
[18] Andrews, Exh. EMA-1T at 51:21–52:11.

customers through separate Tariff Schedules 78 (electric) and 178 (natural gas) over a two-year amortization period beginning December 21, 2022. The allocation of the refund amounts across rate schedules will be consistent with the agreed-upon proposal contained in Attachment A to the Settlement Agreement. The amounts of rate increases shown in Table 1 above do not include the EDIT Credits, which would reduce the proposed base rate increases during the two-year period. The accelerated refund of EDIT Credits are intended to partially and temporarily reduce the impact of the increase in customer base rates resulting from this general rate case. I recommend that the Commission approve the Company's proposal to accelerate the pass-through of the EDIT Credits.

The remainder of my testimony, along with the testimony of other Public Counsel witnesses, provides further details and support for these summary conclusions and recommendations.

Q. What information did you rely upon in formulating your recommendations?

A. I relied on the Settlement, the revised joint testimony in support of the Settlement, and Avista's filed testimony, exhibits, and several data request responses provided in this Docket. I have also relied on pertinent information from the Company's prior general rate case (GRC) in Dockets UE-200900 and UG-200894 (Consolidated), other select information from prior rate case filings by the Company and other parties, and prior Commission orders.

In addition, I have read, and I am familiar with, Senate Bill 5295 and RCW 80.28.425 on Multiyear Rate Plans, and the Commission Policy Statement on Property That Becomes Used and Useful after Rate Effective Date issued on January 31, 2020, in Docket U-190531 (Policy Statement).

IV. REVENUE REQUIREMENT ADJUSTMENTS

A. Rate of Return

Q. What is the cost of capital and capital structure that Avista proposed in this rate case filing and how does it compare to Public Counsel's proposed cost of capital?

A. The Company used the following capital structure and cost of capital in its filing:

Table 3: Company Capital Structure & Cost of Capital

Capital Component	Proposed Ratio	Cost Rate	Weighted Cost
Long Term Debt	51.5%	4.54%	2.34%
Common Equity	48.5%	10.25%	4.97%
Total	100.0%		7.31%

The Company proposed a return on equity (ROE) rate of 10.25 percent, an equity ratio of 48.5 percent, and a cost of debt of 4.54 percent. The result is an overall rate of return of 7.31 percent.

In contrast, Public Counsel witness Garrett has proposed an ROE rate of 8.75 percent, an equity ratio of 45.6 percent, and the same cost of debt of 4.54 percent proposed by Avista. Garrett's proposal results in an overall rate of return of 6.46 percent, as shown in Table 4 below. In response testimony, Garrett discusses why a lower cost of capital for Avista is justified.[19]

[19] Garrett, Exh. DJG-1T at 3:1–7.

Table 4: Public Counsel Capital Structure & Cost of Capital

Capital Component	Proposed Ratio	Cost Rate	Weighted Cost
Long Term Debt	54.4%	4.54%	2.47%
Common Equity	45.6%	8.75%	3.99%
Total	100.0%		6.46%

Q. What is the impact on the Company revenue requirement and proposed rate increase of Public Counsel's proposed lower cost of capital?

A. The reduction in revenue requirement from Public Counsel's proposed lower rate of return is $23.0 million in RY1 and $0.9 million for RY2 for the electric business. For the natural gas business, the reduction in revenue requirement is $5.8 million in RY1 and $0.2 million in RY2. Exhibit SC-3 shows the calculations that support Public Counsel's adjustment to the revenue requirement from the lower overall rate of return rate.

Public Counsel's lower cost of capital represents the largest adjustment to Avista's proposed revenue requirement, reflecting primarily the excessive ROE rate of 10.25 percent the Company proposed and an inflated equity ratio of 48.5 percent. The Commission should not accept the Company's overstated rate of return, and instead should accept Public Counsel's proposed overall cost of capital to set reasonable, fair, just, and sufficient rates for Avista.

Q. What is your assessment of the overall rate of return of 7.03 percent included in the Settlement?

A. In comparison to the 7.31 percent rate of return requested by the Company in its initial filing, the Settlement's 7.03 percent ROR reduces Avista's revenue requirement by only $7.6 million in RY1 and $0.3 million in RY2 for the electric business, and $1.9 million for RY1 and $0.1 million for RY2 for the natural gas business. Exhibit SC-4 shows the calculations of the revenue requirement impact from the lower rate of return rate of 7.03 percent.

I recommend that the Commission reject the proposed overall rate of return of 7.03 percent and reduce the revenue requirement in the Settlement to the amounts proposed in Table 1 of my testimony and in supporting Exhibit SC-43.

B. O&M Expenses

Q. In your review of the Company's forecasted O&M expenses and pro-forma adjustments, did you find forecasted expenses that are excessive and should be adjusted to a lower cost level?

A. Yes. In my review, I identified eight expense items that require downward cost adjustments. Exhibit SC-44 summarizes those items. The reductions to Avista's revenue requirement from my proposed O&M expense adjustments are $10.4 million in RY1 and $4.9 million in RY2 for the electric business, and $2.1 million for RY1 and $0.9 million for RY2 for the natural gas business.[20] In my testimony below, I will discuss each of those adjustments.

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[20] Coppola, Exh. SC-44.

1. Insurance Expense (Andrew Exhibit, EMA-2 & 3, PF Adj. 3.12 & 5.05)

Q. Please briefly describe the amount of insurance expense forecasted by Avista for RY1 and RY2.

A. In Pro-Forma Adjustments 3.12 and 5.05, the Company projected insurance costs on a total system basis of approximately $16.4 million for 2023 (RY1) and $18.8 million for 2024 (RY2). These amounts represent a 78 percent increase and 104 percent increase, respectively, over the actual insurance costs the Company incurred for the historical test year ended September 2021. In response to Public Counsel's Confidential Data Request No. 103C,[21] the Company revised these forecasted amounts down to $15.4 million for 2023 and $17.2 million for 2024.[22]

The Company's proposed insurance costs pertain to insurance coverage for general liability, Directors and Officers (D&O), property and other risks, such as cyberattacks, the Colstrip generating plant, and workers' compensation.

Q. What is your assessment of the insurance expense forecasted by Avista for RY1 and RY2?

A. Beginning on page 63 of direct testimony, Company witness Elizabeth Andrews discusses the recent escalation in insurance costs in the context of establishing a

[21] Coppola, Exh. SC-6C (Avista's Supplemental Confidential Response to Public Counsel's Data Request No. 103C, with Attachment A).

[22] The updated summary schedule in Avista's Response to Public Counsel's Confidential Data Request No. 103C (Exh. SC-6C, Attachment A, non-confidential tab "IA-1 Updated") shows $17,324,202 for 2024. The detailed support schedule (non-confidential tab "IA-2") shows $17,170,815 for 2024. This discrepancy is unexplained. All system-wide insurance costs discussed in my testimony reflect a 10 percent reduction for D&O insurance costs not recoverable in utility rates.

proposed Insurance Expense Balancing Account. Andrews discusses the specific pro-forma insurance expense adjustments at pages 117 and 148.[23]

Although I will address the Company's proposal for an insurance balancing account later in my testimony, from the information provided in Andrews' testimony and data provided in response to several data requests, it is apparent that the major increase in insurance costs began in 2021 for general liability coverage following several deadly wildfires in California and some wildfires in the Company's Washington service area. In the five years prior to 2021, from 2016 to 2020, general liability insurance costs [redacted]. In 2021, insurance costs for general liability [redacted], and the Company has forecasted [redacted] in 2022, [redacted] in 2023, and [redacted] in 2024.[24]

Insurance costs for other coverages increased at a more moderate rate between 2020 and 2021 with property insurance [redacted]. Likely reflecting risk of wildfire damage to Company property. D&O insurance [redacted] in 2021, or [redacted] from 2020, after [redacted] in 2017, but [redacted] in 2016.[25] Other insurance costs [redacted] from 2020 to 2021 primarily

[23] Direct Testimony of Elizabeth M. Andrews, Exh. EMA-1T at 63:19–148:18, 117:1–17, 148:3–18.
[24] *Id.* at 68:19:–70:18; *see also* Coppola, Exh. SC-6C (Avista's Supplemental Confidential Response to Public Counsel's Data Request No. 103C, Attachment A); *see also* Coppola, Exhibit SC-5C at 5 (Avista's response to Public Counsel's Confidential Data Request No. 104C, Attachment A).
[25] *See* Coppola, Exh. SC-6C (Avista's Supplemental Confidential Response to Public Counsel's Data Request No. 103C, Attachment A); *see also* Coppola, Exhibit SC-5C at 5 (Avista's response to Public Counsel's Confidential Data Request No. 104C, Attachment A).

reflecting the recent increase in business cyberattacks.[26] Exhibit SC-5C includes Avista's response to Public Counsel's Confidential Data Request No. 104C and Attachment A with the historical and forecasted premiums by insurance coverage type.

In Attachment A to Avista's response to Public Counsel's Confidential Data Request No. 103C,[27] the Company provided the calculations of the updated insurance expense for 2022, 2023 and 2024, as well as the actual premiums paid in 2021 and early 2022 that it used to estimate insurance costs for those future years.[28] Although the Company supported its increase in insurance costs for 2021 and 2022 with actual invoices, its forecasted increases for 2023 and 2024 are speculative. The Company has forecasted [redacted][29]

Based on my review of Avista's testimony and discovery responses, the two main drivers of the increase in insurance costs for the Company have been wildfires and recent incidents of corporate cyberattacks. As insurance companies experience losses from those events and perceive a higher risk of future losses, they increase insurance premiums to compensate for current and future financial

[26] Andrews, Exh. EMA-1T at 74:1–19.
[27] Coppola, Exh. SC-6C (Avista's Supplemental Confidential Response to Public Counsel's Data Request No. 103C, with Attachment A).
[28] *Id*.
[29] *Id*.

losses. The increases in premiums for general liability, property insurance, cyberattacks, and to some degree D&O insurance in 2021 and 2022 reflect those actual losses and perceived future risks of potential losses, which are industry-wide and not always company specific.

However, as insurance companies get past their initial reaction to the apparent higher risk of insurance losses and are able to better assess real losses versus perceived losses for specific companies, insurance premiums will tend to moderate. There is anecdotal evidence from recent articles in the business press on this subject that insurance premium increases will likely slow going forward.[30] With regard to the Company's specific situation, the Wildfire Resiliency Plan that Avista began to implement in 2020 should mitigate its risk of fires. Insurance premiums for general liability coverage should decline further in 2023, 2024 and future years, as insurance companies realize the benefits of the Company's Wildfire Resiliency Plan. The improvements proposed by Public Counsel witness Aaron Tam should strengthen the plan and have a beneficial impact on wildfire risk mitigation.[31]

Additionally, Public Counsel's Data Request No. 105C asked the Company to provide the number of insurance claims filed during the five-year period from 2016 to 2021, and insurance proceeds received from property insurance, liability insurance, and cyberattacks.[32] In response, [redacted]

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[30] Matthew Lerner, *Price Increases to Slow in 2022; Fitch*, BusinessInsurance.com (Jan. 11, 2022, 2:21 P.M.); Leslie Scism, *Inflation is the Latest Driver of Rise in Business Insurance Costs*, The Wall St. J. (July 10, 2022 5:30 P.M).
[31] *See* Aaron Tam, Exh. AT-1T.
[32] Coppola, Exh. SC-7C (Avista's Response to Public Counsel's Data Request No. 265C, and Data Request No. 105C with Attachment A, on insurance claims).

[redacted]

With regard to cyberattacks, [redacted].[33] Therefore, no significant issues currently exist with cyberattacks. Exhibit SC-7C includes Avista's Response to Public Counsel's Data Request No. 265C and 105C with associated attachments.

I conclude the 13 percent increase in insurance costs in 2023 and the 10 percent increase in 2024 are speculative, not known or measurable, and excessive. I recommend the Commission approve only a rate of increase for insurance costs for 2023 and 2024 based on projected inflation factors.

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[33] *Id*.

Q. Did the Company provide its forecast of inflation factors for 2022 and future years?

A. Yes. In response to Public Counsel's Data Request No. 121, the Company provided forecasted inflation factors for 2022 through 2027 based on various methodologies. In this response, the Company stated that it primarily tracks and uses a blend of the Consumers Price Index-Urban (CPI-U) and the Personal Consumption Expenditures Index (PCEI), which is the Federal Reserve-preferred measure of consumer inflation for determining appropriate monetary policy.

Based on the data found in Attachment B to Avista's Response to Public Counsel Data Request No. 121 (Exh. SC-9), the Company forecasted inflation rates of 3.7 percent for 2022, 2.4 percent in 2023, and 2.3 percent in 2024. I used these inflation rates to calculate the forecasted insurance expense for 2023 and 2024. I also used these same inflation rates to forecast future costs in other areas of my testimony, where appropriate.

Q. Based on the Company's inflation factors, have you determined the reasonable amount of insurance expense for RY1 and RY2?

