**Exhibit No. \_\_\_ (DCG-1TC)**

**Docket UE-150204/UG-150205**

**Witness: David C. Gomez**

**REDACTED VERSION**

**BEFORE THE WASHINGTON**

**UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **AVISTA CORPORATION dba AVISTA UTILITIES**  **Respondent.** | **DOCKETS UE-150204 and**  **UG-150205**  **(*Consolidated)*** |

**TESTIMONY OF**

**David C. Gomez**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Planned Capital Additions 2014-2016, Project Compass and***

***Prudence***

**July 27, 2015**

***Confidential Per Protective Order***

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Exhibit No. \_\_\_ (DCG-5C) Avista Supplemental Response to Staff DR 60C and Attachments

Exhibit No. \_\_\_ (DCG-6) Avista Response to Staff DR 134 and Attachment B

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Exhibit No. \_\_\_ (DCG-19) Avista Response to Staff DR 154

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Exhibit No. \_\_\_ (DCG-21) Direct Testimony and Select Exhibits of Dave B. DeFelice in Dockets UE-140188 & UG-140189 (consolidated)

Exhibit No. \_\_\_ (DCG-22) Avista witness Jennifer S. Smith workpaper in UE-150204 and UG-150205, 3) WA CapXAdditions 12.31.15

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Exhibit No. \_\_\_ (DCG-27) Docket UE-140188, Work papers of Elizabeth Andrews, Worksheet; WA CapX Additions 12.31.14

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Exhibit No. \_\_\_ (DCG-32) Avista 2015-2017 Two-Year Plan for Managing Replacement of Select Pipe Natural Gas System

Exhibit No. \_\_\_ (DCG-33) Avista Response to Staff DR 143 with Supplemental Responses through July 10, 2015

# I. INTRODUCTION

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

A. My name is David C. Gomez. My business address is the Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

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

A. I am employed by the Washington Utilities and Transportation Commission (“Commission”) as the Assistant Power Supply Manager in the Energy Section of the Regulatory Services Division. I attained this position on July 1, 2012. Prior to my current position, I was the Deputy Assistant Director in the Solid Waste and Water Section of the Regulatory Services Division.

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

A. I have been employed by the Commission since May 2007.

**Q. Please state your educational and professional background.**

A. I hold a Bachelor of Arts degree in Business from Hamline University and a Masters of Business Administration degree from the University of Saint Thomas; both universities are located in Saint Paul, Minnesota.

Before joining the Commission, my relevant professional experience consisted of 25 years in a variety of fields, including management, contracting, supply chain, procurement, operations and engineering. I hold professional certifications from the Institute for Supply Management (ISM); APICS - The Association for Operations Management; Universal Public Procurement Council (UPPC); and QAI Global Institute (Software Testing).

While employed at the Commission, I have performed accounting and financial analysis of regulated utility and transportation companies, as well as legislative and policy analysis. I presented testimony on behalf of Commission Staff in Docket UE-121373, regarding the Coal Transition Power Purchase Agreement between Puget Sound Energy, Inc. and TransAlta Centralia Generation LLC; Dockets UE-130043 and UE-140762, Pacific Power & Light Company’s (Pacific Power) 2013 and 2014 general rate cases; and Docket UE-130617, Puget Sound Energy’s 2013 Power Cost Only Rate Case (PCORC). I also provided testimony in Avista’s last general rate case, *Washington Utilities and Transportation Commission v. Avista Corp.*, Docket UE-140188 (UE-140188). I have provided Staff recommendations to the Commission at numerous open meetings, and worked on various Commission rulemakings.

# II. SCOPE AND SUMMARY OF TESTIMONY

**Q. What is the scope of your testimony in this proceeding?**

A. My testimony is concentrated on Avista Corporation’s (“Avista” or “Company”) 2015 End-of-Period (EOP) “pro forma cross check” (“cross check”) estimates of capital additions[[1]](#footnote-2) and whether the cross check validates the Company’s assertion that it is experiencing on-going attrition and therefore justifies the rate relief being sought by the Company in this case.[[2]](#footnote-3) The estimates of 2015 cross check system-level capital additions and rate base are provided in Avista witness Karen Schuh’s testimony and supporting Exhibits, numbered KKS-1 through 5. I conclude my testimony in this case by commenting on the capital budgeting and review process at Avista, which is also part of Ms. Schuh’s testimony.

**Q. Why are the Company’s as-filed estimates of its pro forma capital additions and total rate base in its cross check so close to the attrition-derived total rate base?**

A. As part of its cross check, the Company provided testimony regarding estimates of the amounts of its system wide capital additions for 2014 EOP, 2015 EOP and 2016 Average of Monthly Averages (AMA).[[3]](#footnote-4) These estimates are subsequently allocated to Washington customers and, along with other projected adjustments for taxes and depreciation, are used to arrive at Avista’s as-filed cross check rate base totals of $1.47 billion for electric and $278.2 million for gas in the 2016 calendar year rate period.[[4]](#footnote-5) The Company uses these cross check rate base amounts to validate the accuracy of its separate as-filed attrition study which arrives at an almost identical estimate of rate base for electric of $1.46 billion and $286.1 million for gas.[[5]](#footnote-6)

However, it is no coincidence that pro forma rate base amounts for the cross check and attrition study are so close. In her testimony, Ms. Andrews confirms that the Company abandoned its attrition study’s representative historical trend period for net plant of 2007-2013 in favor of the period 2014-2016.[[6]](#footnote-7) Ms. Andrews claims that the transfer to plant and resulting net plant calculations derived through Ms. Schuh’s cross check estimates of capital additions “more accurately” represent the level of actual plant going into service for the 2016 rate year. This is to be expected when the attrition trend lines are chosen to equal a desired result.

**Q. Are Avista’s proposed rates in this case based entirely on the results of its attrition study?**

A. No. A central part of the Company’s attrition argument, and the relief being sought through an attrition adjustment, rests with its belief that there exists a “mismatch in the growth of net plant investment and sales.”[[7]](#footnote-8) Staff can accept this premise on its face. But when the historical trend of a major rate component is altered to meet a budgeted result, then Staff must examine the accuracy and appropriateness of Avista’s cross check capital additions to validate the net plant portion of Avista’s attrition claims. Staff presents both an attrition-based analysis and an independent pro forma case. Staff witness Mr. McGuire presents Staff’s overall revenue requirement recommendation which considers both the pro forma revenue requirement and an incremental attrition adjustment to cover Avista’s projected revenue shortfall.

**Q. Has the Company made changes to its as-filed estimates of pro forma capital additions and rate base in this case?**

A. Yes, several times. On May 15, 2015, Avista provided the first of a number of its responses to Staff Data Request Nos. 130[[8]](#footnote-9) and 131[[9]](#footnote-10) making corrections and revisions to its as-filed revenue requirements for both its cross check and attrition studies. Since its original filing, the Company has reduced its revenue requirement in this case by over half.[[10]](#footnote-11) One of the mistakes in Avista’s as-filed case resulted in a $50 million (system) reduction to rate base to reflect a "Repairs Allowance" allowed for tax purposes that the Company had inadvertently omitted in its original filing along with other Deferred Federal Income Tax (DFIT) true-up adjustments. This error alone resulted in a $4.6 million reduction in the Company’s overall revenue requirement for Washington in this case.

On June 8, 2015, Avista began providing monthly updates of its pro forma capital additions. In this first update, the Company reduced by $10.6 million its Washington-allocated capital addition amounts for the October through December 2014 time period to reflect its actual results.[[11]](#footnote-12) The latest update of July 10 provided Avista’s actuals through June of 2015 and a revision of its forecast for its pro forma capital additions for the balance of the year. As it stands now, the Company’s Washington-allocated 2015 pro forma transfers to plant are $29.2 million lower than what Avista had originally filed.[[12]](#footnote-13)

Currently, the rate base amounts in both Avista’s proposed electric and gas attrition study as well as in its cross check are identical to each other. Avista’s revised 2016 calendar year rate period rate base stands at $1.42 billion for electric and $282.5 million for gas.[[13]](#footnote-14)

**Q. Your testimony in this case is limited to the Company’s 2015 pro forma capital additions. Why did you decide to narrow the scope of your examination from what was filed by the Company?**

A. I selected a narrower scope of pro forma capital additions to examine for two reasons. First, the guidance provided by the Commission in its recent order in the last Pacific Power rate case (Pacific Order) regarding major capital additions. [[14]](#footnote-15) Staff witness Mr. Hancock discusses the guidance provided by the Commission’s Pacific Order in his testimony. Second, the Company’s responses to Staff Data Request Nos. 130, 131 and 143[[15]](#footnote-16) mentioned above which provided Avista’s actual amount of year-end capital additions and rate base for 2014.