A. Yes. In Exhibit SC-8, I have calculated total system insurance costs for 2023 and 2024 and then proceeded to allocate the applicable portion to the Washington jurisdiction. I started by accepting the Company's forecasted insurance costs of $13,750,799 for 2022 on line 21 of the exhibit, and then applied the Company-provided inflation factor of 2.4 percent to arrive at a forecasted amount of $14,090,034 for 2023. To this amount, I applied the inflation factor of 2.3 percent to arrive at the total amount of $14,414,105 for 2024. On lines 22 through 31, I calculated the increase in expense over the historical test year for 2023 and 2024, and the portions applicable to the Washington electric and natural gas businesses.

Based on my calculations, the increase in insurance expense for the electric business in RY1 should be $2,656,785 and $190,269 for RY2. The Company forecasted an increase of $4,292,023 in RY1 and $1,511,690 in RY1. Therefore, I recommend a reduction of $1,635,238 for RY1 and $1,321,421 in RY2, as shown on line 35 of Exhibit SC-8.

Similarly, for the natural gas business, I forecasted an increase in insurance expense of $471,786 for RY1 and $23,937 for RY2. In comparison to the Company's forecasted increase, I recommend a reduction in expense of $31,608 for RY1 and $77,210 for RY2.

These adjustments bring revenue requirement reductions to $2,165,035 for RY1 and $1,749,545 for RY2 for electric, and $41,849 for RY1 and $102,225 for RY2 for the gas business, as I show on lines 40 and 41 of Exhibit SC-8. I recommend that the Commission adopt my proposed adjustments and reduce the rate increases proposed in the Settlement by these amounts.

Q. Do you agree with the Company's proposal to establish an insurance expense balancing account?

A. No. I do not believe that an insurance balancing account is necessary. As discussed above, the Company experienced significant increases in insurance costs during 2021 and 2022. In my forecast of insurance costs for 2023 and 2024, I have accepted the Company's projections through the end of 2022. Insurance costs are expected to moderate in 2023 and 2024, as forecasted by the Company and further adjusted through my calculations. The Company should be able to manage through those more moderate premium increases by working with insurance brokers and insurance companies to communicate the actions it has taken to reduce risk through the Wildfire Resiliency Plan and other risk mitigation steps, including its record of limited insurance claims.

It is important to avoid using cost pass-through mechanisms such as this Insurance Expense Balancing Account, because they remove the incentive for the utility to control costs and to take appropriate steps to reduce costs if it is likely the utility may absorb higher costs. The Commission should approve these cost pass-through mechanisms only as a last resort, when utilities show expenses to be wildly variable and unpredictable. The Company's historical record of insurance costs over the past 10 years through 2020 does not show wide fluctuations according to the data provided in response to Public Counsel Data Request 104C (Exh. SC-5C). As I stated earlier and demonstrated in Exhibit SC-8, the insurance expense increases in 2021 through 2024 can be properly reflected in rates.

Therefore, I recommend that the Commission reject the Company's proposal to establish the Insurance Expense Balancing Account.

2. Vegetation Management (Andrews, Exhibit EMA-2, PF Adj. 4.04)

Q. Please explain your concern with the Company's failure to reduce base vegetation management expenses for work now done within the Wildfire Resiliency Plan.

A. In discovery, Public Counsel asked the Company to identify the amount of expense for work they performed previously within the base vegetation management that is now being performed within the Wildfire Resiliency Plan.[34] In other words, before the Wildfire Resiliency program began in mid-2020, the Company was performing some amount of brush and tree clearing, and also risk-tree work, that they now perform under the Wildfire Resiliency program. As a result, the Company will be spending less on vegetation management in its base program.

Q. What adjustment to base vegetation management O&M expense do you propose?

A. In response to Public Counsel's Data Request No. 99 the Company stated, "Existing on-going base O&M expense for vegetation management is separately tracked and identified from vegetation wildfire (risk-tree expense), these on-going expenses remain in the test period and were not adjusted or pro-formed, nor do they impact the Wildfire Balancing account." The Company failed to answer the question posed by Public Counsel. Public counsel posed the same question in Public Counsel's Data Request No. 259. In its response, the Company could not identify those duplicate costs that reside within the base vegetation O&M expense and are also being forecasted and included within the Wildfire Balancing account. Exhibit SC-10 includes Avista's responses to Public Counsel's Data Request Nos. 99 and 259.

In Public Counsel's Data Request No. 259 subpart (b), the Company identified their incurred amount of base vegetation management expense in the

[34] Coppola, Exh. SC-10 (Avista's Responses to Public Counsel's Data Request Nos. 99 and 259, with Associated Attachment on vegetation management).

Washington jurisdiction at $5.0 million for 2021, and an ongoing expense level of $5.7 million into future years. The average of these two amounts is $5.350 million. Conservatively, it is reasonable to expect Avista will avoid at least 10 percent of this average cost, or $535,000, in 2022 and 2023, as the Company shifts more of its risk-tree management efforts to the Wildfire Resiliency Plan.

Therefore, I recommend that the Commission remove $535,000 of based vegetation management O&M expense from RY1, increase operating income by $422,650, and reduce revenue requirement by $559,409.

3. Customer Service Expense (Andrews, Exhibits EMA-2_& 3, PF Adj. 3.14 & 5.07)

Q. Please explain your findings with regard to the level of customer service expense included in RY1 and RY2.

A. Beginning on page 16 of direct testimony Company witness Kelly Magalski discusses the Company's work installing new customer-related technology to facilitate customer interactions and shift more customer inquiries and services to self-service tools.[35] In this regard, the Company is spending tens of millions of dollars annually to install new information technology (IT) systems (Magalsky, Exhibit KEM-1T, at 2, Table 1).

Pages 19 and 20 of Magalski's testimony identifies reductions in the number of telephone calls and customer contacts with customer service representatives (CSR) from 2009 to 2021, showing the number of live contacts nearly halved over this 12-year period. Although Magalsky's testimony points to

[35] Direct Testimony of Kelly E. Magalsky, Exh. KEM-1T at 16:19–42:4.

financial benefits for the increased spending in customer-related technology systems, it identifies no specific financial benefits or reduced current or future customer service costs.

In response to discovery, the Company provided additional information on the trend of live interactions with CSRs, the number of CSRs employed annually since 2009, and the annual labor costs pertaining to CSRs. In response to Public Counsel's Data Request No. 249, the Company provided the number of hours staffed by CSRs each year from 2009 to 2021. However, the Company could not provide any forecasted information requested for 2022, 2023 and 2024. Exhibit SC-11 includes Avista's Response to Public Counsel's Data Request No. 249 and Attachment A.

Q. What is your assessment of the expense level for CSR labor included in customer service expense in RY1 and RY2?

A. The customer service expense included in RY1 and RY2 does not reflect any significant decline in O&M expense from the reduction in customer live contacts with CSRs. Based on the data the Company provided in response to Public Counsel's Data Request No. 249, since 2009 the number of live interactions with CSRs has declined 10 percent annually. In 2020, the number of interactions declined by 18 percent from the prior year and in 2021 the number declined again by 7 percent. The Company has not included this decline in CSR workload and the related expense in any of the pro-forma adjustments it presented in this rate case.

According to data the Company provided, the number of CSR work hours in 2021 declined 8.2 percent to 112,000, from 122,026 in 2020. This rate of decline is in line with the recent decline in the number of live customer interactions. The trend in CSR workload should continue to decline in 2022, 2023, and future years, as the Company continues to implement additional customer self-serve tools and features through its website and other technology platforms. Therefore, the rate of decline in CSR workload should continue, if not accelerate, in 2022–2024, and the customer service expense for RY1 and RY2 should reflect that trend accordingly.

Q. Have you calculated appropriate adjustment to CSR labor costs included in customer service expense for RY1 and RY2?

A. Yes. In Exhibit SC-12, I have taken the rate of decline in the number of CSR hours staffed of 8.2 percent from 2020 to 2021 and rounded it up to 8.5 percent. This rate of decline in CSR hours worked also reflects the historical declining trend of live customer interactions of 10 percent discussed earlier. Using the 8.5 percent rate of decline, I forecasted the number of CSR hours for 2022, 2023 and 2024. After applying the loaded labor rate to those forecasted hours, I determined that system-wide CSR labor costs should decline by $824,579 in RY1 and $360,500 in RY2.

The O&M expense reductions applicable to the Washington jurisdiction are $394,024 in RY1 and $172,264 in RY2 for the electric business, and $124,427 for RY1 and $54,399 for RY2 for the gas business.[36]

[36] Coppola, Exh. SC-12.

The revenue requirement reductions for this expense item are $412,001 for RY1 and $180,124 for RY2 for the electric business, and $130,104 for RY1 and $56,881 for RY2 for the gas business.[37]

I recommend that the Commission accept my pro-forma adjustments and reduce the Company's revenue requirement by the amounts I have calculated.

4. Pension & OPEB Expense (Andrews, Exhibits EMA-2 & 3, PF Adj. 3.09 & 5.03)

Q. Please provide your assessment of the Company's proposed pro-forma adjustments to pension expense and other post-employment benefits (OPEB) expense for RY1 and RY2.

A. On pages 111 through 113 and page 147 of direct testimony, Andrews discusses pro-forma adjustments to pension and OPEB expense for RY1 and RY2, along with adjustments to other employee benefits. With regard to the pension plan costs, the Company reported system-wide pension costs of $17.7 million for the historical test year ended September 2021, and forecasted costs of $12.3 million for 2023 and the same amount for 2024.

For OPEB costs, the Company reported system-wide costs of $9.4 million for the historical test year ended September 2021, and forecasted costs of $9.3 million for 2023 and the same amount for 2024.

In direct testimony and in the pro-forma adjustments, Andrews did not identify the basis for forecasted pensions and OPEB costs, actuarial assumptions used to calculate those costs, or the reason the Company maintained 2024 costs at

[37] *Id*.

the 2023 level. In response to Public Counsel's Data Request No. 276, the Company provided some of this information, and updated information regarding pensions and OPEB costs for 2022 through 2025 based on updated actuarial assumptions. Exhibit SC-13 includes this information.

In Attachment D to Avista's Response to Public Counsel's Data Request No 276, the Company provided new forecasted pension expense of $9.5 million for 2023 and $8.3 million for 2024. Similarly, in Attachment E for the OPEB plan, the Company provided forecasted costs of $8.1 million for 2023 and $8.0 million for 2024. These amounts are significantly lower than the amounts that Andrews used in the pro-forma adjustments for RY1 and RY2 in the Company's initial filing.

Q. Did you calculate adjustments to the Company's pro-forma adjustments for pension and OPEB expense for RY1 and RY2?

A. Yes. Based on the new information provided in response to Public Counsel's Data Request No. 276, in Exhibits SC-14 and SC-15, I calculated lower pension and OPEB expense for RY1 and RY2, and compared my calculations to the Company's pro-forma adjustments. The result is lower pension expense in RY1 of $782,097 for the electric business and $238,494 for the gas business. The following table summarizes Public Counsel's pension expense adjustments for each rate year, along with the related operating income and revenue requirement adjustments.

Table 5: Pension Expense Adjustments

	RY1	RY2
PC Expense Adjustment to Avista Pro-Forma:		
WA Electric	**$ (782,097)**	**$ (335,184)**
WA Gas	**$ (238,494)**	**$ (102,212)**
Operating Income Adjustment:		
WA Electric	617,856	264,796
WA Gas	188,410	80,747
Revenue Requirement Adjustment:		
WA Electric	**$ (817,779)**	**$ (350,477)**
WA Gas	**$ (249,375)**	**$ (106,875)**

For OPEB expense, I propose a reduction to the Company's pro-forma adjustments in RY1 of $350,477 for the electric business and $106,875 for the gas business. The following table summarizes Public Counsel's OPEB expense adjustments for each rate year, along with the related operating income and revenue requirement adjustments.

Table 6: OPEB Expense Adjustments

	RY1	RY2
PC Expense Adjustment to Avista Pro-Forma:		
WA Electric	**$ (335,184)**	**$ (27,932)**
WA Gas	**$ (102,212)**	**$ (8,518)**
Operating Income Adjustment:		
WA Electric	264,796	22,066
WA Gas	80,747	6,729
Revenue Requirement Adjustment:		
WA Electric	**$ (350,477)**	**$ (29,206)**
WA Gas	**$ (106,875)**	**$ (8,906)**

I recommend that the Commission adopt my proposed pension and OPEB expense and revenue requirement adjustments presented above.

5. Miscellaneous O&M Expenses (Andrews, Exhibits EMA-2 & 3, PF Adj. 3.14 & 5.07)

Q. Please provide a summary of the Company's proposed pro-forma adjustments to miscellaneous O&M expenses for RY1 and RY2.