**Q. Please explain further.**

A. The timing difference between Avista’s filing of this rate case and the issuing of the Pacific Order meant that the Company was unable to incorporate the Commission’s most recent guidance on capital additions when it prepared its case. In the Pacific Order, the Commission outlined its guidance for companies and Staff regarding allowable pro forma capital additions in general rate cases and the standard of proof required for including them in rates. Consequently, Staff begins by first excluding Avista’s 2016 AMA cross check estimates of capital additions on the basis that they do not meet the Commission’s “known and measurable” criteria specified in the Pacific Order.[[16]](#footnote-17)

But this is not the sole reason for excluding the 2016 data. Staff’s decision to exclude Avista’s 2016 AMA cross check estimates is also informed by data from the Company’s compliance filing from its last case in UE-140188 dated February 26, 2015. The compliance filing shows 2014-2016 system wide capital addition variances of over $100 million in a single year compared to what it filed in last year’s rate case.[[17]](#footnote-18) Staff also took into account Avista’s material revisions to its as-filed estimates of capital additions and rate base already made in this case and referred to above.[[18]](#footnote-19) These revisions to forecasted amounts for plant that was scheduled to be in service occurred only a few months after the Company filed its case. Staff therefore has no confidence in the precision of long range estimates from Avista regarding its capital additions. Later in my testimony I address in greater detail the issue of the overall accuracy of Avista’s pro forma estimates of capital additions and their suitability for setting Avista’s rates. The results of my analysis provide further support for Staff’s exclusion of the Company’s proposed 2016 AMA capital additions.

Finally, as mentioned above, Staff accepts Avista’s adjustments to its test year results to reflect rate base amounts for both electric and gas contained in its 2014 Commission-Basis report. As a result, I do not provide testimony regarding the Company’s as-filed pro forma capital additions for the three month period from October through December of 2014.

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

A. Yes, my list of exhibits is included at the beginning of my testimony.

# III. STAFF’S ANALYSIS OF AVISTA’S 2015 PRO FORMA

# ESTIMATES OF CAPITAL ADDITIONS

**Q. Where can the Commission find the Company’s 2015 EOP cross-check estimates of capital additions in this case?**

A. Pages 3 and 4 of the Company’s Exhibit No. \_\_\_ (KKS-4), sponsored by Avista witness Ms. Karen Schuh, contain over 100 separate Expenditure Requests (ERs).

The Company’s as-filed estimate of Washington’s allocation of electric and gas capital additions for 2015 totals $236.8 million for electric and $47.6 million for gas.[[19]](#footnote-20) As I mentioned above, Avista has twice revised its capital addition totals allocated to Washington. As of July 10, 2015, Avista’s Washington-allocated total pro forma transfers to plant for 2015 are projected as $211.6 million for electric and $43.5 million for gas.[[20]](#footnote-21) I have prepared Exhibit No. \_\_ (DCG-2) summarizing the specific amounts of Washington-allocated capital additions (as-filed and revised) for 2015 sorted by service and functional area.

**Q. Do you plan to address all of the Company’s ERs in your testimony?**

A. No. I first identify the ERs for both electric and gas which meet the criteria of “major capital additions” referred to in the Pacific Order.[[21]](#footnote-22) In my Exhibit No. \_\_ (DCG-3), I list 14 separate ERs which meet this criteria. These 14 ERs comprise $276.7 million (almost 62 percent) of Avista’s total estimate of its as-filed pro forma system-level capital additions for 2015. I testify on these major capital additions and give Staff’s assessment as to the costs and timing of these ERs and their suitability to be included in the calculation of rate base and revenue requirement for the 2016 calendar rate year.

The single largest major capital addition to rate base in Avista’s as-filed case is the $95.1 million[[22]](#footnote-23) system-level capital addition for the Customer Service and Work and Asset Management software system (Project Compass), which went into service earlier this year. As part of my testimony on major capital additions, I address prudence issues regarding $18.7 million of this amount associated with Avista’s revised project timeline and budget and Avista’s Project Compass bonus plan.

Finally, my testimony includes, in its summary, an analysis and recommendations regarding the remaining ERs, which include both individual one-off projects and on-going programs. My aim in not disregarding these remaining non-major capital additions outright from consideration is so that Staff remains faithful to the guidance provided by the Commission in the Pacific Order, namely: “to consider post-test-year capital additions on a case-by-case basis following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases.”[[23]](#footnote-24)

## Avista’s 2015 Major Capital Additions

**Q. List the 14 major capital additions in Exhibit No. \_\_ (DCG-3) that you have selected for your testimony.**

A. I have selected the following ERs, which meet the criteria of major capital additions: Nine Mile Dam Rehab, Little Falls Plant Upgrade, Cabinet Gorge Unit 1 Refurbishment, Post Falls South Channel Replacement, Clark Fork Settlement Agreement, Aldyl‑A Replacement, Gas Non-Revenue Program, Gas Isolated Steel Replacement Program, Goldendale High Pressure (HP) Gas Main Reinforcement Project, Heating Ventilation and Cooling (HVAC) Renovation Project, Distribution Wood Pole Management, Distribution Grid Modernization, Project Compass, and Technology Refresh to Sustain Business Process.

### Nine Mile Dam Rehab

**Q. The Company predicts that its Nine Mile Dam Rehab (Nine Mile) project’s in-service date for Units 1 and 2 will take place in December of 2015. What is Staff’s assessment of this prediction?**

A. The forecasted 2015 transfer to plant amount for this ER is tied directly to the replacement of Units 1 and 2 being completed and placed into service by December of 2015. The Company’s original filing provides only brief summaries and not the specifics required to meet its burden of proof supporting its $34.7 million Washington-allocated forecasted transfer to plant amount for this project.[[24]](#footnote-25) For example, the exhibits of Avista witnesses Mr. Kinney and Ms. Schuh are devoid of project-level milestones tied to corresponding transfer to plant amounts.[[25]](#footnote-26) Avista has therefore provided insufficient evidence that this project will be used and useful, much less that its amount of 2015 forecasted capital additions for this project is known and measurable, and therefore acceptable to Staff for inclusion into rate base for the 2016 calendar rate year.

**Q. Is this as far as Staff went in examining the probability that Nine Mile’s Units 1 and 2 would be in-service before the end of 2015?**

A. No. Staff issued Data Request No. 60 asking the Company to provide copies of its monthly construction reports for the Nine Mile project.[[26]](#footnote-27) The monthly construction reports are required by the Federal Energy Regulatory Commission (FERC) as part of its June 18, 2009, relicensing of the Spokane River Projects in Docket No. P‑2545. These monthly construction reports contain milestones and timelines showing progress towards completion of the project. In Attachment A of its supplemental confidential response to Staff’s Data Request No. 60, the Company’s April 2015 report to FERC states that Units 1 and 2 will be in-service sometime in the XXXXXXXXXXX.

In its response to Staff’s data request, the Company dismisses the in-service date it reported to FERC as a conservative estimate based on worst case conditions. Avista goes on to tell Staff that it expects the “in-service date to be closer to the in-service date it included in this case.”[[27]](#footnote-28) By failing to define in its data request response what it specifically means by the term “closer,” Avista opens the door to any number of possible in-service dates. Nor does the Company in its response to Staff’s data request offer any compelling evidence to support its assertion that the project will be in-service before the end of this year. Even when presented with the opportunity to supplement its direct testimony through discovery, Avista fails to meet the burden of proof necessary for Staff to recommend to the Commission that

the capital addition estimates for this project should be added to rate base and included in rates.

Oddly, and without a word of explanation, the Company, in Attachment B of its revised response of June 8, 2015, to Staff Data Request No. 143, Avista reduced its Washington-allocated 2015 forecasted transfer to plant amount for the Nine Mile project from its as-filed amount of $34.7 million to $3.7 million with actuals through June totaling $3.1 million. Staff can only therefore deduce from Avista’s response it has conceded that Nine Mile Units 1 and 2 will not be in-service before the end of 2015 after all. Given that Nine Mile will not be in-service before the end of this year, Staff recommends that only the $3.1 million in 2015 actual pro forma transfers to plant through June be allowed in rate base for this project.

### Little Falls Plant Upgrade

**Q. Avista is forecasting $14.3 million in 2015 system-level capital additions for its Little Falls Plant Upgrade (Little Falls). Has the Company’s direct case provided sufficient evidence that this will happen?**

A. No. As with the Nine Mile project above, Ms. Schuh’s and Mr. Kinney’s testimony does not meet the standard set by the Commission in the Pacific Order regarding the type of evidence needed to support pro forma capital additions included in the calculation of fair, just, reasonable and sufficient rates. What was immediately obvious was that Ms. Schuh’s Exhibit No. \_\_ (KKS-5), Attachment No. \_\_ GP-5, shows no transfer to plant amounts for 2014 when Dave B. DeFelice’s Exhibit No. DBD-5, Attachment No. \_\_ GP-5, in UE-140188 for this same project predicted a $9.0 million system-level transfer to plant in December of 2014. Ms. Schuh’s transfer to plant amounts for 2014-2015 are also $1.5 million less than predicted by Mr. DeFelice. Neither Ms. Schuh nor Mr. Kinney offer an explanation in their direct testimony as to these system-level differences in transfer to plant amounts and what might have caused them.