A. On pages 124 through 128 and page 149 of direct testimony, Andrews discusses the pro-forma adjustments to miscellaneous O&M expenses for RY1 and RY2. To calculate the pro-forma adjustments for RY1 and RY2, Andrews used an annual escalation rate of 7.05 percent for the electric business and a rate of 7.29 percent for the natural gas business. Andrews applied the escalation rates for the period from October 2021 to December 2023 to the base miscellaneous O&M expenses for the historical test year ended September 2021 to determine the RY1 adjustments. For RY2, Andrews applied the same escalation factors to the miscellaneous O&M expense calculated for RY1.

The Company calculated the escalation rates of 7.05 percent and 7.29 percent based on a select group of O&M expenses incurred from 2018 to 2020. In other words, the cost escalation rates represent two years of cost increases from 2018 to 2019 and 2020.

Based on those escalation rates, the Company calculated increases in miscellaneous O&M expense for the electric business of $9.8 million for RY1 and $4.3 million for RY2. For the natural gas business, the Company calculated increases of $2.2 million for RY1 and $1.0 million for RY2.

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Q. Please provide your assessment of the Company's proposed pro-forma adjustments to miscellaneous O&M expenses for RY1 and RY2.

A. The Commission should not accept the two-year average escalation rates the Company used in their initial filing. These represent a very brief time period subject to expense fluctuations from year to year that may not reflect future trends in expense increases or decreases. For example, in the electric business, distribution O&M expenses over the 2018–2020 period fluctuated from $22.7 million to $26.8 million. Administrative and general (A&G) expenses ranged from $52.6 million to $72.6 million, driven by injuries and damages expenses and employee benefit costs. Part of this large fluctuation in A&G expenses was due to a modification in 2020 in the accounting of pension and other benefit costs, charging them to A&G expense instead of charging operating functions. This modification makes a comparison of changes in expense items difficult and unreliable.

The Company attempts to justify the 7.05 percent and 7.29 percent annual escalation rates by pointing to 2020 and 2021 increases in inflation. Although cost inflation accelerated in 2020 and 2021, the 2021 historical test year reflects those cost increases. The outlook for inflation for RY1 and RY 2 does not support the 7.05 percent and 7.29 percent annual escalation rates the Company has applied to miscellaneous O&M expenses. As I stated earlier in my testimony and showed in Exhibit SC-9, the Company forecasted inflation rates of 4.2 percent for 2021, 3.7 percent for 2022, 2.4 percent for 2023, and 2.3 percent for 2024. A more appropriate calculation of future miscellaneous O&M expenses for RY1 and RY2 would use those inflation factors.

On the broader issue of using historical cost escalation rates to calculate revenue requirement and set rates in future GRCs, Public Counsel agrees with the Settling Parties that the escalation study filed by Avista is not reasonable and should not be used in future rate cases.[38]

Q. Have you determined what the pro-forma adjustments to miscellaneous O&M expenses for RY1 and RY2 would be at the Company's forecasted inflation rates for 2021 through 2024?

A. Yes. Using the financial model that the Company used to calculate the miscellaneous O&M expense in pro-forma adjustments 3.14 and 5.07, and substituting the Company's escalation rates with the inflation factors discussed above, I have determined a lower increase in expenses for RY1 and RY2. Exhibits SC-16 and SC-17 show the results of my calculations for the electric and natural gas businesses respectively. Exhibit SC-18 summarizes those results and compares them to the Company's pro-forma adjustments to show the reductions in expenses for RY1 and RY2. The following table shows those summary adjustments to O&M expense and the revenue requirement.

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[38] Full Multiparty Settlement Stipulation, ¶ 17.

Table 7: Miscellaneous Expense Adjustments

	RY1	RY2
PC Expense Adjustment to Avista Pro-Forma:		
WA Electric	**$ (5,274,567)**	**$ (2,822,484)**
WA Gas	**$ (1,247,627)**	**$ (661,237)**
Operating Income Adjustment:		
WA Electric	$ (4,166,908)	$ (2,229,762)
WA Gas	$ (985,625)	$ (522,377)
Revenue Requirement Adjustment:		
WA Electric	**$ (5,515,216)**	**$ (2,951,258)**
WA Gas	**$ (1,304,549)**	**$ (691,406)**

I recommend that the Commission adopt my proposed adjustments and reduce the Company's revenue requirement by the amounts in the table above.

6. IS/IT Expenses (Andrews, Exhibits EMA-2 & 3, PF Adj. 3.13)

Q. Please briefly describe the Company's proposed pro-forma adjustment for IS/IT O&M expense for RY1.

A. Beginning on page 117 of direct testimony, Andrews describes the pro-forma adjustment to information systems and information technology (IS/IT) expense for RY1. Andrews shows an increase in IS/IT expense for 2022 of $2.6 million from the historical test year. The pro-forma adjustment allocates $1,261,590 of the higher expense ($997,000 NOI) to the Washington electric business and $370,525 ($293,000 NOI) to the Washington gas business. Andrews makes no pro-forma adjustments to RY2. Andrews describes the RY1 adjustment primarily as costs for contractual agreements and amortization of multiyear contracts.

In direct testimony, Avista's witness James Kensok, Exhibit JMK-1T, provides more detailed information on the proposed increase in IS/IT expense. On pages 54 and 55 of the testimony, Kensok shows a $2.1 million increase in non-labor IS/IT expense and the major components of the forecasted higher costs

(Tables 5 & 6). The $2.1 million increase in expense represents an 11 percent increase over the $17.9 million expense amount incurred during the historical test year ended September 2021. Software licenses and software subscriptions are the major contributors to the higher expense forecasted for 2022.

Q. What is your assessment of the Company's proposed pro-forma adjustment for IS/IT expense for RY1?

A. The 11 percent increase in expense between the historical test year and 2022 is excessive. Software licenses and software subscription costs are a function of installed new information and technology systems, and should generally increase on pace with new IS/IT technology capital spending for the installation of new systems. On page 1 of Kensok, Exhibit JMK-2, the Company shows capital spending on IS/IT systems of $48.1 million. On page 2 of the same exhibit, the Company shows 2022 capital spending on IS/IT systems declining to $40.3 million (16 percent) from 2021 and then increasing to $50.9 million in 2023. The 2023 forecasted amount includes $10 million of capital spending pertaining to the OMS & ADMS system, which is still in the conceptual phase of development. By removing this $10 million, 2023 capital spending is basically flat compared with 2022 at approximately $41 million.

Although capital spending on IS/IT systems is forecasted to decline by 16 percent in 2022 from the historical test year, the 2023 capital spending inclusive of the OMS & ADMS system represents a 6 percent increase over the historical test year. To give the Company the benefit of the doubt that some software license and subscription costs will increase during RY1, which ends December 2023, I have applied the six percent growth rate in capital spending to the historical test year IS/IT expense, to calculate a system total increase in expense in RY1 of $1,074,120 ($17,902,001 x 6%). I believe this amount is a more reasonable increase in IS/IT expense for RY1.

The $1,074,120 expense amount I calculated is a decrease of $1,519,558 from the system total amount of $2,593,678 that Andrews used in this pro-forma adjustment. The result of my adjustment is a decrease in expense in RY1 of $726,118 ($573,633 NOI) for the Washington electric business, and $229,298 ($181,145 NOI) for the Washington natural gas business.[39]

The revenue requirement reduction of my adjustment is $759,247 for Washington electric and $239,759 for Washington gas.[40] I recommend that the Commission approve my proposed adjustments to IS/IT expense.

7. CETA Labor Expenses (Andrews, Exhibit EMA-2, PF Adj. 3.06)

Q. Please briefly describe the Company's pro-forma adjustment for higher labor expense in RY1 to support the Clean Energy Transformation Act (CETA).

A. Beginning on page 108 of her direct testimony, Andrews describes the pro-forma adjustment to increase labor expense for RY1 to hire three employees to support activities related to CETA. This pro-forma adjustment, which pertains solely to the Washington electric business, is $357,000.[41] Andrews attributes the reasons

[39] $1,519,558 x 0.69998 x 0.68266 = $726,118 electric; $1,519,558 x 0.20695 x 0.72915 = $229,298 gas. NOI = expense x (1 – 21% tax rate).
[40] Revenue requirement = NOI ÷ 0.755529.
[41] Andrews Exhibit EMA-1T at 108:15, states $357,000. This amount varies from PF adjustment 3.06, which shows $358,701. The reason for the discrepancy is unknown. In my testimony, I will use the lower amount.

for the higher labor expense in RY1 to new requirements in the CETA legislation for public participation, distribution planning including evaluation of distributed energy resources, development of a customer benefit indicator, and additional monitoring and reporting. For further information, Andrews references Company witness Shawn J. Bonfield's direct testimony in Exhibit SJB-1T.

Beginning on page 37 of direct testimony, Bonfield elaborates further on reasons for the increase in labor resources, and states that to support CETA and related activities in future years, the Company may need additional employees beyond the three included in this rate case.

Q. What is your assessment of the Company's proposed increase in labor expense in RY1 to support CETA activities?

A. My assessment is that the addition of three new employees is not necessary and that one new position at most would be sufficient.

In discovery, Public Counsel asked the Company to identify responsibilities it expects each of the three new employees to perform, and explain why it cannot reorganize other employees' responsibilities to take on the additional CETA work and thus avoid hiring new employees.

In response to Public Counsel's Data Request No. 115, the Company listed responsibilities for the new employees: Customer Engagement Manager, CETA Analyst, and Distribution Planning Engineer.[42] The primary responsibilities for the Customer Engagement Manager are development of public engagement strategies, coordination, and tracking of activities and programs.

[42] Coppola, Exh. SC-19 (Avista's Response to Public Counsel's Data Request No. 115).

Many of these tasks, such as developing strategies or programs, do not repeat monthly once completed. Additionally, the Company likely already has community or public liaison managers who interact daily or periodically with those groups. The Company does not make clear why those employees cannot take on the additional responsibilities required under CETA.

The CETA analyst position's main responsibilities occur on a four-year cycle with regard to preparing IRPs, CEAP, and CEIP, which the Company has completed in the past, for at least some of them, without this additional employee. These are not daily or repeating monthly responsibilities that require permanent assignment to an additional employee. The Company could certainly incorporate annual reporting responsibilities into and across the functions of existing employees.

For the Distribution Planning Engineer, most of the listed responsibilities also occur on a four-cycle and are not likely to require daily or monthly tasks. The Company has Distribution Planning Engineers already on staff who likely could absorb the infrequent work of preparing the IRP and similar plans every four years.

I conclude that the addition of three new employees is excessive and not necessary. To give the Company the benefit of the doubt that CETA, CEAP, and CEIP may require some new routine work, I recommend that the Commission approve cost recovery of one new position equivalent. Therefore, the Commission should remove the remaining expense of $237,801 ($357,701 x 2/3).

The resulting adjustment is an increase to NOI of $187,863 and a decrease to revenue requirement of $248,650.[43] I recommend that the Commission reduce the Company's proposed revenue requirement by this amount for this expense item.

8. Expenses Summary – Revenue Requirement Adjustment

Q. Please summarize the amount of revenue requirement adjustment that you propose for RY1 and RY2 for expense items.

A. As I discussed above, the Commission should reduce the Company's proposed revenue requirement for expense for RY1 by $10,372,624 for the electric business and $2,063,713 for the natural gas business. For RY2, I recommend a reduction of $4,893,821 for the electric business and $944,801 for the natural gas business pertaining to expense items. Exhibit SC-44and other exhibits my testimony references above provide further details.

C. Capital Additions

Q. Please briefly describe the amount of capital additions that the Company seeks to add to rate base in this rate case filing.

A. Page 6 of Avista witness Justin Baldwin-Bonney's direct testimony, Exh. JBB-1T, shows total system capital additions transfers to plant of $449.8 million for 2021, $449.9 million for 2022, $446.9 million for 2023, and $442.5 million for 2024.[44] On pages 9 through 12 of the testimony, Baldwin-Bonney identifies the capital additions transferred to plant for the Washington jurisdiction.[45] The

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[43] $237,701 x (1- 21% tax rate) = NOI of 187,863 ÷ 0.755529 CF = $$248,650 in revenue requirement.
[44] Direct Testimony of Justin A. Baldwin-Bonney, Exh. JBB-1T at 6:8–16.
[45] Baldwin-Bonney, Exh. JBB-1T at 9:7–12:20.

following table summarizes those capital additions.

Table 8: Avista - WA Capital Additions Transfers to Plant

($millions)	2021	RY1	RY2
Electric	$ 228.5	$ 309.7	$ 222.5
Gas	54.0	82.5	51.5
Total	**$ 282.5**	**$ 392.2**	**$ 274.0**

Q. Are you proposing any adjustments to the Company's capital additions?

A. Yes. In my review, I identified 16 projects or programs where the Company did not adequately support the proposed capital additions for RY1 and RY2. My adjustments reduce the Company's proposed capital additions for the electric business by $75.1 million for RY1 and $54.1 million for RY2. Similarly, for the natural gas business, I will propose reductions of $11.2 million for RY1 and $3.2 million for RY2. Overall, my proposed adjustments reduce the Company's gross additions to plant by 22 percent for RY1 and 21 percent for RY2. In my testimony below, I will describe the basis for the adjustment to the capital addition for each of the 16 projects and the related adjustments to rate base and the revenue requirement. The subheadings numbered 1 through 16 in this section correspond to the line number for each specific adjustment to capital additions listed in Exhibit SC-24.

Q. Please describe your concerns with the Company's approach to and inclusion of capital programs and projects, and related capital additions, in RY1 and RY2.

A. My review focused on capital programs and projects for the forecasted years of

2022 through 2024, which the Company considers provisional capital additions subject to review at the end of each year as part of a continuing proceeding of the multiyear rate case filing. From the filed testimony of several Company witnesses supporting capital additions, and several responses to data requests, it is apparent that the Company included in its proposed capital additions those expenditures it wishes to incur each year, believing it will be able to place in service the underlying projects and programs by the end of the year. This belief forms the basis for including those capital additions in rate base in order to meet the Commission's requirement that the additions be used and useful in the rate year.

To ascertain more precisely which projects and programs, and related capital additions, the Company included in each of the projected periods (2022–2024), Public Counsel asked the Company to define the specific criteria used to make those selections. Specifically, the discovery asked whether the Company included or excluded projects at the conceptual phase, whether it required projects to be past the engineering design phase, the bid to be out to vendors, or to have started construction. The Company response to Public Counsel's Data Request No. 91, though lengthy, did not answer those questions, and instead repeated the capital planning process it discussed in filed testimony, and referenced the Commission policy statement on used and useful plant additions. A follow up, Public Counsel's Data Request No. 256, yielded no additional pertinent information responsive to the initial questions.[46]

I conclude from the Company's testimony and data request responses that

[46] Coppola, Exh. SC-20 (Avista's Response to Public Counsel's Data Requests No. 91 and 256).

where Avista thinks that by end of year it can get a project or program completed, and the capital additions transferred to plant, it can include those forecasted capital additions in rate base, as well as in revenue requirement and rates to be billed to customers in RY1 and RY2. This is a very broad and concerning standard, one that if adopted by the Commission would result in an open-ended acceptance of any capital spending forecast proposed by the Company.

Public Counsel also asked the Company to provide an analysis and other information to support more directly its projected capital additions for the three years from 2022 through 2024. Specifically, discovery requested the following information for programmatic projects or programs that repeat annually and for discreet projects of $1.0 million or greater:

1. Three years of historical spending on the program or project and a comparison of the forecasted annual spending to the three-year average;
2. Explanations of variances of 10% or greater between the forecasted annual spending and the three-year historical average;
3. The number of units, quantities, or other data supporting the historical and projected capital spending in order to establish a correlation between spending and work completed in prior years and work to be completed in the future;
4. For forecasted discreet projects, the amount of spending projected by phase of the project and identification of the current phase of the project;
5. For forecasted discreet projects, the timeframe and completions date of each phase of the project; and
6. For forecasted discreet projects, a copy of the cost/benefit analysis showing that the project was economically justified.[47]

Public Counsel's Data Request Nos. 208, 210–212 provide more details and the Company's responses to these questions.[48] The responses fell

[47] *See* Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).
[48] *Id*.

significantly short of meeting the requests. Although the Company provided historical and forecasted capital spending by project and program, it did not provide any analysis or explanations of variances between historical and forecasted spending levels. The Company also did not provide any units or quantities of work performed in the historical periods and in future years, or justification for the higher spending levels other than referencing its business case documents. Unfortunately, its business case documents do not contain the requested information. For discrete projects, the Company provided no cost details by phase and did not identify projects by phase. Furthermore, it provided no specific timeline or cost/benefit analyses for those projects.

In other words, the Company did not provide sufficient information to support its proposed increase in spending on several reoccurring programmatic projects and for large discrete projects. In my testimony below, I identify these shortcomings with regard to the 16 projects, and propose cost disallowances or adjustments to forecasted capital additions for 2022 through 2024. The projects or programs and related cost disallowances are summarized in Exhibit SC-24.

Q. Please describe the approach and information you used to perform the review of the Company's capital programs, projects and related capital additions.

A. Although the Company provided only scant information in response to the data requests discussed above, I used the historical capital additions Avista did provide to calculate a three-year average of the historical amounts for 2019–2021 for each program and project. I compared the three-year average amount to the forecasted amount to each year 2022, 2023, and 2024 in order to assess significant variances that required further review and analysis. Exhibit SC-22, Schedules A–C analyze those variances for each future year.

Based on my initial analysis, I reviewed any additional information the Company provided in testimony, data request responses, and the project or program business case documents to establish whether it adequately had justified the increase in capital spending. The following 16 projects or programs are the most egregious examples of project or program forecasted spending/capital additions that were not sufficiently justified for inclusion in rate base and in customer rates for RY1 and RY2. I propose adjustments relating to the Company's pro-forma adjustments 4.01, 4.02, 4.04, 4.05, 4.06, 5.08 and 5.10, as presented in Andrews, Exhibits EMA-2 and EMA-3.

1. Distribution Management System – ADMS/OMS

Q. Please briefly describe the ADMS/OMS Distribution Management project proposed by Avista for 2023 and 2024.

A. On page 43 of direct testimony, Company witness James Kensok provides a summary description of the proposed ADMS/OMS system as a replacement for the current outdated outage management tool and distribution management system.[49] According to Kensok, this new system will improve field and office worker productivity, provide more accurate data, improve work process and methods, help with regulatory compliance, and provide more accurate estimated restoration time during power outages. Kensok's testimony does not provide any

[49] Kensok, Exh. JMK-1T at 43:19–45:1.

data or detailed information to support those claims. The Company expects to start work on the project sometime in 2022 and plans to spend $10 million in 2023 and $15 million in 2024.

Q. What is your assessment of the ADMS/OMS project and related capital additions included in RY1 and RY2?

A. In discovery, Public Counsel asked the Company to explain whether its $10 million and $15 million capital additions in 2023 and 2024 were Rough Order of Magnitude (ROM) cost estimates, describe how it developed those cost estimates, explain whether it had bid out the project, explain whether it had completed the detailed system requirements phase, and provide a copy of the cost/benefit analysis showing the project was economically justified.

In Avista's response to Public Counsel's Data Request No. 227, the Company confirmed that the $10 million and $15 million were ROM cost estimates and they were developed based on discussion with other utilities and potential vendors, as well as the Company's own experience with IT projects. Avista also confirmed it had not yet completed the detailed system requirements phase of the project, and had yet to issue any requests for proposals to potential vendors. Avista's data request response explained the Company would take those steps later in 2022. The Company did not provide the requested cost/benefit analysis. In response to the data request, the Company provided only a general description of potential benefits, and identified O&M offset costs savings of approximately $65,000 in 2023 and 2024. Avista's data request response also referenced the project business case for further information.[50]

The business case for this project shows the total estimated project cost at $45 million, which would indicate that additional phases of the project might continue past 2024.[51] The rest of the business case document describes the shortcomings of the existing system and the need for new functionality. It shows the alternative cost of continuing to use the current system at a cost of $1.0 million over the 2022–2024 timeframe. However, it does not quantify any significant financial or non-financial benefits to justify spending either $25 million or $45 million on the new system.

In effect, the Company has not economically justified undertaking such a large and costly project. Furthermore, the Company had not yet completed the detailed system requirements phase of the project, has yet to issue any requests for proposal to vendors, and the cost estimates and capital additions included in RY1 and RY2 are very preliminary since they are only Rough Order of Magnitude estimates.

My conclusion is that including these capital additions for the ADMS/OMS project in RY1 and RY2 is premature. Although the Company may complete some work on the project in 2022, 2023 and 2024, it is not likely that the system will be in service in 2023 or 2024 as the Company has forecasted. Although the Company will perform a review of forecasted projects at the end of 2023 and 2024 as part of the multiyear rate case, customers should not pay

[50] Coppola, Exh. SC-23 (Avista's Response to Public Counsel's Data Request No. 227).
[51] Kensok, Exh. JMK-2 at 256.

upfront for project costs with only a marginal probability of being completed during RY1 and RY2.

Q. What is the amount of capital additions that you propose to remove for RY1 and RY2?

A. As I state earlier, the total system forecasted capital additions for RY1 and RY2 are $10 million and $15 million respectively. The amount applicable to the Washington electric business is $6,554,000 for RY1 and $9,831,000 for RY2.[52] I recommend that the Commission remove these amounts from the Company's proposed capital additions in this rate case.

2. Gas Non-Revenue Program

Q. What is your assessment of the Gas Non-Revenue Program spending and capital additions proposed by Avista for 2022, 2023 and 2024.

A. Table 10 of Avista witness Justin Baldwin-Bonney's direct testimony (Exh. JBB-1T) shows natural gas programmatic blanket capital additions for the Washington jurisdiction.[53] Table 10 includes budgeted capital additions for 2022, 2023, and 2024 for the Gas Non-Revenue Program of $4.3 million for each year.

Public Counsel's Data Request No. 204 asked the Company how it forecasted the proposed capital additions for 2022–2024. In response, the Company stated that in many cases it uses historical spend as a proxy for determining the transfer to plant forecast. For the Gas Non-Revenue Program, the Company stated that the majority of this capital spending is unplanned and

[52] Coppola, Exh. SC-24.
[53] Baldwin-Bonney, Exh. JBB-1T at 28:7–15.

reactive but for the most part fairly steady year to year. The amount spent in 2021 was unusual and included $2.2 million for installing meter ERTs[54] in certain areas.[55]

Based on the Company's explanations in response to Public Counsel's Data Request No. 204, the capital additions of $4.5 million seem excessive when compared to historical levels and adjusted for inflation. In Exhibit SC-26, I used the capital additions for 2018–2020 to determine an average amount of $3,499,000. I escalated this amount by the Company-provided inflation rates for 2021–2024 to calculate projected capital additions for each year.

The result is forecasted capital additions of $3,781,000 for 2022, $3,872,000 for 2023, and $3,961,000 for 2024. These amounts are significantly lower than the $4.3 million the Company forecasted.

Q. What adjustments to capital additions do you propose for 2022–2024 and each rate year?

A. The difference between my forecast and the Company's forecast is $469,000 for 2022, $378,000 for 2023, and $289,000 for 2024. Therefore, the reductions in capital additions are $847,000 for RY1 and $289,000 for RY2. I recommend that the Commission adopt those adjustments.

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[54] ERT = Encoder Receiver Transmitter.
[55] Coppola, Exh. SC-25 (Avista's Response to Public Counsel's Data Request No. 204, with Attachment A).

3. EV Transportation

Q. Please briefly describe the Company's electric vehicle (EV) charging infrastructure program and the capital additions made through 2021 and proposed for 2022–2024.

A. In Table 1 on page 2 of direct testimony (Exh. KEM-1T), Magalsky identifies capital additions of $0.6 million in 2021, $2.8 million in 2022, $3.9 million in 2023, and $4.1 million in 2024. These amounts pertain entirely to the Washington jurisdiction. The Company has incurred no electric vehicle infrastructure spending in the Idaho service area. From this information and Magalsky's testimony, it is apparent the Company is planning a major spending escalation in charging infrastructure as part of its Transportation Electrification Plan. Beginning on page 3 of direct testimony, Magalsky discusses the previous pilot programs and the Transportation Electrification Plan going forward.

In response to Public Counsel's Data Request No. 241, the Company reported that from 2016 to 2021, the Company incurred capital spending of $4.6 million and O&M expenses of $1.4 million. Customers participating in the EV charging infrastructure program contributed only $533,000 toward the cost of equipment and installation. The number of customers directly participating in the EV charging installation program was 420 as of 2021, with a goal to reach almost 1,000 customers by the end of 2024. The Company also identified an additional 2,143 customers in 2021 who benefited from commercial and public charging equipment, with a goal to reach approximately 5,700 by the end of 2024 (Public

Counsel Data Request No. 245).[56]

Electricity sales to EV customers, net of power costs, were $518,545 in 2021, with a goal to reach $1,362,218 in 2024.

Q. What is your assessment of the Company's spending plans for the Transportation Electrification Plan for 2022, 2023 and 2024?

A. In its current and proposed Transportation Electrification Plan, the Company provides significant subsidies to a small group of its customers while burdening the rest with their cost. The information I discuss above makes apparent that the Company has been very generous with its incentives, spending $4.6 million on EV charging equipment and asking customers to contribute only $533,000, or less than 15 percent of the Company's spend. Although the Company is attempting to accelerate the use of EVs in its Washington jurisdiction, it must balance these incentives better, to keep non-participating customers from bearing a disproportionate burden of their cost.

In response to Public Counsel's Data Request No. 241 subpart (a), the Company calculated the annual revenue requirement from Transportation Electrification Plan capital additions and O&M expenses through 2024 at more than $2.1 million.[57] Net revenue from sales could reach approximately $1.4 million by 2024 if the Company's predictions materialize of EVs using its equipment. In direct testimony, Magalsky points to cost savings in operating EV versus internal combustion engine vehicles. However, because they do not include

[56] Coppola, Exh. SC-27 (Avista's Response to Public Counsel's Data Request Nos. 241 & 245, with related Attachments).
[57] *Id*.

the full cost of power, and accrue only to EV owners and not to other customers burdened by subsidies given to those EV owners, they inflate the cost savings that customers will realize. While it helps to avoid societal costs, that benefit cannot be easily quantified.