Once again, Staff is placed in the laborious position of relying on the discovery process to make up for deficiencies in the Company’s direct case. Avista’s response to Staff Data Request No. 134 provides an explanation as to why the transfer to plant amount of $9.0 million listed in Company Witness Dave DeFelice’s Exhibit No. DBD-4 in UE-140188, was delayed until 2015. According to the Company:

“[t]he original plan called for both Unit 3 and the Station Service to go online in December of 2014. During 2014, in the scheduling stages of station service, it was assumed some of the equipment could be reused. After taking the equipment apart, which can only be done during a plant outage, additional problems were discovered and scope expanded. The delay for station service was due to the additional electrical infrastructure work and went into service in March of 2015. Unit 3 was delayed due to generator components in worse condition than anticipated and delays in getting equipment.”[[28]](#footnote-29)

**Q. As a result of Avista’s response to Staff Data Request No. 134, does Staff have a recommendation as to the amount of 2015 Washington-allocated capital additions for Avista’s Little Falls Plant Upgrade Project that should be allowed in rates for 2016?**

A. Yes. Avista’s response to Staff Data Request No. 134, Attachment B, provides a “Yearly Program Summary” which shows spend and transfer to plant amounts for 15 separate project milestones for the Little Falls project. None of these milestones or their corresponding spend and transfer to plant information are included anywhere in Ms. Schuh’s Exhibit No. \_\_ (KKS-5) nor were the delays and changes to costs for this project mentioned in Mr. Kinney’s testimony. Attachment B also states that the Station Service upgrade was completed in March of 2015. It also shows a delay in Unit 3’s in-service date from December 2014 to August of 2015. In my opinion, such omissions are unacceptable on the part of a Company seeking such a large addition to rate base.

The Company’s revised Washington-allocated actual transfer to plant amount for this project through June of 2015 is $2.4 million with a forecast of an additional $9.5 million transferring to plant by the end of 2015. [[29]](#footnote-30) Presumably, the Company’s forecast for the remainder of 2015 is based on Unit 3 actually being placed in-service in August as is called out in its response to Staff’s data request. Yet, the Company has provided no evidence that the remaining milestones listed in its response to Staff Data Request No. 134, including Unit 3 going into service, will actually happen. Staff therefore believes that the only Washington-allocated amount of capital addition for this project that is known and measurable and used and useful is the $2.4 million in actual transfers to plant through June, which include the Station Service upgrade. Staff recommends that only this amount be allowed in rate base for the 2015 pro forma period.

### Cabinet Gorge Unit 1 Refurbishment

**Q. The Company is forecasting $11.4 million in 2015 system-level pro forma transfer to plant for this project. What is Staff’s assessment of the accuracy of Avista’s forecast?**

A. Staff’s confidence in Avista’s forecasts throughout this case has been challenged by inconsistencies and lack of information provided by the Company in both its direct case and its responses to Staff discovery requests. Staff’s experience with this project provides a perfect example.

For Cabinet Gorge, Staff began by looking at the Company’s exhibits from its last case, UE-140188, to see if the amounts of expenditures and transfers to plant along with the scheduled in-service date are at least consistent with what has been presented in this case so far.[[30]](#footnote-31)

The Company’s compliance filing from UE-140188 reports 2013-2015 actual and forecasted system-level expenditures of $11.7 million for this project. This same compliance report predicts a 2015 transfer to plant amount of $11.4 million. These amounts are consistent with both Ms. Schuh’s and Mr. DeFelice’s exhibits. Avista’s ER documentation for this project in Ms. Schuh’s exhibit shows the as-filed, in-service date for Cabinet Gorge as May of 2015. [[31]](#footnote-32) The original ER documentation on the second page of the attachment to Ms. Schuh’s exhibit shows that the original in-service date for this project at its inception was scheduled for one month prior, April.

Then, in its supplemental response to Staff Data Request No. 143 of June 12, 2015, Avista removes this project entirely from its 2015 pro forma transfers to plant amounts.[[32]](#footnote-33) No explanation was given by the Company at that time. In preparing testimony in this case, Staff had assumed that the Company removed Cabinet Gorge from its 2015 pro forma capital additions because it was delayed and would not enter service in the pro forma period as planned. Staff’s assumption was proved wrong when Avista, in its July 10, 2015, supplemental response to Data Request No. 143, included the project’s transfer to plant amounts for the 2015 pro forma period, now with an in-service date of August 2015.[[33]](#footnote-34)

The Company seems to be its own worst enemy in making a convincing case for its projections of transfer to plant amounts and in-service dates. Along with this project, Avista revised its as-filed in-service dates for two of its other hydro major capital additions without a word of testimony in explanation. Along with this ER, Post Falls and Little Falls both had in-service dates early in 2015 that had come and gone when the Company decided to preserve their 2015 pro forma transfer to plant amounts by moving the dates to the month after responsive testimony is due from parties in this case. For Cabinet Gorge and Post Falls, these changes were made with less than two weeks remaining before Staff’s testimony is due. Such actions by the Company test the limits of Staff’s patience and credulity.

Given that this ER’s in-service date is still in question and that the exact amount of capital addition for the 2015 pro forma period is not known, Staff does not recommend recovery for this project at this time. However, given that Cabinet Gorge’s projected in-service date is still within the pendency of this case, the Commission may decide to apply its discretion to consider allowing it into pro forma rate base. If this is the case, Staff recommends the Commission require Avista to provide the exact amount (known and measurable) of capital addition and confirm that the project is indeed in-service in August (used and useful).[[34]](#footnote-35)

### Post Falls South Channel Replacement

**Q. The Company is forecasting $11.0 million in 2015 system-level pro forma transfer to plant for this project. What is Staff’s assessment of the accuracy of Avista’s forecast?**

A. In my testimony for Cabinet Gorge above, I already discussed Staff’s issue with this project’s in-service date of August 2015. As with Nine Mile above, Staff issued Data Request No. 60 asking the Company to provide copies of its monthly construction reports to FERC for its Spokane River projects which includes this one. Avista’s April

13, 2015, confidential response to this data request provided the Company’s construction reports for February and March of 2015. The reported substantial completion date for the project’s February’s report was XXXXXXX which is consistent with Ms. Schuh’s exhibit for this ER. Construction difficulties were encountered and, as a result, March’s construction report moved the date to XXXX XXX. Avista’s supplemental responses to Data Request No. 60 provided the April, May and June FERC monthly construction reports for this project. The substantial completion and in-service dates for Post Falls now stands as XXXXXXXX.

Staff encountered inconsistencies with Avista’s reported amounts of expenditures and transfers to plant for this project. The Company’s compliance filing for UE-140188 shows actual and forecasted system-level expenditures for the years 2013 to 2015 of $9.3 million. The UE-140188 compliance filing as well as the exhibits of Mr. DeFelice, Ms. Schuh and Mr. Kinney show the system-level forecasted 2015 pro forma transfer to plant amount total for this project at $11.0 million.[[35]](#footnote-36) This amount was used by the Company to arrive at rates in this case.[[36]](#footnote-37) Staff also examined Mr. Kinney’s testimony before the Idaho Public Utility Commission (IPUC) that Avista filed on May 13, 2015. In Mr. Kinney’s testimony in the Idaho rate case he

states that the 2015 system-level pro forma capital addition for this project is $9.3 million. [[37]](#footnote-38)

Avista’s Washington allocated share for this project of $7.1 million is based on the erroneous $11.0 million figure contained in both Ms. Schuh’s and Mr. Kinney’s testimony and exhibits mentioned above. By Staff’s calculation, the actual 2015 system-level transfer to plant amount of $9.3 million results in a Washington-allocated share for the project of $6.3 million.

As with Cabinet Gorge above, Staff recommends the Commission exclude recovery of Post Falls in this case. If the Commission decides otherwise, Staff makes the same recommendation as with Post Falls above.

### Clark Fork Settlement Agreement

**Q. Avista is forecasting for 2015 that its Clark Fork Settlement Agreement (CFSA) will result in transfers to plant of almost $14.0 million (system). Has the Company adequately supported this amount in its direct case with tangible, verifiable data?**

A. Absolutely not. The evidence provided by the Company in both Ms. Schuh’s and Mr. Kinney’s testimony is once again grossly inadequate for Staff to confirm if the amount of capital additions forecasted for 2015 meet the Commission’s statutory requirements for inclusion in rates. Ms. Schuh refers Staff to Mr. Kinney’s testimony for detailed descriptions of electric generation ERs which include the CFSA. [[38]](#footnote-39) As previously mentioned in my testimony, Mr. Kinney’s descriptions are anything but detailed, much less useful, and are largely identical to his testimony provided in UE-140188, in spite of significant and material changes to these projects and programs since the last rate case. While lacking the details necessary for Staff to support the Company’s 2015 estimates of transfers to plant for the CFSA, Mr. Kinney does take the time to revise his testimony from the last case to update the Commission on the number of bull trout collected for study.[[39]](#footnote-40) While this detail may be interesting for some readers, it certainly is not useful information for Staff to validate the Company’s 2015 additions to rate base for this ER.

Staff’s attempts at discovery resulted in even less confidence in the Company’s ability to accurately forecast its future capital additions for this ER at the level of precision required for the known and measurable standard. Staff has no other option than to recommend that the Commission only allow the $6.4 million in 2015 Washington-allocated actual transfers to plant into rate base provided by the Company in its July 10, 2015, supplemental response to Staff’s Data Request No. 143, Attachment B.