Q. Have you determined by how much capital spending and capital additions for the Transportation Electrification Plan would need to decrease for 2022, 2023, and 2024 in order to avoid customer subsidies?

A. Yes. Using the Company's model to calculate the $2.1 million revenue requirement I discuss above, I have lowered the capital additions by $2.2 million in 2022, $3.1 million in 2023 and $1.0 million in 2024 to bring the revenue requirement down to the same level as the $1,362,000 of net revenue from electric sales to EV customers.[58] The lower capital additions would avoid any customer subsidies and be fully supported by net revenue from electricity sales to the EV customers who benefit from the incentives offered by the Company. In turn, the lower incentives may require a higher contribution by the EV customers toward the installation of charging equipment from which they benefit.

I recommend that the Commission adopt the proposed capital reductions of $2.2 million for 2022, $3.1 million for 2023 and $1.0 million for 2024.

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[58] Coppola, Exh. SC-28.

4. Customer Experience Platform &

5. Customer Transactional Systems

Q. Please briefly describe the Company's Customer Experience Platform and Customer Transactional projects and the related capital additions proposed for 2022–2024.

A. In Table 1 on page 2 of direct testimony (Exh. KEM-1T), Magalsky identifies the capital additions by year for 2021 through 2024 for the total company. For the Customer Experience Platform program, the table shows capital additions of $6.9 million in 2021, $6.0 million in 2022, $6.3 million in 2023, and $6.3 million in 2024. For the Customer Transactional Systems, the table shows capital additions of $4.4 million in 2021, $3.9 million in 2022, $3.5 million in 2023, and $3.7 million for 2024. The table also shows capital additions for the Customer Facing Technology program ranging from $3.2 million to $4.7 annually, which I am not disputing in my testimony.

Page 1 of Exhibit KEM-2 shows the same information as Table 1. Public Counsel's Data Request No. 252 asked the Company to expand page 1 of Exhibit KEM-2 to include actual capital additions back to 2016. The schedule provided in response to that data request shows that while the Customer Facing Technology program began in 2017, the Customer Experience Platform and Customer Transactional System projects started in 2020, ramped up in 2021, and are forecasted to continue at elevated spending levels from 2022 through 2024.[59]

[59] Coppola, Exh. SC-29 (Avista's Revised Response to Public Counsel's Data Request No. 234 with Attachment A and Data Request No. 252, with Attachment A).

Q. What is your assessment of the Company's Customer Experience Platform and Customer Transactional projects and the related capital additions proposed for 2022–2024.

A. On a total company basis, the two systems entail capital additions of nearly $30 million over the three-year period 2022–2024. The portion applicable to the Washington jurisdiction is approximately $19 million. Looking at the broader scope of customer-related digital transportation capital spending over the 2018 through 2024 timeframe, the Company reported that total spending on the three major customer technology projects is likely to exceed $94.2 million, with nearly $60 million allocated to the Washington jurisdiction.[60]

These are significant investments that require an overwhelming amount of supporting evidence of commensurate levels of financial and non-financial benefits to customers over the lifetime of the new systems to justify the capital investment. Unfortunately, the Company has not provided sufficient support to justify undertaking and continuing with implementation of its Customer Experience Platform and Customer Transactional Systems projects and programs.

The business case documents provided on pages 11 and 31 of Exhibit KEM-2 do not provide sufficient justification for undertaking the two projects. They provide general descriptions of goals and objectives to meet customer expectations and avoid customer complaints, but offer no compelling evidence of what problems the Company is currently facing or anticipates it will face in the future. References to employee efficiencies consist mainly of general statements

[60] *Id.*

and expectations without quantifiable data.

For the Customer Experience Platform program, the business case document identifies potential annual cost savings of approximately $1.0 million based on an expected investment of $37 million. This represents a 37-year payback on the investment, which is too long a time period to be considered an economically viable project. It is likely that the Company would replace the system many times over the 37-year period. For the Customer Transactional Systems project, the business case document does not identify any cost savings or other financial benefits.

In testimony (Exh. KEM-1T, page 27), Magalsky identifies approximately $105,000 of offsetting cost savings over the 2022–2023 two-year period for the Customer Experience Platform, a relatively small amount compared to the tens of millions of dollars of annual capital additions. On page 28, Magalsky identifies approximately $1.4 million of indirect offsetting cost savings over the same two-year period for all customer experience projects. However, these are not firm cost savings, which Magalsky categorizes as potential reductions of labor hours from redeployment of employees and from avoided hiring as the Company implements new system features.

The Company lacks a comprehensive approach to justify large project expenditures, whether through quantifiable financial benefits or compelling non-financial benefits. The Company did not provide a cost/benefit analysis for either its Customer Experience Platform program or its Customer Transactional Systems project.

In conclusion, the Company did not make a compelling and convincing evidence-based case to justify undertaking and continuing the Customer Experience Platform program or the Customer Transactional Systems project. Therefore, the Commission should remove from this rate case capital additions related to those two projects for 2022 through 2024 from RY1 and RY2.

Q. Have you determined the amount of capital additions for the Customer Experience Platform program or the Customer Transactional Systems project that the Commission should remove from 2022, 2023 and 2024?

A. Yes. The following table shows the amount of capital additions for the Customer Experience Platform program or the Customer Transactional Systems project the Commission should remove for each year and respectively for the Washington electric and natural gas businesses.

Table 9: Customer Systems Projects WA Capital Addition Reductions

	2022	2023	2024
Electric	$ (4,711,145)	$ (4,682,914)	$ (4,802,370)
Gas	(1,487,712)	(1,478,797)	(1,516,519)
Total	**$ (6,198,857)**	**$ (6,161,711)**	**$ (6,318,889)**

Exhibit SC-24 provides further details. I recommend that the Commission remove amounts shown in the table above from the Company's projected capital additions for years 2022-2024.

6. Distribution System Enhancements

Q. Please provide a summary of the Distribution System Enhancements program and the related capital additions proposed for 2022–2024.

A. On page 28 of direct testimony (Exh. HLR-1T), Company witness Heather Rosentrater discusses the Company's Distribution System Enhancements program.[61] According to Rosentrater, this annual program addresses electric distribution system rebuilds, expansions, and additions. Rosentrater's testimony is short on details as to what the Company actually plans to do for distribution system enhancements in 2022–2024. Rosentrater mentions general customer benefits in terms of providing safe and reliable service in an affordable manner and references to some offsetting O&M cost savings but no other details of work activity.

Page 2 of Exhibit HLR-2 (Project 82) shows forecasted capital additions of $6,930,023 for 2022, $7,069,995 for 2023, and $7,000,013 for 2024.

Q. What is your assessment of the Distribution System Enhancement Program and the related capital additions proposed for 2022–2024.

A. In Exhibit SC-22, Schedules A–C, I compared the proposed spending level or capital additions for each year 2022–2024 to the average amount that the Company spent on this program and added to capital additions in the prior three years 2019–2021. These projected capital additions represent an increase of between 42 percent and 44 percent over the historical three-year average. Nowhere in Rosentrater's direct testimony, responses to data requests, or the program business case does the Company offer any support for this large increase in spending.

The program business case on page 39 of Exhibit HLR-2 is devoid of

[61] Direct Testimony of Heather L. Rosentrater, Exh. HLR-1T at 28:18–29:23.

details as to what sections of the distribution system the Company will target for enhancement each year, the expected feet of wire, number of units or portion of equipment it will replace, or other useful information regarding work activities that would support its projected annual spending. Similarly, as stated earlier, Public Counsel's Data Request Nos. 208, 210–212, asked the Company to provide quantities of work units and other work activities that would support the capital additions for years 2021 through 2024. The Company failed to provide that information.

In sum, the Company failed to adequately support the capital additions it proposed for 2022 through 2024, so the Commission should not accept these for inclusion in RY1 and RY2 in this rate case.

Q. Have you determined a reasonable amount of capital additions for the Distribution System Enhancement program the Commission should accept, and the amount it should remove, from 2022, 2023, and 2024?

A. Yes. Given the absence of any quantifiable support for the projected capital additions, I believe a reasonable amount of forecasted capital additions for 2022–2024 is the historical amount during the three-years 2019–2021 adjusted for projected annual inflation. Exhibit SC-30 shows those calculations, and the following table summarizes the adjustments versus the Company's projections by year.

Table 10: Capital Additions for Distribution System Enhancements

	2019-2021 Average	2022	2023	2024
Capital Additions				
Distribution System Enhancements:				
Public Counsel Calculation	$ 4,896,065	$ 5,077,219	$ 5,199,073	$ 5,318,651
Avista Forecast		6,930,025	7,069,995	7,000,013
Adjustment (System)		$ (1,852,806)	$ (1,870,922)	$ (1,681,362)
WA Electric Adjustment		**$ (1,106,334)**	**$ (1,131,947)**	**$ (1,010,621)**

The Company may argue on rebuttal that its projected amounts are merely provisional, and subject to revenue refund if not spent. However, this end of year review should not override the basic premise; forecasted capital additions included in RY1 and RY2 must be reasonable, so the Company must present them alongside evidence sufficient for the Commission to determine whether they in fact are so. It serves no useful purpose to include capital additions and related costs in rates, whether provisional or otherwise, when, as here, the Company cannot support them adequately. In fact, the Commission should actively discourage such a practice.

I recommend that the Commission remove the unsupported capital additions from this rate case in the amounts shown above.

7. Electric Relocation & Replacement Program

Q. Please provide a summary of the Electric Relocation and Replacement program and the related capital additions proposed for 2022–2024.

A. Page 36 of the Rosentrater testimony (Exh. HLR-1T) discusses the Company's Electric Relocation and Replacement program. According to Rosentrater, this annual program addresses the relocation and replacement of electrical facilities located in easements or in public right of ways when requested by local jurisdictions due to construction projects in those easements or right of ways. The Company needs to relocate the facilities at its own expense within the timeframe requested by the local jurisdiction. Some of these projects can have long lead times that allow the Company to plan, while others are emergent each year as requests for relocations arrive. The June 2020 business case document on this program projected annual capital spending of $3.0 million.[62]

The historical spending on this program has been erratic, with $1.6 million and $1.7 million spent in 2018 and 2019, respectively, $6.5 million in 2020, and $5.2 million in 2021. The average capital additions to plant for the three years 2019-2021 averaged $4,459,958. For 2022–2024, the Company has forecasted capital additions of $5.4 million.

Q. What is your assessment of the Electric Relocation and Replacement Program and the related capital additions proposed for 2022–2024?

A. In Exhibit SC-22, Schedules A–C (line 23), I compared the proposed spending level or capital additions for each year 2022–2024 to the average amount that the Company had in capital additions in the prior three years 2019–2021. The projected capital additions represent an increase of 21 percent over the historical three-year average. Nowhere do Rosentrater's direct testimony, responses to data requests, or the program business case provide adequate support for this large increase in spending or explain how the Company arrived at its forecasted capital additions of $5.4 million.

[62] Rosentrater, Exh. HLR-2 at 88.

The program business case on page 88 of Exhibit HLR-2 is devoid of any details as to what relocation projects the Company will undertake each year, the expected feet of wire, number of units or portion of equipment it will replace, or any useful information relating work activities that would support the projected annual spending. Similarly, Public Counsel's Data Request Nos. 208, 210–212,[63] asked the Company to provide quantities of work units and other work activities that would support the capital additions for years 2021 through 2024. The Company failed to provide that information.

Therefore, the Commission should remove these projected capital additions for 2022 through 2024, since the Company has not supported them adequately for inclusion in RY1 and RY2 in this rate case.

Q. Have you determined a reasonable amount of capital additions for the Electric Relocation and Replacement program that the Commission should accept, and the amount it should remove, from 2022, 2023 and 2024?

A. Yes. Given the absence of any quantifiable support for the projected capital additions, I believe the Commission should determine a reasonable amount of forecasted capital additions for 2022–2024 by using the historical amount during the three-years 2019–2021 adjusted for projected annual inflation. Exhibit SC-31 shows those calculations, and the following table summarizes the adjustments versus the Company's projections by year.

[63] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

Table 11: Capital Additions for Electric Relocations

	2019-2021 Average	2022	2023	2024
Capital Additions				
Electric Relocations &Replacement:				
Public Counsel Calculation	$ 4,459,958	$ 4,624,976	$ 4,735,976	$ 4,844,903
Avista Forecast		5,399,944	5,399,944	5,399,987
Adjustment (System)		$ (774,968)	$ (663,968)	$ (555,084)
WA Electric Adjustment		**$ (514,268)**	**$ (516,634)**	**$ (428,303)**

As I stated earlier, the Company may argue that these projected amounts are provisional, and subject to revenue refund if not spent. However, this end of year review should not override the basic premise: forecasted capital additions included in RY1 and RY2 must be reasonable, so the Company must support them with sufficient evidence for the Commission to determine their reasonableness.

I recommend that the Commission remove the unsupported capital additions from this rate case in the amounts shown above.

8. Energy Delivery Modernization & Operational Efficiency &

9. Energy Resources Modernization & Operational Efficiency Technology

Q. Please provide a summary of the two programs and the related capital additions proposed for 2022–2024.

A. Pages 26 and 28 of direct testimony (Exh. JMK-1T) of Company witness Kensok discusses the Company's Energy Delivery Modernization & Operational program and the Energy Resources Modernization and Operational Efficiency programs. According to Kensok, the Energy Delivery Modernization and Operational Efficiency program support both existing and new technology in the energy delivery business areas, which include gas engineering and operations, asset management and supply chain, facilities, fleet operations and metering. Kensok's testimony is short on details as to what system applications the Company specifically plans to undertake in 2022–2024, or their related cost. Kensok identified $5.1 million in capital spending in 2021 and $100,000 of offsetting O&M cost savings in 2022–2024.

Page 2 of Exhibit JMK-2 (Project 37) shows forecasted capital additions of $5,560,672 for 2022, $3,440,859 for 2023, and $5,789,674 for 2024.

Similarly, with regard to the Energy Resources Modernization and Operational Efficiency program, Kensok stated that this program supports the application-related technology initiatives in the energy resources business areas, which include power supply, gas supply, generation production, substation support, environmental, and real estate. Kensok once again is short on details as to what specific system applications the Company plans to undertake in 2022–2024, or their related cost. Kensok identified $1.8 million in capital spending in 2021 and some offsetting O&M cost savings in 2022–2024.

Page 2 of Exhibit JMK-2 (Project 38) shows forecasted capital additions of $2,727,599 for 2022, $2,679,478 for 2023, and $2,695,981 for 2024.

Q. What is your assessment of the two programs and the related capital additions proposed for 2022–2024?

A. The Company does not support its projected capital additions adequately, so the Commission should not allow them in setting rates in RY1 and RY2 at the level the Company proposed. Also, discrepancies exist between the historical spending the Company's testimony reports and the amount of capital additions their data responses report. The Company's reported 2021 historical capital additions in response to Public Counsel Data Request No. 208[64] as shown in Exhibit SC-22, Schedule A (lines 27 & 28), differ significantly from the amounts Kensok's testimony provided for the two programs in testimony and page 1 of Exhibit JMK-2. The information obtained from the Company for the Energy Delivery Modernization and Operational Efficiency program and included in Exhibit SC-22, Schedule A (line 27) shows capital additions of $2,183,337 for 2021 and no capital additions for 2018 through 2020. This $2,183,337 is significantly lower than the $5.1 million stated in Kensok's testimony.

For the Energy Resources Modernization & Operations Efficiency program, the information provided by the Company and included in Exhibit SC-22, Schedule A (line 28), shows capital additions of $1,550,948 for 2021, lower than the $1.8 million Kensok states in testimony. The amount of capital additions in prior years ranged from $0.5 million to $1.8 million with a three-year average of $1.4 million for 2019–2021. It is possible some of these discrepancies are the result of the cut-off end date for the 2021 test year for amounts included in the Company's testimony, versus final 2021 data it may have provided in response to data requests. For purposes of my analysis, I used the data provided by the Company in response to discovery as being the most recent and accurate information.

For the Energy Resources Modernization & Operations Efficiency

[64] *Id.*

program, comparing the proposed capital additions for each year 2022–2024 to the average amount that the Company spent in the prior three years 2019–2021 shows increases in capital spending of between 88 percent and 92 percent. Nothing the Company provided in Kensok's direct testimony, responses to data requests, or the program business case offers any support for this large increase in spending, much less adequate support.

The program business case on page 153 of Exhibit JMK-2 is devoid of any details as to what applications the Company will target each year, the amount it will spend, or indeed any useful information regarding work activities that might support this projected annual spending. Similarly, as I stated earlier, Public Counsel's Data Request Nos. 208, and 210 through 212,[65] asked the Company to provide work activities and other details that could support the capital additions for years 2021 through 2024. The Company failed to provide that information.

The same is true for the Energy Delivery Modernization and Operational Efficiency program. The forecasted capital additions for 2022–2024 represent a significant increase over the 2021 amount of $2,183,337, amounting to a doubling of spending in two of the three years. The Company has not supported and justified this large increase in spending.

In sum, the Company has not supported its projected capital additions for both programs for 2022 through 2024, so the Commission should remove these from RY1 and RY2 in this rate case.

[65] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

Q. Have you determined a reasonable amount of capital additions for the two programs that the Commission should accept, and the amount it should remove, from 2022, 2023, and 2024?

A. Yes. Given the absence of any quantifiable support for the projected capital additions, I believe a reasonable amount of forecasted capital additions for 2022–2024 would use the historical amount during 2021 for the Energy Delivery Modernization program and the three-year average for 2019–2021 for the Energy Resources Modernization program, adjusting both amounts for projected annual inflation. Exhibit SC-32 shows those calculations, and the following table summarizes the adjustments versus the Company's projections by year and for the electric and gas businesses.

Table 12: Energy Delivery Modernization Capital Adjustments

	2021	2022	2023	2024
Capital Additions				
Public Counsel Calculation	$ 2,183,337	$ 2,264,120	$ 2,318,459	$ 2,371,784
Avista Forecast		5,560,672	3,449,859	5,789,674
Adjustment (System)		$ (3,296,552)	$ (1,131,400)	$ (3,417,890)
WA Electric Allocation Factor		58.53%	47.64%	47.78%
WA Electric Adjustment		**$ (1,929,449)**	**$ (539,028)**	**$ (1,633,233)**
WA Gas Allocation Factor		20.48%	15.19%	15.09%
WA Gas Adjustment		**$ (675,015)**	**$ (171,908)**	**$ (515,751)**

Table 13: Energy Resources Modernization Capital Adjustments

	2019-2021 Average	2022	2023	2024
Capital Additions				
Public Counsel Calculation	$ 1,423,429	$ 1,476,096	$ 1,511,522	$ 1,546,287
Avista Forecast		2,727,599	2,679,478	2,695,981
Adjustment (System)		$ (1,251,503)	$ (1,167,956)	$ (1,149,694)
WA Electric Allocation Factor		59.31%	57.86%	56.82%
WA Electric Adjustment		**$ (742,324)**	**$ (675,753)**	**$ (653,222)**
WA Gas Allocation Factor		5.29%	6.53%	7.41%
WA Gas Adjustment		**$ (66,215)**	**$ (76,256)**	**$ (85,232)**

I recommend that the Commission remove the Washington capital addition adjustments shown in the two tables above from the Company's proposed capital additions in this rate case.

10. Gas Aldyl-A Pipe Replacement Program

Q. Please provide a summary of the Gas Aldyl-A Pipe Replacement program and the related capital additions proposed for 2022–2024.

A. Page 85 of Rosentrater's direct testimony (Exh. HLR-1T) discusses the Company's Gas Aldyl-A Pipe Replacement program. According to Rosentrater, this 20-year pipe replacement program will replace Aldyl-A plastic pipe that poses a safety risk. The Company began this program in 2011 and plans to complete it in 2032. In 2013, the Company prepared a study (Exh. HLR-3) confirming its need to undertake the replacement program. At that time, the Company approximated its annual program cost to be $10 million.

In response to Public Counsel's Data Request No. 208 (Exh. SC-22, Schedule A, line 41), the Company reported that actual annual spending on the program in the four-year period from 2018 to 2021 ranged between $20.9 million and $22.4 million. For the three years ended 2021, the average amount of capital additions for this program was $21.8 million.

In Exhibit HLR-2, Rosentrater forecasted that future capital additions will increase to $25,687,251 in 2022, $27,687,251 for 2023, and $24,444,163 for 2024. The target completion date is still 2032.

Rosentrater's testimony is short on details as to how much pipe replacement work the Company actually plans for 2022–2024. Rosentrater's testimony mentions general customer benefits in terms of avoiding potential gas leaks that could migrate to the customers' homes or businesses.

Q. What is your assessment of the Aldyl-A Pipe Replacement program and the related capital additions proposed for 2022–2024.

A. Although Aldyl-A Pipe Replacement program is necessary, the Company provided no direct justification for its escalation in capital spending during the future three years of 2022–2024. In Exhibit SC-22, Schedules A-C, I compared the proposed spending level or capital additions for each year 2022–2024 to the average amount of capital additions in the prior three years 2019–2021. The projected capital additions represent an increase of between 18 percent and 27 percent over the historical three-year average. Nowhere do Rosentrater's direct testimony, responses to data requests, or the program business case offer any support for this large increase in spending, much less sufficient support.

The program business case on page 323 of Exhibit HLR-2 provides some details on the historical number of miles of pipe replaced by year in each state, the number of miles targeted for replacement in future years, and the cost per mile to replace the existing pipe. This leads me to three major observations.

First, in Washington during the three years from 2018 to 2020, the Company planned to replace 56.1 miles of pipe but replaced only 47.6 miles, accomplishing only 85 percent of its goal.

Second, the business case updated in August 2020 shows the Company plans to replace between 18 and 19 miles of pipe annually for a total of 54 miles over the three years of 2022–2024. The planned miles of pipe replacements for 2022–2024 are about the same as those the Company planned for 2018–2020. Given this failure to meet its replacement goals in 2018–2020, I question whether the Company can achieve its stated goal for 2022–2024, much less surpass it as its forecasted capital additions would indicate.

Third, the cost per mile to replace the target pipe in the business case (Exh. HLR-2, page 332) when multiplied by the number of miles to be replaced in 2022–2024, results in an annual cost ranging from $13.9 million to $14.4 million. This cost is significantly lower than the Company's $24 million to $28 million forecast in this rate case during 2022 through 2024.

Additionally, and as stated earlier, Public Counsel's Data Request No. 208 and 210–212,[66] asked the Company to provide quantities of work units and other work activities to support these capital additions for years 2021 through 2024.

[66] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

The Company failed to provide that information. Therefore, it remains unclear how the Company arrived at its forecasted capital spending and proposed capital additions for 2022–2024.

Therefore, these projected capital additions for 2022 through 2024 remain unsupported and the Commission should not accept them for inclusion in RY1 and RY2 in this rate case. It remains troubling that this program cost has more than doubled since 2013, from $10 million annually to more than $20 million as of 2018 and each future year.

Q. Have you determined a reasonable amount of capital additions for the Gas Aldyl-A Pipe Replacement program that the Commission should accept, and the amount it should remove, from 2022, 2023, and 2024?

A. Yes. Given the lack of evidence from the Company to support its projected capital additions in 2022–2024, I believe a reasonable amount of forecasted capital additions would use the historical amount during the three-years 2019–2021 adjusted for projected annual inflation. Exhibit SC-33 shows those calculations by year, and the following table summarizes the adjustments versus the Company's projections by year.

Table 14: Capital Addition Adjustments for Aldyl-A Pipe Repl.

	2019-2021 Average	2022	2023	2024
Capital Additions				
Public Counsel Calculation	$ 21,763,545	$ 22,568,796	$ 23,110,447	$ 23,641,988
Avista Forecast		25,687,251	27,687,251	24,444,163
Adjustment (System)		$ (3,118,455)	$ (4,576,804)	$ (802,175)
WA Gas Adjustment		**$ (1,848,223)**	**$ (2,521,916)**	**$ (420,782)**

I recommend that the Commission remove the Washington capital addition adjustments in the table above from the Company's proposed capital additions in this rate case.

11. Gas Meter Change Program

Q. Please provide a summary of the Gas Meter Changeout program and the related capital additions proposed for 2022–2024.

A. Starting at Page 93, Rosentrater (Exh. HLR-1T) discusses the Company's Planned Meter Changeout Program (PMC). According to Rosentrater, the Company uses a statistical sampling methodology to determine the number of gas meter changeouts it must complete each year. Under Commission rules and tariffs, the Company is required to test a portion of its natural gas meters annually and replace those types of meters that are not meeting accuracy standards.

In response to Public Counsel's Data Request No. 208 (Exh. SC-22, Schedule A, line 44), the Company reported that actual annual spending on the program in the four-year period from 2018 to 2021 ranged between $1.4 million and $2.9 million. For the three-years ending in 2021, the average amount of capital additions for this program was $2.2 million.

In Exh. HLR-2, Rosentrater forecasted that future capital additions will increase to $3.5 million in 2022 and $3.8 million in 2023, and then decline to $1.5 million for 2024.

Rosentrater's testimony provides no explanation or justification for the increase in capital spending in 2022 and 2023 for this routine program, nor does it explain the decline to $1.5 million in 2024.