**Q. Please explain further your concerns regarding Ms. Schuh’s response to your data request about Avista’s 2015 pro forma estimates of transfers to plant for the CFSA.**

A. In the last case, Avista forecasted a 2015 system-level transfer to plant for the CFSA of $7.1 million and $21.9 million for 2016.[[40]](#footnote-41) The amount forecasted to transfer to plant for the same two-year period in this case is $8.9 million lower than what was forecasted in the last case.[[41]](#footnote-42) For 2014, the actual amount transferred to plant was $1.1 million lower than forecasted by the Company in UE-140188. When asked by Staff in Data Request No. 133 to explain these fluctuations, Avista’s response was as follows:

“The amounts forecasted in the last general rate case and the amounts forecasted in this case have changed mainly due to the timing difference in the internal budgeting process for Avista being completed in November of the previous year and the final budget with the [CFSA] management committee being completed in March of the following year. Also, the transfer to plant amounts in recent years have varied due to the delay of the Fish passage projects.”[[42]](#footnote-43)

Again, not a single word of the response above was included anywhere in Avista’s direct testimony to help Staff evaluate the Company’s pro forma estimates for the CFSA ER.

Staff interprets Avista’s explanation in its data request response above to mean that no weight or confidence should be given to any Avista forecasts of pro forma capital additions for the CFSA ER since they do not reflect the project’s actual management decisions regarding budgets and schedules. Even if the forecasts did reflect the most current CFSA Management Committee’s plans and budget estimates, they would still would be estimates which, Staff has found, in the case of Avista, to lack the precision required under the Commission’s known and measurable standard.[[43]](#footnote-44)

Staff concludes that Avista’s testimony regarding its electric generation ERs and their contribution to rate base in this case is misleading and directly contradicts Ms. Schuh’s assertion of her confidence that “the capital additions that are presented in this case will actually occur.”[[44]](#footnote-45)

### Aldyl-A Pipe Replacement Program

**Q. Turning now to the major capital additions for the Company’s gas service in this case, Avista’s revised Washington-allocated forecast of its 2015 pro forma transfer to plant amounts for its Aldyl-A Pipe replacement program (Aldyl-A) stands at slightly under $7.0 million. Has the Company provided sufficient evidence to allow this amount in rate base?**

A. Partly. The Company’s original filing had forecasted, for Aldyl-A, a Washington-allocated pro forma transfer to plant amount for 2015 of $8.1 million. On July 10, 2015, the Company revised its pro forma estimates for 2015 transfers to plant for this project downward by $1.0 million.[[45]](#footnote-46) Ms. Schuh’s direct testimony and supporting exhibits in this case provide only a brief summary of the project along with Avista’s as-filed estimates of the amount of system-level pro forma capital expenditures and additions for each year. Avista witness Don Kopczynski’s direct testimony, Exhibit No. \_\_ (DFK-1T), and his supporting Exhibit No. \_\_ (DFK-6), comprise the Company’s main support of its pro forma forecast of capital additions in this case.

Staff, however, did not rely solely on Kopczynski’s direct testimony and exhibits in this case for its evaluation of Avista’s 2015 Aldyl-A pro forma capital additions. In addition to the Company’s testimony referred to above, Staff also examined Kopczynski’s direct testimony in the last general rate case[[46]](#footnote-47) along with Avista’s most recent 2015-2017 Two-Year Plan filed with the Commission on May 29, 2015, under the same docket as the last plan, PG-131837.[[47]](#footnote-48) Staff also issued two separate discovery requests to help it fully evaluate the Company’s direct case regarding Aldyl-A capital expenditures and transfers to plant.

**Q. What challenges did Staff face with Avista’s direct case regarding the amount of allowable 2015 pro forma capital additions for Aldyl-A?**

A. Mr. Kopczynski’s Aldyl-A testimony and exhibits are plagued by some of the same general deficiencies I encountered throughout the Company’s direct case and which I commented on earlier in my testimony; namely, inaccurate and unsupported testimony on the part of the Avista. For example, Mr. Kopczynski refers us to his Exhibit No. \_\_ (DFK-6)[[48]](#footnote-49) to view the Company’s 2013-2015 Two-Year Plan for Managing Select Pipe Replacement in Avista Utilities’ Natural Gas System (Two-Year Plan).[[49]](#footnote-50) It is not there. Also, Mr. Kopczynski states that Avista’s 2016 planned investment for its Washington jurisdiction for Aldyl-A will be $3.7 million.[[50]](#footnote-51) This is incorrect; it is actually estimated by Avista to be $8.3 million.[[51]](#footnote-52) Finally, neither Mr. Kopczynski nor any other Company witness, has bothered to include any work papers in this case, or in the last rate case, that provide detailed support for the dramatic increase in Aldyl-A capital costs from what Avista had predicted in its 2013-2015 Two-Year Plan.[[52]](#footnote-53)

**Q. Were your efforts at discovery helpful in evaluating Avista’s pro forma estimates of capital additions for Aldyl-A?**

A. Somewhat. Staff’s Data Request No. 179 sought to uncover the reason for apparent differences in both the amounts and results reported for Aldyl-A by Avista in three separate places: Mr. Kopczynski’s direct testimony, the 2015-2017 Two-Year Plan, and Avista’s Capital Expenditure compliance report ordered by the Commission in UE-140188.

One difference was the result of Staff applying the estimate of direct allocation for Washington’s share of Aldyl-A in this case to actual system-level results for the entire period spanning 2011-2014. In its response to Staff Data Request No. 179, the Company explained its process for estimating Washington’s share of Aldyl-A work planned for the pro forma period. When it forecasts its system-level transfers to plant for the pro forma period, the Company applies an estimate of the direct allocation percentage for the Washington jurisdiction work planned for that period. In UE-120436, the direct allocation estimate for Aldyl-A was off by as much as 16 percent from actuals for the years 2012 and 2013.[[53]](#footnote-54) In the last case, the estimate for 2014 was much better and only off by 1.4 percent.

While the variance in the Company’s recent estimates of direct allocation may be small, there is no certainty that this will hold true in the future or that future allocation variances will only serve to compound the Company’s variances in its estimates of pro forma transfers to plant. Staff cannot offer a judgment given that the Company has not provided any work papers or testimony as to why the Commission should accept its direct allocation percentage estimate and the resulting transfer to plant amount for the 2015 pro forma period.

Avista’s response to Staff Data Request No. 179 also revealed inconsistencies in the level of understanding amongst staff at the Company regarding what constitutes Aldyl-A expenditure and transfer to plant amounts. Staff Data Request No. 179 is divided into two separate questions. Each question was answered by a different person at the Company. In their individual responses to Staff’s questions they contradict one another. One person at Avista identified amounts in Mr. Kopczynski’s testimony as transfer to plant amounts while the other identified them as capital expenditures.[[54]](#footnote-55)

Contributing to Staff’s doubts about the Company’s Aldyl-A reporting is its admission in its response to Data Request No. 179 that the data in the Company’s 2015-2017 Two-Year Plan is incorrect. Avista now reports that the actual amount of Tees it said it replaced in its 2015-2017 Two-Year Plan is overstated by 229 Tees. Also, in its response to Data Request No. 179, Avista failed to account for the differences in expenditure amounts reported in the 2015-2017 Two-Year Plan and Mr. Kopczynski’s testimony.

**Q. As a result of all this, do you have a recommendation for the Commission on the amount of Aldyl-A capital additions to allow in rate base for the 2015 pro forma period?**

A. Yes. In its July 10, 2015, response to Staff Data Request No. 183, Avista confirmed that its 2015 pro forma transfer to plant amounts in this case are based on “programmatic estimates.” For the purposes of my examination, this admission by Avista suffices in making my recommendation to not include into rate base the Company’s 2015 pro forma estimates of capital additions for this ER. Staff will examine in greater detail and provide its analysis of Aldyl A program costs in its review of Avista’s 2015-2017 Two-Year Plan in Docket PG-131837. Staff recommends the Commission only allow $2.4 million in actual capital additions through June for the 2015 pro forma period.[[55]](#footnote-56) Alternatively, the Company has the option to request a Cost Recovery Mechanism (CRM) consistent with the Commission’s policy statement on accelerated replacement of pipeline facilities with elevated risk.[[56]](#footnote-57)

### Gas Non-Revenue Program

**Q. What is the scope of this program?**

A. According to the Company, this program involves maintenance on sections of existing natural gas piping that require replacement to improve the operation of the natural gas distribution system but are not linked to any new revenue. The only testimony provided by Avista for this program is in Ms. Schuh’s direct testimony and exhibits which provide a general description of the program along with forecasted estimates of expenditures and transfer to plant amounts.[[57]](#footnote-58)

**Q. What is your assessment of the Company’s system-level forecast of $6.0 million in capital additions for the 2015 pro forma period for this ER?**

A. I will begin by first pointing out a discrepancy in one of Ms. Schuh’s exhibits. In her Exhibit No. \_\_ (KKS-5), Attachment No. NBD-3, she shows a forecasted system-level transfer to plant amount of $7.7 million for 2015 and $8.6 million for 2016. These amounts are incorrect. The actual annual amount of capital additions for this program for the years 2015 and 2016 is $6.0 million.[[58]](#footnote-59)

Avista’s pro forma estimates of its 2015 capital additions for this program represent an unsupported judgment on the part of the Company.[[59]](#footnote-60) The material variations in year to year estimates in back to back rate cases for this program come without a word of explanation by Ms. Schuh or any other Avista witness. Such lack of analytical rigor may be suitable for Avista’s budgeting process but it is certainly not acceptable for meeting the Commission’s known and measurable standard required for pro forma adjustments to test year results. As mentioned earlier in my testimony, Avista’s attrition study asks the Commission to accept Ms. Schuh’s estimates of pro forma capital additions and the historical trend in rate base derived from these amounts to arrive at a revenue requirement in this case. If it is to accomplish this, Avista must meet the known and measurable standard for each and every one of its proposed pro forma adjustments, a considerable task given the number of ERs. The Commission made this very clear to Avista in its 2010 rate case.[[60]](#footnote-61) Yet, the Company has chosen to ignore the Commission’s guidance on this matter and offers support for its pro forma capital additions that is a mile long and an inch thick. Many of Avista’s ERs are ongoing, like this Gas Non-Revenue Program, whose forecasted amounts suffer from the same affliction and are therefore unsuitable for the purpose of setting rates.

Staff recommends the Commission allow in rate base only the $1.6 million of 2015 actual transfers to plant through June provided by Avista in its most recent supplemental response to Staff Data Request No. 143.

### Gas Isolated Steel Replacement Program

**Q. Are the circumstances behind this major capital addition program identical to the Gas Non- Revenue Program above?**

A. Yes. Avista’s July 10, 2015, supplemental response to Staff Data Request No. 143 shows Washington-allocated transfer to plant actuals through June of 2015 for this program at $463,628, which is $700,795 under the amount forecasted by Avista for this same time period in its as-filed case. At the same time, the Company makes no adjustment to its as-filed forecasted amounts for the rest of the year. Avista again provides no explanation and support for these revised transfer to plant estimates. Staff recommends allowing the $463,628 into rate base for the pro forma period.

### Goldendale HP Gas Main Reinforcement Project

**Q. What is the description of this project?**

A. According to Ms. Schuh’s testimony and exhibits, this project involves the replacement of approximately three miles of four inch high pressure main that is feeding the town of Goldendale, Washington. The Company is predicting $3.5 million in Washington-allocated capital additions in the fourth quarter of 2015 for this project.[[61]](#footnote-62)

**Q. What is Staff’s recommendation regarding Avista’s forecasted transfers to plant for the Goldendale Project?**

A. Avista has provided no documentation to support its claim that this project has even been started much less that it will be completed and in-service before the end of the year and for the amount shown in Ms. Schuh’s direct testimony and supporting exhibits. Staff inquired with both the County of Klickitat (County) and the City of Goldendale (City) to determine the permit and construction status of the project. The County had preliminary discussions with the Company regarding the project and the conditions the County would require of Avista for issuing a construction permit. However, the County has received no formal permit application from Avista for this project. The City’s Public Works Director indicated that an initial design meeting regarding the project was conducted between the City and an Avista Natural Gas Design Engineer on February 12, 2015. His recollection from the meeting was that Avista would provide the City its final design plan and apply for a construction permit from the City before the Company issued bids on the project. The Avista engineer indicated to the Public Works Director that construction was scheduled to begin in April of 2015.

Staff posed to Avista its findings above in Data Request No. 186 asking for an explanation and details regarding project specifics which would support both the Company’s estimate of its in-service date and the amount of cost for the project given that it has not even conducted a procurement. Avista’s response of July 9, 2015, to the Data Request[[62]](#footnote-63) did nothing to convince Staff of the accuracy of its estimates of 2015 pro forma capital additions and the Company’s projected in-service date for this project. Staff bases this conclusion on the following facts about the project: 1) Avista’s design is not yet complete, 2) Avista has not yet issued a bid, 3) an awarded contractor would need to secure permits, and 4) delays due to weather uncertainties associated with an October through December projected construction schedule.

As a result of Avista’s response to Staff Data Request No. 186, Staff recommends that no capital additions associated with this project be allowed into pro forma rate base.

### HVAC Renovation Project

**Q. What is the description of this project?**

A. This project involves the replacement of the HVAC system in the Company’s Mission Campus Headquarters.[[63]](#footnote-64) According to the Company, the project began in 2007 and 2008 and involves an extensive floor by floor demolition and construction which includes Asbestos abatement. Ms. Schuh’s exhibits show a December 2015 system-level transfer to plant amount for this project of $9.3 million.

**Q. Are the Company’s estimates for this ER accurate enough to meet the known and measurable standard?**

A. No. In the last case, Avista witness Mr. DeFelice’s exhibits predicted 2014 system-level transfers to plant amounts that were $2.9 million lower than the actuals reported in the Company’s compliance filing in UE-140188. Mr. DeFelice also predicted a 2015 transfer to plant amount that was $1.3 million lower than Ms. Schuh’s forecast for this project. The quality of the Company’s estimates for this project are therefore no more reliable than those of the projects and programs I previously mentioned in my testimony. Staff’s confidence in the accuracy of the Company’s estimates is challenged by the fact that Avista’s actuals can vary wildly from forecasts made only months prior. Staff concludes that none of the amounts being proposed for this project be allowed into rate base.

### Distribution Wood Pole Management

**Q. Has the Company’s actual and forecasted amounts for this program varied as much as other programs in this case?**

A. Yes. In last year’s rate case, Avista witnesses Ms. Rosentrater and Mr. DeFelice predicted that this program’s 2014 system-level transfer to plant amounts would total $14.7 million.[[64]](#footnote-65) According to the Company’s compliance filing in UE-140188, the actual amount added to rate base was far less than that. The actual amount of capital addition for this program in 2014 was $8.5 million. In this case, Avista also reduced by almost $10.0 million its 2015-2016 total system-level forecasts for this program from its prediction in the last rate case.[[65]](#footnote-66)

**Q. What does the Company have to say about such variability in both its actual and forecasted transfer to plant amount for this program?**

A. Nothing. Once again, the Company fails to provide an explanation in its direct testimony and exhibits that account for such variations in the program. Staff’s analysis of the level of pro forma capital additions for Wood Pole Management has not been helped either by the testimony of three different directors responsible for Transmission and Distribution in the last three Avista rate cases.

Consider the fact that Mr. Cox’s direct testimony in this case, Exhibit No. \_\_ (BAC-1T), regarding Transmission and Distribution Capital projects is largely identical to Ms. Rosentrater’s testimony filed in 2014 and Mr. Kinney’s before that in 2012.[[66]](#footnote-67) The only variation in these witnesses’ testimony are with the specific projects listed along with the amount of investment[[67]](#footnote-68) planned for the specific years spanning each case. As a result of this information deficit, Staff must resort again to discovery to uncover the reason behind such variability and whether Avista’s estimates of capital additions for this program are reasonable for the purposes of setting rates.

**Q. Avista lists Distribution Wood Pole Management as part of its asset management program. How does Avista describe its asset management program?**

A. Avista’s asset management program is described in the testimony of Company witness Mark Thies. [[68]](#footnote-69) According to Mr. Thies, Avista’s asset management program is a planned and systematic approach for making capital investments to replace old and failing assets. As a result of these investments, the Company expects to reduce outages, control its costs to benefit customers and minimize the risks associated with failed equipment.

For the purposes of validating pro forma transfers to plant for asset management programs, Mr. Thies’ testimony only goes so far. While he addresses the causes of variability in year to year capital expenditures and transfers to plant for asset management programs like Wood Pole Management, he does so in very general terms only. For example, Mr. Thies points to fluctuations in costs, changing priorities, unplanned and unanticipated capital requirements, such as outages, which are all acceptable explanations to account for such variability. But Mr. Thies’ testimony fails to apply these explanations directly to specific asset management programs or to the amount and timing of program expenditures expected to go into service in any given pro forma period. Nor does Mr. Thies’ testimony speak to the Company’s overall efficiency in converting asset management program capital expenditures into useful plant. In my testimony in Avista’s last general rate case, in UE-140188, I addressed Staff’s continuing concern about the Company’s growing CWIP balances.[[69]](#footnote-70) Mr. Thies’ testimony does not resolve this issue.

**Q. What did you learn through the discovery process about Transmission and Distribution asset management programs similar to Wood Pole Management?**

A.Mr. Thies’ testimony states that “decisions to delay funding certain projects are made only in cases where the Company believes the amount of risk associated with the delay is reasonable and prudent.”[[70]](#footnote-71) To evaluate this statement, Staff issued Data Request No. 137 regarding another asset management program similar, in many respects, to the Wood Pole Management program.

The ER titled Transmission – Reconductors and Rebuilds (Reconductors and Rebuilds) refers to the asset management program where select transmission segments are rebuilt or reinforced to improve their performance and reliability. Staff’s data request posed a number of questions which sought to reconcile testimony and exhibits from this case and previous cases with compliance reporting and asset management plans for Avista’s transmission and distribution system.[[71]](#footnote-72)

In this rate case, Ms. Schuh’s testimony shows Reconductors and Rebuilds’ 2014-2016 actual and forecasted transfers to plant to be $14.2 million lower than what Avista had predicted a year ago in UE-140188.[[72]](#footnote-73) For 2014 alone, actual transfers to plant for this ER were $6.1 million lower than what Avista predicted in its last case. Like Wood Pole Management, the Company’s testimony is silent as to the cause of this significant adjustment to the program.