Q. What is your assessment of the PMC program and the related capital additions proposed for 2022-2024.

A. The Company has not provided any justification for its escalation in capital spending on the PMC program for 2022 and 2023. In Exhibit SC-22, Schedules A-B (line 44), I compare the proposed capital additions for 2022 and 2023 to the average amount of capital additions in the prior three years 2019–2021. The projected capital additions for 2022 and 2023 represent an increase of between 60 percent and 73 percent over the historical three-year average. Nowhere in the Rosentrater direct testimony, responses to data requests, or program business case does the Company provide any support, much less adequate support, for this large increase in spending. Forecasted capital additions in 2024 fall to $1.5 million and they are within the four-year historical range in 2018–2021.

The program business case on page 352 of Rosentrater's Exhibit HLR-2 does not provide any insights as to the increase in forecasted capital spending on this program in 2022 and 2023.

Public Counsel's Data Request Nos. 208 and 210–212[67] asked the Company to provide quantities of work units and other work activities that could support its capital additions for years 2021 through 2024. The Company did not provide that information. Therefore, the increase in projected capital additions for 2022 and 2023 remains unsupported and the Commission should not accept it for inclusion in RY1 and RY2 of this rate case.

[67] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

Q. Have you determined a reasonable amount of capital additions for the Gas PMC program that the Commission should accept, and the amount that it should remove, from 2022 and 2023?

A. Yes. Given the lack of evidence to support the Company's projected capital additions in 2022 and 2023, I determined a reasonable amount of forecasted capital additions by using the historical amount during the three-years 2019–2021 adjusted for projected annual inflation. Exhibit SC-34 shows those calculations by year and the following table summarizes the adjustments versus the Company's projections by year.

Table 15: Capital Addition Adjustments for Gas PMC

	2019-2021 Average	2022	2023
Capital Additions			
Public Counsel Calculation	$ 2,192,114	$ 2,273,222	$ 2,327,780
Avista Forecast		3,500,000	3,799,993
Adjustment (System)		$ (1,226,778)	$ (1,472,213)
WA Gas Adjustment		**$ (408,925)**	**$ (490,737)**

I recommend that the Commission remove the WA capital addition adjustments shown in the table above from the Company's proposed capital additions in this rate case.

12. Substation – New Distribution Station Capacity Program &

13. Substation – Station Rebuilds Program

Q. Please provide a summary of the two programs and the related capital additions proposed for 2022–2024.

A. On pages 52 through 57 of direct testimony (Exh. HLR-1-1T), Rosentrater discusses the Company's New Distribution Station Capacity program and the Station Rebuild program. According to Rosentrater, the Substation-New Distribution Station Capacity program focuses on investments to add new electrical capacity to the Company's distribution substations, in response to demand growth on feeder lines these substations support. Rosentrater states also that the substation expansion provides the Company with greater operational flexibility, ease of maintenance, and service reliability.

The Company had capital additions of approximately $2.3 million in 2021, and has forecasted capital additions of $5.8 million for 2022, $11.1 million for 2023, and $12.7 million for 2024.[68]

For the Substation – Station Rebuilds program, the Company targets the rebuilding of aging electrical substations by replacing and upgrading structures, equipment and other related items that are at end of their operating life or obsolete. This program differs from the Substation Asset Management program, which focuses on replacing only aging equipment, not rebuilding or refurbishing the entire substation.[69] Capital additions for this program were $4.7 million in 2021, projected to increase to $13.0 million in 2022, $58.4 million in 2023, and $41.5 million in 2024.[70]

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[68] Coppola, Exh. SC-22, Schedule B, line 67 (Schedules A-C: Public Counsel project/program variance analysis of 2022–2024 forecasted capital additions vs. 2019–2021 average). For 2021, Rosentrater, Exhibit HLR-1T at 55:7–8, shows a different amount of $2.2 million than the information provided by Avista in response to Public Counsel Data Request Nos. 208, 210–212.
[69] Rosentrater, Exh. HLR-1T at 55:10–23.
[70] Coppola, Exh. SC-22, Schedule B, line 68 (Schedules A-C: Public Counsel project/program variance analysis of 2022–2024 forecasted capital additions vs. 2019–2021 average). For 2021, Rosentrater, Exhibit HLR-1T, at 57:4–7, shows a different amount of $4.9 million than the information provided by Avista in response to Public Counsel Data Request Nos. 208, 210–212.

Q. What is your assessment of the two programs and the related capital additions proposed for 2022-2024.

A. Other than a discussion of alternatives considered, general cost control measures, general benefits to customers, and identifying some O&M expense offsets, Rosentrater does not identify what specific demand needs are forecasted for 2022–2024 to justify substation expansions. In testimony and responses to data requests Rosentrater does not identify what quantities or units of equipment are planned for installations, and what other specific work activities are planned for 2022–2024 to support the increasing capital additions.

The projected capital additions for 2022–2024 for the New Distribution Station Capacity program represent increases as high as 170 percent over the historical three-year average during 2019–2021.[71] Similarly, for the Stations Rebuilds program, the 2022–2024 project capital additions reflect increases of as much as 476 percent over the 2018–2021 three-year average. These are alarmingly large capital spending increases that the Company must support thoroughly and adequately before the Commission can deem them reasonable or prudent. Unfortunately, the Company has failed to provide this support.

The business case document for the New Distribution Station Capacity program (Exh. HLR-2, page 160) provides general descriptions for the need to undertake capacity expansions over time and identifies targeted spending amounts through 2026. However, the business case does not identify what specific work the Company will do each year to support this capital spending. In discovery,

[71] Coppola, Exh. SC-22, Schedules A–C, line 67.

Public Counsel asked the Company to provide details on historical and projected work activities, work units, and quantities of equipment completed and planned to be completed to support the annual spending level. In response to Public Counsel's Data Request Nos. 208 and 210–212,[72] the Company did not provide that essential information, which does not allow Public Counsel and the Commission the ability to determine the reasonableness and prudency of the project capital additions.

The same is true of the Station Rebuild program. Although the business case document for this program (Exh. HLR-2, page 178) identifies the age of some equipment to be replaced, it does not present a detailed plan of the number and type of equipment and structures to be rebuilt, replaced, or upgraded to support the annual spending the Company projects. Furthermore, the business case identifies only $20 million of annual capital spending, significantly less than the $58.4 million projected for 2023 and $41.5 million projected for 2024 in this rate case.

In other words, the Company does not support its projected capital additions for both programs for 2022 through 2024 and the Commission should not accept them for inclusion in RY1 and RY2 in this rate case. The Company bears the burden of proof to show its projected capital additions are reasonable and supported by sufficient evidence so that the Commission can determine reasonableness and prudency. The fact that the projected amounts are provisional

[72] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

and subject to revenue refund if not spent, should not override the basic premise that the forecasted capital additions must be adequately supported for inclusion in RY1 and RY2.

Q. Have you determined a reasonable amount of capital additions for the two programs that the Commission should accept, and the amount they should remove, from 2022, 2023, and 2024?

A. Yes. Given the absence of quantifiable support for the projected capital additions, I determine a reasonable amount of forecasted capital additions for 2022–2024 using the historical average amount during the three-years from 2019 to 2021 and escalating that amount by the inflation rate for each year provided by the Company. Exhibit SC-35 shows those calculations, and the following table summarizes these adjustments versus the Company's projections by year and for the electric and gas businesses.

Table 16: Distribution Station Capacity Capital Adjustments

	2019-2021 Average	2022	2023	2024
New Distribution Station Capacity:				
Public Counsel Calculation	$ 4,710,873	$ 4,885,175	$ 5,002,420	$ 5,117,475
Avista Forecast		5,765,300	11,076,449	12,701,549
Adjustment (System)		$ (880,125)	$ (6,074,029)	$ (7,584,074)
WA Electric Adjustment		**$ (506,247)**	**$ (5,350,660)**	**$ (6,292,374)**
WA Gas Adjustment		**$ (31,015)**	**$ -**	**$ (72,081)**

Table 17: Distribution Station Rebuilds Capital Adjustments

	2019-2021 Average	2022	2023	2024
Station Rebuilds:				
Public Counsel Calculation	$ 10,133,395	$ 10,508,331	$ 10,760,531	$ 11,008,023
Avista Forecast		12,998,326	58,412,186	41,493,604
Adjustment (System)		$ (2,489,995)	$ (47,651,655)	$ (30,485,581)
WA Electric Adjustment		**$ (1,506,146)**	**$ (36,538,249)**	**$ (25,741,114)**
WA Gas Adjustment		**$ (65,026)**	**$ (301,161)**	**$ (82,845)**

I recommend that the Commission remove the Washington capital addition adjustments in the two tables above from the Company's proposed capital additions in this rate case.

14. Wildfire Resiliency Plan

Q. Please provide a summary of the Wildfire Resiliency Plan and the related capital additions proposed for 2022–2024.

A. The entire direct testimony of Company witness David Howell (Exh. DRH-1T) and accompanying exhibits (Exhs. DRH-2, DRH-3, and DRH-4) are dedicated to presenting the Company's Wildfire Resiliency Plan, with a considerable amount of repetitive information between the testimony and exhibits. The plan generally entails undertaking more intensive activities to prevent wildfires by increasing vegetation management around power lines, converting transmission and high-risk distribution poles to steel, replacing wood crossarms and other pole equipment, and upgrading circuit reclosers and further automation.

I focus here on the capital additions the Company incurred in 2021 and has forecasted for 2022–2024. On page 4 of Exhibit DRH-1T, Howell identifies actual system-wide capital additions of $17.3 million and forecasted amounts of $24.5 million in 2022, $27.0 million in 2023 and $29.0 million in 2024.

Q. What is your assessment of the Company's proposed capital additions for 2022–2024 for the Wildfire Resilience Plan?

A. The Wildfire Resiliency Plan is a conceptual plan identifying the scope of where the Company sees a need to focus additional resources and capital spending to minimize the risk of wildfires caused by falling power lines or power lines contacting trees and other vegetation, and the risks of wildfires damaging or destroying utility infrastructure and surrounding property. It is not an implementation plan that identifies with specificity what equipment, structures, or facilities the Company will replace during the 2022–2024 period, which would support its forecasted capital spending. For example, Exhibit DRH-2 on pages 9 and 10 shows some detail of areas where the Company will target capital spending from 2022 to 2024, but makes no specific identification of quantities or work units, such as miles of electrical lines to be replaced, pole tops to be strengthened or replaced, wood poles to be replaced, etc. to support each years' capital additions.

In Exhibit DRH-3, the Company provides some specific work units and equipment it replaced in 2021 and prior years, but no forecasted data supporting its capital spending plans. Public Counsel's Data Request Nos. 208 and 210–212[73] requested this type of information and the Company did not provide it.

[73] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

Without such underlying information, it is not possible to assess the reasonableness of the Company's forecasted capital additions. The lack of supporting data also raises questions about the validity of the forecasted capital spending. It is unclear how the Company was able to arrive at the forecasted capital additions, since work units and quantities are integral to developing a cost forecast.

In response to Public Counsel Data Request No. 305,[74] Avista provided a table with rough cost estimates per unit, which required extrapolation of units of work performed and planned. However, the estimated units of work performed based on actual and budgeted total and incremental costs do not match actual work reported in the 2022 Wildfire Plan. For example, Avista's 2022 Wildfire Plan reported that the incremental cost for transmission steel replacement ranged from $15,000 to $25,000 per structure.[75] We would anticipate only 218 to 364 steel-converted transmission poles in 2021 based on these incremental cost estimates and the total 2021 transmission steel replacement expenditure of $5,455,000; however, the 2022 Wildfire Plan reported 896 steel-converted transmission poles. [76]

Additionally, some cost estimates for wildfire components differed significantly when compared to the Wildfire Plan as well. In the response to Public Counsel Data Request No. 305,[77] Avista provided an estimate of $45,000

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[74] *See* Tam, Exh. AT-24, Attach. D (Avista's Response to Public Counsel's Data Request No. 305, with Attachment D).
[75] *See* Howell, Exh. DRH-2T at 10.
[76] *See* Tam, Exh. AT-4 (Wildfire Work Plan Analysis).
[77] *Id*.

per transmission pole structure, which would pay for 121 converted transmission poles in 2021 based on the actual 2021 total transmission steel replacement cost of $5,455,000. However, Avista's steel pole conversion unit cost estimates vary by approximately $30,000[78]. Even worse, based on the actual number of transmission pole structures replaced and the total transmission steel pole replacement expenditures, the actual incremental cost of transmission pole replacements should be 10 times less than reported in the Wildfire Plan and Public Counsel Data Request No. 305.[79]

It is apparent that the Wildfire Resiliency Plan lacks a coherent and detailed implementation plan for at least the next three to five years with sufficient specificity that identifies the quantities of planned work, the location of that work, and other supporting details. Without such information, the capital additions for 2022–2024 included in this rate case remain unsupported.

Q. Have you determined a reasonable amount of capital additions for the Wildfire Resiliency Plan that the Commission should accept for 2022–2024, and the amount it should remove?