Avista’s response to Staff Data Request No. 137[[73]](#footnote-74) contains a number of inconsistencies which cause Staff to question the Company’s overall narrative about its reasoned approach toward capital planning and its claimed certainty in being able to predict year to year capital expenditures and transfers to plant for this and Avista’s other asset management programs. For example:

* When asked in Staff Data Request No. 137 to provide its 2015 Electric Transmission System Annual Update (Annual Update), the planning document for Avista’s transmission portion of its asset management program, the Company responded that it was “under development” and not yet available. The 2015 Annual Update was provided to Staff as an Attachment A to a supplemental response to Data Request No. 137 on June 24, 2015. The date on the report was May 15, 2015. In its last case, Avista’s response to Staff Data Request No. 170 in UE-140188 stated that annual system reviews, like the 2015 Annual Update, are used by the Company to determine the risk level and dollar amount to be included in the ERs relating to asset management. It is not clear from the Company’s direct testimony and responses to Staff’s discovery requests how the Company actually employs these annual system reviews or whether it uses some other ad hoc process in making its decisions to delay specific projects.
* Table 19 in the 2015 Annual Update[[74]](#footnote-75) shows the most significant major rebuild and reconductor projects currently planned for 2015-2017 along with their budgeted costs. The 2015 Annual Update characterizes these budgeted costs as “rough estimates” subject to change. Yet, three of these major rebuilds’ budgeted costs are included in the system-level transfer to plant amounts for the 2015 pro forma period in Ms. Smith’s work papers; work papers which were used to arrive at Avista’s proposed rate base adjustments for the purposes of setting rates in this case.[[75]](#footnote-76)
* Avista’s response to Item B in Staff Data Request No. 137 provides the Company’s explanation for the $14.2 million difference in system-level actual transfers to plant from those it predicted in the last rate case. In its response, Avista confuses its use of terminology referring to differences in expenditures when Staff’s reference in its interrogative was to transfers to plant. Nevertheless, Avista’s response confirms Staff’s conclusion that its transfer to plant amounts are estimates which can and do fluctuate considerably and largely at the discretion of the Company and are therefore unsuitable for the purposes of setting rates.

**Q. What is Staff’s recommendation to the Commission about Avista’s $7.2 million in Washington-allocated capital additions for Wood Pole Management in the 2015 pro forma period?**

A. If Staff is certain about one thing for this ER, it is that the Company’s prediction of its 2015 pro forma transfers to plant are wrong. Like Reconductors and Rebuilds above, the Company’s claims are entirely unsupported for this ER and are not even close to meeting the Commission’s standards for such adjustments to test year results. Staff recommends that only Avista’s actual transfers to plant through June of 2015 be allowed in rate base for the pro forma period in this case. This amount, on a Washington-allocated basis is $3.7 million.

### Distribution Grid Modernization

**Q. Is Staff’s analysis and recommendation for this asset management program identical to the one for Wood Pole Management above?**

A. Yes. The 2014 transfer to plant amounts predicted by Avista in the last case for Distribution Grid Modernization were $3.3 million too high. The Company also reduced its forecasted 2015 transfer to plant amounts in this case by $2.6 million from what it had predicted just a year ago. Staff recommends that only Avista’s actual transfer to plants through June be allowed for this ER also. This amount, on a Washington-allocated basis is $1.6 million.

### Technology Refresh to Sustain Business Process

**Q. What is the description of this program and what is your assessment of Avista’s revised forecast for 2015 pro forma capital additions?**

A. Company witness Mr. Kensok describes this ER as Avista’s “ongoing program to systematically-replace aging and obsolete technology under ‘refresh cycles’ that are timed to optimize hardware/software system changes or industry trends.”[[76]](#footnote-77) Mr. Kensok goes on to describe how the program is comprised of over one-hundred separate projects organized across numerous technology types. He further states that each project has formal project management and adheres to Avista’s Project Management Office (PMO) process. The easiest category of spending in this program Staff could relate to is expenditures on personal computers and devices used by Avista employees.

Mr. Kensok’s description of this program is so broad that Staff would not even know where to begin in crafting a discovery request to properly evaluate the appropriateness and accuracy of Avista’s estimates of transfers to plant. Staff could envision a number of discovery rounds for this program alone. Staff simply does not have the time nor is it resourced to make the Company’s direct case for it through discovery.

The Company’s June 12, 2015, response to Staff Data Request No. 143 showing updated capital addition amounts for this program do not improve Staff’s confidence in the precision of Avista’s forecasts. Avista’s original 2015 forecast contained in Ms. Smith’s work papers divided the $18.6 million in system-level pro forma transfer to plant amount for this ER into four equal quarterly buckets. Avista’s revised forecast of June 12, 2015, retained the quarterly amounts for quarters 2-4 but then included actuals through May (2 months into the second quarter). The Company’s actuals for the first quarter of 2015 are below the original forecast in Ms. Smith’s work papers by almost $1.0 million.

Avista’s supplemental response to Staff Data Request No. 143 dated July 10, 2015, shows Washington-allocated actual transfers to plant for this ER at $2.7 million allocated to the Company’s electric service and $735,081 to gas. Staff recommends the Commission allow these amounts into pro forma rate base.

### Project Compass

**Q. Avista reports that the Customer Information and Work Management System “Project Compass” was placed into service on February 2, 2015. What was the final amount of expenditure and transfer to plant for this project?**

A. It is not surprising to Staff to find that this project also comes with questions regarding Avista’s reported costs. According to the Company’s as-filed case, the total amount of system-level transfer to plant expected to be added to rate base for Project Compass in 2015 is $95.1 million. In its filing with the IPUC on May 13, 2015, the Company’s as-filed system-level amount of 2015 capital addition for this project was $96.7 million.[[77]](#footnote-78) Avista’s response to Staff Data Request No. 141 of May 18, 2015, reports an altogether different number for 2015 of $98.7 million with the total capital expenditure for the project of $109.9 million. [[78]](#footnote-79) In its supplemental response to Staff Data Request No. 143, Attachment B, dated July 10, 2015, Avista’s 2015 Washington-allocated actual transfers to plant (through June) correspond to a system-level amount for Project Compass of $96.7 million. Staff uses the $96.7 million amount as a starting point to calculate its proposed adjustments to this project’s transfer to plant amounts. The Company reports that the project closed at the end of June 2015, meaning that no further costs are to be booked to Project Compass.

**Q. Does the Company explain the inconsistencies in these capital expenditure amounts?**

A. No.

**Q. Avista’s Board of Directors approved changes to both Project Compass’ original budget and in-service date. When were these changes approved and how did it affect expenditures for this project?**

A. Avista’s Board of Directors had to review two separate increases to the Company’s original budget of XXXXXXX.[[79]](#footnote-80) In June of 2014, the Board authorized an additional $20.0 million.[[80]](#footnote-81) In November, less than six months later, the Board approved another $10 million which brought Project Compass to its final total budget amount of $110.0 million.[[81]](#footnote-82)

At the same time the Board approved the first increase to the project’s budget, it also agreed to move out Project Compass’ “Go-Live” date from July 7, 2014, to February 2, 2015.

**Q. Does Avista provide testimony that explains the reason for both its increase in budget and in-service date delay for the project?**

A. Yes. Mr. Kensok’s direct testimony and his accompanying Exhibit No. \_\_ (JMK-2) describe the reasons behind the Company’s adjustment to both the budget and schedule for Project Compass.[[82]](#footnote-83) Avista’s report in Mr. Kensok’s Exhibit No. \_\_ (JMK-2) attributes the delay and subsequent increase in project costs to “longer than

estimated delivery times required by several implementation activities” which meant that “the new System was not ready to commence testing on the schedule originally envisioned.”[[83]](#footnote-84) Mr. Kensok’s direct testimony attributes the delay and cost increase to “the process of coding extensions [which] was more complex than initially expected.” He also adds that “the process of remediating defects in the code required more time than was allotted in the initial project plan.”[[84]](#footnote-85)

**Q. Is Staff contesting any part of Avista’s proposed recovery of its Project Compass capital costs?**

A. Yes. First, Staff is contesting the prudence of Avista’s expenditures relating to the extended timeline. According to Mr. Kensok, the extended timeline contributed to an additional $17.9 million in system-level project costs.[[85]](#footnote-86) Second, Staff contests the expenditures associated with the Company’s Project Compass bonus plan. The total combined effect of Staff’s disallowance recommendations for both the extended timeline and bonus plan result in a $12.7 million (Washington-allocated) reduction to Avista’s proposed 2015 pro forma capital additions in this case.

**Q. What is the Project Compass bonus plan?**

A. According to the Company:

“Avista’s Project Compass bonus plan was developed early in the project and focused on recognizing and rewarding employees for their individual

contributions in achieving the successful implementation of the new systems, over what would be an intensive three-year process. Employees eligible under the plan included regular, full-time employees and certain part-time employees working on the Project. Bonuses were associated with key implementation stages of the Project, and the bonus amounts paid to each employee were tied their role and level of contribution.”[[86]](#footnote-87)

Avista reports the system-level expenditures for the bonus plan totaled $XXXXX.

**Q. What is your understanding of the prudence standard?**

A. The Commission has articulated its prudence standard in a number of decisions throughout the years. In one such decision, the Commission stated,

Historically, the Commission has followed the widely adopted standard for evaluating prudence whereby:

It is generally conceded that one cannot use the advantage of hindsight. The test this Commission applies to measure prudence is what would a reasonable board of directors and company management have decided given what they knew or reasonably should have known to be true at the time they made a decision. This test applies both to the question of need and the appropriateness of the expenditures.[[87]](#footnote-88)

The Commission also has explained that, after a company initiates a project, a company must continue to evaluate and ensure its prudence:

Simply because the decision to begin a project is prudent does not mean the continuation or completion of the project is *ipso facto* prudent. The Commission believes that a company must continually evaluate a project as it progresses to determine if the project continues to be prudent from both the need for the project and its impact on the company’s ratepayers.[[88]](#footnote-89)

In addition, the Commission has made it clear that the company bears the burden of demonstrating prudence.[[89]](#footnote-90)

**Q. Why is Staff contesting the prudence of Avista’s additional capital costs for Project Compass?**

A. Avista’s explanation, contained in the testimony and exhibits of Mr. Kensok, does not tell the whole story behind the reasons for Project Compass’ cost overrun and implementation delay. The Company’s responses to Staff’s discovery requests[[90]](#footnote-91) reveal that the primary contributor to the added capital costs was the performance of Project Compass’ System Integrator (SI)[[91]](#footnote-92) for the Oracle Customer Care & Billing (CC&B) solution: EP2M/Five Point/Ernst & Young.[[92]](#footnote-93)

Staff’s recommendation to disallow Avista’s capital costs relating to the extended timeline are based on the following issues, which I discuss below: 1) the failure on the part of Avista to recognize, evaluate, identify, document and mitigate the possible risks to Project Compass resulting from the apparent conflict of interest arising from Five Point’s acquisition of EP2M less than six months after award of a contract; 2) Avista’s failure to cure contractual breaches on the part of the SI early enough in the project, which could have avoided the need for an extension of the project’s timeline and added cost; and 3) the Company’s lack of documentation of the prudence of its decision, above other alternatives, to enter into an Extension Agreement with Ernst & Young (EY) for the added resources needed to complete Project Compass.[[93]](#footnote-94)

**Q. What was the function of the CC&B System Integrator for Project Compass?**

A. The CC&B SI for Project Compass is tasked with aligning the product standard configuration components of Oracle’s off-the-shelf CC&B software to meet key business goals, minimizing the need for product extensions and, to the greatest extent possible, modifying Avista’s business processes to align with best practices inherent in the product workflow. Additionally, the SI actively supports cooperation with the other concurrent system projects like Maximo Asset Management. [[94]](#footnote-95)

**Q. Please explain the conflict of interest that arose when Five Point acquired EP2M.**

A. Prior to its acquisition of EP2M, Five Point was operating in the capacity of an agent of Avista in the procurement of SI services for Project Compass.[[95]](#footnote-96) In its confidential response to Staff Data Request No. 140, the Company acknowledges it knew of the merger and acquisition at the time it occurred, which was in January 2013. Avista then states that “the interests of its customers were insulated from any potential conflict of interest by the rigorous and objective processes it established for developing vendor proposals, evaluating and scoring proposals, making final vendor selections, and in negotiating the final contracts, purchase agreements, and purchase prices.” [[96]](#footnote-97) Avista’s assertion that its procurement process was not compromised and did not impact project results is an after-the-fact statement that cannot be confirmed.

**Q. Why is the integrity of the procurement process so important in the selection of an SI for Project Compass?**

A. The integrity of the procurement process is an important consideration in the vendor performance risk assumed by the Company for this project. This is especially the case given that Avista’s award to EP2M resulted in a Firm Fixed Price Contract for deliverables contained in the SI’s Statement of Work (SOW).[[97]](#footnote-98) The nature of such contracts places the primary cost risk onto the seller, in this case EP2M. Therefore, the bid of an offeror (here EP2M) has to be responsive to the requirements contained in the scope of work only and not affected by other influences. Otherwise, an unacceptable level of performance risk is introduced that the awarded amount is below the offeror’s costs and the project under-resourced.[[98]](#footnote-99)

**Q. Do you believe that the conflict of interest that arose after EP2M’s acquisition by Five Point resulted in an awarded amount that was below cost and in a project that was under resourced?**

A. Staff cannot say with certainty that the SI bid was affected in any way by Five Point’s acquisition of EP2M or that Five Point’s decision to buy EP2M was somehow motivated by the prospect of an awarded contract by Avista. Staff only need point to Five Point’s integral and active involvement in Project Compass’ SI procurement contained in Mr. Kensok’s Exhibit No. JMK-2 in UE-140188 and Five Point’s subsequent performance problems commencing early in the project as a successor to EP2M as evidence of questions that should have been asked of Five Point by Avista’s project management and Executive Steering Committee. Avista has not provided documentation that such questions were addressed.

**Q. You point to Avista’s failures to cure contractual breaches as another reason to disallow the costs of the extended timeline for Project Compass. Please explain.**

A. In Avista’s confidential response to Staff Data Request No. 152,[[99]](#footnote-100) it provides a lengthy explanation regarding its “due diligence in evaluating the consequences of a decision to enforce contract provisions against Five Point,” which contradicts its earlier narrative in Mr. Kensok’s testimony and exhibit regarding the circumstances surrounding the project’s extended timeline and added costs being the result of greater than anticipated complexity. In its response to Staff Data Request No. 152, the Company refers Staff to the reports it provided in its Attachments B and C to Staff’s Data Request No. 140 as evidence that it prudently evaluated its options, including termination of the contract, to address the SI’s non-performance in delivering usable code for System Integration Testing, a critical path item for the project. Staff’s review of these reports located no evidence of such discussions or analysis. Nor does Staff find evidence that such options were explored or discussed in the materials presented to the Board in May/June 2014 to extend the project timeline and add another $20.0 million to the project’s budget.[[100]](#footnote-101)

**Q. Why does Staff believe that an early and aggressive response by Avista to the SI’s contractual breach might have led to different results for Project Compass?**

A. Avista’s contract with the SI was performance based. This means that the Company structured its payments with EP2M/Five Point on the successful completion of SOW deliverable milestones based on mutually agreed upon acceptance criteria. The contract’s payment structure also included “holdback” amounts for deliverables. The holdback amounts would be payable upon successful delivery of the completed solution by the SI. Based on Avista’s response to Staff Data Request No. 152, Staff concludes that the Company continued to make payments to a vendor that was clearly not performing. As a result, the Company lost any leverage to compel the SI to cure its breach, particularly the further along the project moved toward its Go-Live date. Had Avista stopped making payments and availed itself of its contractual rights in late 2013/early 2014, the SI would have been forced to address its performance issues which may have likely avoided having Avista extend its Go-Live date for Project Compass. While it is not for Staff to decide what the Company should have done, the failure of the Company to provide documentation of any substantive consideration of alternatives to extending and increasing funding for the project is consistent only with a failure to act reasonably and prudently.

**Q. Avista entered into an “Extension Agreement” with EY for additional resources to complete Project Compass. Why do you conclude that Avista did not meet its required burden of proof to show that expenditures related to the Extension Agreement were prudent?**

A. As I mentioned previously, EY acquired Five Point in June of 2014. By this time, Avista’s Board had already approved the new Go-Live date and the first budget increase of $20.0 million. Notes from Avista’s June 2014 Executive Steering Committee meeting indicate Avista’s desire to engage EY in an effort to start to address SI resource and performance issues plaguing the project thus far.[[101]](#footnote-102) The Company’s supplemental confidential response to Staff Data Request No. 152, Attachment A, provides an email dated August 6, 2014, that contains Mr. Kensok’s “talking points” used to report to the Board the status of Project Compass, which include progress made with EY to address continued performance issues relating to code quality and defect resolution turnaround. The talking points include a reference to extending the contract with EY. The talking points also mention in a sentence that PMO was looking “at alternatives outside of EY to further reduce risk associated with delivering a quality CC&B application.” Avista’s Project Change Request (PCR) No. FP 24N dated October 14, 2014, states that the Extension Agreement was the only viable alternative considered.

The Extension Agreement was signed on October 14, 2014, and was a Time and Material contract with a not-to-exceed amount of $6.2 million. In light of all that transpired in Project Compass as a result of the SI’s performance, Staff finds such favorable terms to EY in the Extension Agreement to be particularly troubling.[[102]](#footnote-103)

In spite of Staff’s repeated discovery requests, the Company has failed to show how its decision to enter into an Extension Agreement with EY meets the test this Commission applies to measure prudence mentioned earlier in my testimony. Avista has not produced a record memorializing how the Company’s management came to its conclusion that the Extension Agreement was its only viable alternative nor what the substance of its negotiations and discussions with EY were that eventually led to the agreement. [[103]](#footnote-104) As a result, Staff concludes that the burden of proof required for a determination that the Company’s Extension Agreement with EY was prudent has not been met.

**Q. What are your conclusions concerning Avista’s extended timeline for Project Compass?**

A. The Commission’s requirement of an affirmative showing of reasonableness and prudence before allowing recovery of expenditures is an important incentive for regulated companies, particularly with regard to capital expenditures. In the absence of such a requirement, companies would not be motivated to contain capital project costs as these expenditures would not only be fully recovered but also earn a return for the Company’s shareholders.[[104]](#footnote-105) The circumstances and materiality encountered with Avista’s extended timeline for Project Compass require such a showing.[[105]](#footnote-106) Avista failed in its direct case to meet its burden of proof and, in spite of every effort by Staff to give the Company an opportunity to meet its burden through discovery, it still has not provided sufficient evidence for Staff to support a recommendation to allow the $17.9 million in system-level additional costs for Project Compass into rate base.

**Q. Why does Staff recommend disallowance of Avista’ Project Compass bonus plan?**

A. The Company has not provided an explanation as to how the bonus plan benefits rate payers. After all, the project was late and went over budget by almost 40 percent. While it is commendable that the Company wants to acknowledge the hard work of its employees, Staff feels that the circumstances surrounding the project make it inappropriate to ask rate payers to shoulder the return of and on this expense.