A. Yes. The Company began the Wildfire Resiliency Plan in mid-2020, and incurred capital additions of $3.2 million in that year. In 2021, the Company incurred capital additions of $18.4 million, and projects $24.5 million for 2022, $27.9 million for 2023, and $29.0 million for 2024.[80] Given that the Company has been

[78] $45,000/pole conversion (as listed in Tam, Exh. AT-24, Attach. D) -$15,000/pole conversion (as listed in the 2022 Wildfire Plan) =$30,000/pole conversion incremental cost estimate difference.
[79] *See* Tam, Exh. AT-24 Attach. D (Avista's Response to Public Counsel's Data Request No. 305, with Attachment D).
[80] Coppola, Exh. SC-22, Schedule B, line 75. The capital additions for 2021 differ from the amount provided in Exhibit DRH-1T at 4, Table 1. The difference is unexplained.

quickly ramping up the program since 2020, and to give it the benefit of the doubt as to the validity of its 2022 project costs, I recommend the Commission accept the forecasted capital additions of $24.5 million for 2022.

However, and as I discuss above, with regard to 2023 and 2024 the Company has not justified its increased spending. With the Wildfire Resiliency Plan in place for less three years, the $24.5 million spending level in 2022 represents a major new threshold for this program. The lack of detailed Company evidence makes it unwise to support any significant increased spending above the new threshold amount in 2022.

Therefore, I recommend that the Commission increase the 2022 spending level by inflation, and remove from this case any excess amount forecasted by the Company above the inflation adjusted amount. Exhibit SC-36 shows those calculations, and the following table summarizes the adjustments versus the Company's projections by year.

Table 18: Wildfire Resiliency Plan Capital Adjustments

	2022	2023	2024
Capital Additions:			
Public Counsel Calculation	$ 24,544,986	$ 25,134,066	$ 25,712,149
Avista Forecast		27,000,000	29,000,000
Adjustment (System)		$ (1,865,934)	$ (3,287,851)
WA Electic Adjustment		**$ (1,190,226)**	**$ (2,065,963)**

I recommend that the Commission remove the Washington capital addition adjustments in the table above from the Company's proposed capital additions in this rate case. Additionally, in response testimony, Public Counsel witness Aaron Tam proposes several recommendations to strengthen the Wildfire Resiliency Plan that the Commission should strongly consider and adopt.

15. Wood Pole Management

Q. Please provide a summary of the Wood Pole Management program and the related capital additions proposed for 2022–2024.

A. On pages 65–67 of direct testimony (Exh. HLR-1T), Rosentrater discusses the Wood Pole Management program. According to Rosentrater, the program entails annually replacing a portion of the Company's electrical line wood poles and attached equipment, including transformers, cutouts, insulators, cross arms, etc. Rosentrater discusses alternatives considered and general benefits to customers, but provides no details on specific work the Company performed or plans to perform. Exhibit HLR-2 reports $14.4 million of capital additions for 2021, and shows forecasted amounts of $13 million for each year from 2022 through 2024.

Q. What is your assessment of the Company's proposed capital additions for 2022–2024 for the Wood Pole Management program?

A. The direct testimony of Rosentrater and the business case document provided in Exhibit HLR-2 (page 217) lack any details of work performed and planned for 2022–2024 for the Pole Management Program. Without that detailed support, it is not possible to accept the total capital spending that the Company forecasts for RY1 and RY2. Although the business case document discusses the need to increase the number of pole inspections in conjunction with the Wildfire Urban Interface program beginning in 2020, no specific plan is presented of the number of wood poles replaced in prior years or that may need to be replaced in future years, nor for their related attachments such as transformers, cross arms, insulators, cutouts, etc. This lack of detail to support the capital additions for 2021 and 2022–2024 troubles me.

Public Counsel's Data Request Nos. 208 and 210–212[81] requested detailed information on quantities of equipment replaced or installed, the number of work units, and the work activities that would support the capital additions for 2021–2024. The Company did not provide this information, making it impossible to assess the reasonableness of the Company's forecasted capital additions. The lack of such supporting data also raises questions about the validity of the Company's forecasted capital spending. It is unclear how the Company was able to arrive at the forecasted capital additions, since work units and quantities are integral to developing any cost forecast. Without such information, the capital additions for 2022–2024 included in this rate case remain unsupported.

Q. Have you determined a reasonable amount of capital additions for the Wood Pole Management program that the Commission should accept for 2022–2024, and the amount it should remove?

A. Yes. According to information it provided in discovery, the Company incurred capital additions of $14.6 million in 2021, and approximately $10.3 million in 2019 and 2020. The average amount of capital additions during the three-year

[81] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

period 2019–2021 was $11.7 million.[82] The Company has projected $13 million of capital additions for each year 2022 through 2024.

The lack of detailed evidence makes it unwise to support any significant increased spending above the three-year historical average amount. Therefore, I recommend that the Commission determine the 2022–2024 spending level by increasing the historical average amount by inflation and any excess amount forecasted by the Company above the inflation-adjusted amount, and then remove them from this rate case. Exhibit SC-37 shows those calculations, and the following table summarizes the adjustments versus the Company's projections by year.

Table 19: Capital Additions for Wood Pole Management

	2019-2021 Average	2022	2023	2024
Capital Additions				
Public Counsel Calculation	$ 11,744,370	$ 12,178,912	$ 12,471,206	$ 12,758,043
Avista Forecast		12,999,996	12,999,996	12,999,996
Adjustment (System)		$ (821,084)	$ (528,790)	$ (241,953)
WA Electric Adjustment		**$ (533,619)**	**$ (343,658)**	**$ (157,244)**

I recommend that the Commission remove the Washington capital addition adjustments shown in the table above from the Company's proposed capital additions in this rate case.

16. Enterprise & Control Network Infrastructure

Q. Please provide a summary of the Enterprise & Control Infrastructure program and the related capital additions proposed for 2022-2024.

[82] Coppola, Exh. SC-22, Schedule B, line 76. The capital additions for 2021 differ from the amount provided in Rosentrater, Exhibit HLR-1T, at 65:1–2, and Exhibit HLR-2. The difference is unexplained.

A. On pages 17 and 18 of direct testimony (JMK-1T), Kensok briefly discusses the network technology that allows the transmission of data to various systems within the Company. In testimony, Kensok mentions the need to upgrade and expand these networks with passage of time and business expansion. According Kensok, beginning in 2022, the Company divided this one program into three new ones: Enterprise Network Infrastructure, Control and Safety Network Infrastructure, and Network Backbone Infrastructure.[83]

Exhibit JMK-2 shows $7.5 million of capital additions for 2021 and forecasted amounts of $7.0 million for 2022, $7.5 million for 2023, and $6.7 million for 2024.[84]

Q. What is your assessment of the Company's proposed capital additions for 2022–2024 for the Enterprise & Control Network Infrastructure programs?

A. Both the historical 2021 and the proposed expenditures for 2022–2024 are not adequately supported by a list of equipment, work units or quantities and specific work activities. Both the direct testimony of Kensok and the business case documents provided in Exhibit JMK-2 (pages 43, 227, 236 and 246) lack detailed support information and generally provide broad goals and objectives.

In Public Counsel's Data Request Nos. 208 and 210–212,[85] Public Counsel requested detailed information on quantities of equipment replaced or installed, the number of work units and the work activities that would support the capital

[83] Kensok, Exh. JMK-1T at 17:1–8, 40:23–42:9.
[84] Kensok, Exh. JMK-2 at 2, Project Nos. 29, 33, 35, and 52.
[85] Coppola, Exh. SC-21 (Avista's Response to Public Counsel's Data Request Nos. 208, 210–212, with related Attachments).

additions for 2021–2024. The Company did not provide this information. Without such underlying information, it is impossible to assess the reasonableness of the Company's forecasted capital additions, and the capital additions for 2022–2024 included in this rate case remain unsupported.

Q. Have you determined a reasonable amount of capital additions for the Enterprise and Control Network Infrastructure programs that the Commission should accept for 2022–2024 and the amount it should remove?

A. Yes. According to the information provided in response to data requests, the Company incurred capital additions of $6.0 million in 2021, 42.8 million in 2020, and $5.0 million in 2019. The average amount of capital additions during the three-year period from 2019 to 2021 was $4.6 million.[86] As I state above, the Company has projected capital additions for 2022–2024 ranging from $6.7 million to $7.5 million.

The lack of detailed evidence makes it unwise to support any significant increased spending above the three-year historical average amount. Therefore, I recommend determining the 2022–2024 spending level by increasing the historical average amount by inflation and any excess amount forecasted by the Company above the inflation-adjusted amount be removed from this rate case. Exhibit SC-38 shows those calculations, and the following table summarizes the adjustments versus the Company's projections by year.

[86] Coppola, Exh. SC-22, Schedule B, line 29. The capital additions for 2021 differ from the amount provided in Kensok, Exhibit JMK-1T at 18:22, and Exhibit JMK-2. The difference is unexplained.

Table 20: Capital Additions for Enterprise Network Infrastructure

	2019-2021 Average	2022	2023	2024
Capital Additions				
Public Counsel Calculation	$ 4,636,446	$ 4,807,995	$ 4,923,386	$ 5,036,624
Avista Forecast		6,991,075	7,504,274	6,716,990
Adjustment (System)		$ (2,183,080)	$ (2,580,888)	$ (1,680,366)
WA Electric Adjustment		**$ (1,055,343)**	**$ (1,247,650)**	**$ (812,321)**
WA Gas Adjustment		**$ (319,086)**	**$ (377,231)**	**$ (245,608)**

I recommend that the Commission remove the Washington capital addition adjustments shown in the table above from the Company's proposed capital additions in this rate case.

17. Capital Additions Summary – Revenue Requirement Adjustment

Q. Did you calculate the revenue requirement adjustments pertaining to your proposed capital additions disallowances for 2022–2024?

A. Yes. In Exhibit SC-39, I summarize my proposed adjustments to capital additions by plant type. In Exhibits SC-40 and SC-41, I use this information to determine adjustments to rate base, return on rate base, depreciation expense, and net operating income (NOI), and ultimately the adjustments to revenue requirement.

Therefore, based on the information in Exhibit SC-40, I recommend that the Commission reduce the revenue requirement for plant additions for the electric business by $7,242,000 for RY1 and $8,662,000 for RY2. For the gas business, based on the calculations shown in Exhibit SC-41, the Commission should reduce the Company's revenue requirement by $1,425,000 for RY1 and $774,000 for RY2.

D. O&M Offsets for Capital Additions

Q. Please briefly describe what adjustments you have made to O&M cost offsets pertaining to the capital additions disallowances you have proposed.

A. In the pro-forma adjustments 4.03 and 5.09 Andrews proposes in Exhibits EMA-2 and EMA-3, the Company included cost offsets pertaining to future capital additions. Because of my proposed disallowances, the Company is not likely to achieve the same O&M cost offsets it has presented in this rate case. Therefore, in Exhibit SC-42, I remove the portion of O&M offsets that pertain to my proposed disallowance of capital additions for 2022–2024. I determined the portion of O&M offsets to be removed based on the percentage of my proposed disallowances to the total amount of capital additions proposed by the Company for each respective project or program.

I recommend that the Commission accept the following adjustments to increase revenue requirement.

Table 21: Reversal of O&M Cost Offsets

	2022	2023	2024
Operating Income:			
WA-E	**$ 48,123**	**$ 128,275**	**$ 128,589**
WA-G	**$ 12,744**	**$ 15,355**	**$ 8,284**
Revenue Requirement:			
WA-E	**$ 63,695**	**$ 169,782**	**$ 170,197**
WA-G	**$ 16,867**	**$ 20,324**	**$ 10,964**

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E. EIM Benefit

Q. Please briefly describe what adjustments Public Counsel is recommending with regard to the Company's participation in the EIM.

A. Public Counsel recommends the financial benefit from the Company's participation in the Energy Imbalance Market (EIM) should decrease revenue requirement for RY1 by $12.1 million.[87] Public Counsel believes there will be additional power cost reductions accruing to Avista from the Energy Imbalance Market during RY1 that the Company has not captured in its rate case filing. Public Counsel witness Robert Earle discusses this issue further in Exhibit RLE-1T.

Q. How do your analyses and recommendations consider equity as that term is used in the multiyear rate plan statute in RCW 80.28.425(1)?

A. Large and frequently recurring utility rate increases are unfair, unjust, and unreasonable because they negatively affect all customers financially, but are inherently more burdensome on the highly impacted communities and vulnerable populations. My proposed adjustments significantly lower the burden on all customers by removing operating and capital costs, which the Company has failed to adequately support or has overstated, from the Company's filed case and Settlement. These adjustments significantly lower the revenue requirement and resulting rate increases for all customers and reduce the burden on the more financially vulnerable customers.

[87] Coppola, Exh. SC-45; *See also* Earle, Exh. RL-1T and Coppola, WP SC-16, PC-EIM RR adjustment.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does. However, I reserve the right to amend, revise, and supplement my testimony to incorporate new information that may become available.