## Summary and Conclusion

**Q. What is the final amount of 2015 pro forma capital additions you are recommending be added to rate base in this case?**

A. In my Exhibit No. \_\_ (DCG-4), I provide Staff’s recommended amount of Washington-allocated 2015 pro forma capital additions to rate base. For the 14 major capital additions, Staff’s recommended amount of pro forma transfers to plant is $72.9 million which is $65.4 million less than the Company’s total of its revised amounts for the same listed ERs of $138.3 million.

**Q. Does Staff recommend that any of the other ERs not meeting the criteria of major capital addition be included in pro forma rate base in this case?**

A. No. Avista’s remaining ERs are plagued by the same problems as the major capital additions in this case. I have little faith in the validity of the pro forma amounts presented by Avista. For Staff to analyze each and every one of these ERs would require significantly more time than what is procedurally allowed for in this case.

**Q. Does Staff give any consideration for “normal” projects such that Avista may have the opportunity to earn its authorized return in the rate year?**

A. Yes, Mr. McGuire addresses this potential in his attrition analysis.

**Q. Staff witness Mr. McGuire makes some interesting observations about the growth in net plant driven by growth in distribution plant. As a result of your analysis of Avista’s capital projects and programs in the last two rate cases, do you have anything to add?**

A. Yes. Mr. McGuire echoes the same concerns I expressed about the Company’s overall level of capital spending in my testimony in Avista’s last rate case.[[106]](#footnote-107) I continue to have those concerns in this case. I also support Mr. McGuire’s recommendation of a distribution system benchmarking study.

In the last rate case, I concluded that Avista had not provided sufficient evidence to demonstrate that the significant increase in capital spending, contained in its 2014-2018 five-year capital budget, was necessary to meet its obligation to serve. In my testimony, I cited RCW 80.28.010(2) which states that the utility “shall furnish and supply such service, instrumentalities and facilities as shall be safe, adequate and efficient, and in all respects just and reasonable” (emphasis added). Mr. McGuire’s observations, and my analysis of the Company’s ERs, highlight Avista’s continued gap in making its case that its growth in capital spending is just and reasonable and results in facilities that are both efficient and adequate.

**Q. In Avista’s last rate case you issued discovery requests to the Company in an attempt to make a tangible connection between Avista’s increased Transmission and Distribution capital spending and customer benefits like reliability. What was the outcome of this effort?**

A. First of all, Staff does not believe that it should be placed in the continuing position of carrying the Company’s burden of proof in making its case. Nevertheless, Staff issued five data requests[[107]](#footnote-108) in an attempt to test Avista’s largely unsupported claims that its significant increase in Transmission and Distribution capital spending were, in large part, driven by reliability needs. Through discovery, Staff also sought to quantify the amount and timing of customer benefit the Company expected to provide for this increased capital spending, either through increased system reliability or lower costs.

Staff’s ability to use discovery to gain a complete insight into the Company’s capital planning process for Transmission and Distribution, or any other category of capital spending for that matter, was limited by both the time and the procedural constraints associated with an adjudicated case. These constraints do not lend themselves to an efficient exchange of information. Nor does the ex-parte wall foster the necessary real-time dialogue required among parties, including commissioners, to analyze and process the background behind the Company’s capital budget plans and any future benefits ratepayers should expect to see as a result.

**Q. Is Staff recommending the Commission require Avista to report details of its capital spending plan outside of a general rate case?**

A. Yes. A non-adjudicative Commission venue would be better suited for the objective of examining Avista’s capital spending plans and results. A move in this direction would build on incremental steps already taken by the Commission in previous Avista cases relating to capital spending.

In the last case, the Commission applied Staff’s recommendation to expand Avista’s compliance reporting of its capital spending to include annual transfers to plant amounts and CWIP balances. The implementation of this recommendation has already demonstrated its value in this case, particularly given what has now become the routine for Avista to file annual, back-to-back rate cases.[[108]](#footnote-109) Now Staff is recommending the Commission take this a step further in an effort to provide greater transparency to Avista’s significant increase in capital spending—spending which will have an impact on rates for a generation of customers. Otherwise, Staff and other parties will continue to have to view this issue through a straw and not gain the broader perspective of Avista’s capital programs necessary to efficiently evaluate the Company’s future rate requests.

Staff recommends the Commission order in this case a further expansion of Avista’s current compliance reporting requirements for capital.[[109]](#footnote-110) Along with reporting of capital expenditures, CWIP balances and transfers to plant, Staff recommends the Commission require Avista to file supporting documentation and work papers for its planned and ongoing major capital additions. The documentation and work papers should be sufficient for Staff to complete an analysis and report to the Commission Avista’s status and progress of its major capital addition ERs. Staff would provide its analysis and report to the Commission and other interested parties in a recessed open meeting.[[110]](#footnote-111) Staff also recommends that the Commission require Avista to evaluate its capital expenditure and transfer to plant forecasts from the previous period’s report and account for variances in its current period compliance report.

Finally, Staff recommends that the Commission require Avista to limit the scope of its pro forma capital additions in future rate cases to be consistent with the Pacific Order. The Company’s approach in this case is too broad and, as a result, Avista’s testimony and exhibits are largely inadequate in both substance and detail to meet Staff’s needs in making its recommendation to the Commission.

**Q. Do you anticipate using the suggested report on capital expenditures, CWIP balances and transfers to plant to determine rates?**

A. It may be possible, if all interested parties agree upon the form and content of such a filing.

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

A. Yes.

1. The term capital addition and transfer to plant are synonymous and interchangeable throughout my testimony. These terms are distinct and different from the terms capital expenditure and capital spending which refer generally to amounts not yet added to rate base and carried as Construction Work in Process (CWIP). [↑](#footnote-ref-2)
2. Andrews, Exh. No. \_\_ (EMA-1T) 3:8-14. [↑](#footnote-ref-3)
3. Schuh, Exh. No. \_\_ (KKS-1T). [↑](#footnote-ref-4)
4. Smith, Exh. No. \_\_ (JSS-2), page 10 of 10, column PFCC-Ttl, line 48, and Exh. No. (JSS-3), page 10 of 10, column PFCC-Ttl, line 47. [↑](#footnote-ref-5)
5. Ibid., page 10 of 10, column AA/PF-Ttl, line 48 and Exh. No. (JSS-3), page 10 of 10, column AA/PF-Ttl, line 47. [↑](#footnote-ref-6)
6. Andrews, Exh. No. \_\_ (EMA-1T) 28:19 - 31:17. [↑](#footnote-ref-7)
7. Ibid., 5:5-7. [↑](#footnote-ref-8)
8. Avista’s responses to Staff Data Request No. 130 are included in Mr. McGuire’s testimony as Exhibit No. \_\_ (CRM-4) for electric and Exhibit No. \_\_ (CRM-5) for gas. [↑](#footnote-ref-9)
9. Avista’s responses to Staff Data Request No. 131 are included in Mr. Hancock’s testimony as Exhibit No. \_\_ (CSH-4) for electric and Exhibit No. \_\_ (CSH-5) for gas. [↑](#footnote-ref-10)
10. Avista’s response to Staff Data Request Nos. 130 and 131, Revised Attachment A, of June 19, 2015, lists the Company’s individual adjustments to-date that make up its $25.5 million reduction to its as-filed revenue requirements. [↑](#footnote-ref-11)
11. Gomez, Exh. No. \_\_ (DCG-33), Avista’s revised response of July 10, 2015, to Staff Data Request No. 143, Attachment A, (Revised 2), reflects the same 2014 actual transfers to plant amounts provided by Avista in its previous two responses of June 8 and 11 respectively. [↑](#footnote-ref-12)
12. Ibid., Attachment B (Revised 2). In the previous month, the Company reported actuals through May and forecasts for the remainder of 2015 that were $10.7 million lower than this latest update. The majority of this difference is the result of errors on the part of the Company in reporting these amounts to Staff. Avista had erroneously removed two projects from its estimates of pro forma capital additions for 2015 in its June report. The two projects were the Post Falls South Channel Replacement and Cabinet Gorge Unit 1 Refurbishment, which reduced the Company’s 2015 pro forma estimates of its Washington-allocated transfers to plant by $14.6 million. [↑](#footnote-ref-13)
13. Avista response to Staff Data Request No. 130:

    Revised - Attachment B, Summary Tab, Line 1, Column (c);

    Attachment C-12.2014-2016 Natural Gas Attrition, Summary Tab, Line 1, Column (e);

    Avista response to Staff Data Request No. 131:

    Revised - Attachment B, RR Summary Tab, Line 1;

    Attachment C-Revised Pro Forma 09.2014 WA Gas Model, RR Summary Tab, Line 1. [↑](#footnote-ref-14)
14. *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-140762, Order 08 (Mar. 25, 2015), 66-73, ¶¶ 152-172. [↑](#footnote-ref-15)
15. Gomez, Exh. No. \_\_ (DCG-33), Avista’s responses to Staff Data Request No. 143 through July 10, 2015. [↑](#footnote-ref-16)
16. Pacific Order at 71-73, ¶¶ 167-169. Staff also relied on guidance by the Commission in *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Docket UE-090134, Order 10 (December 22, 2009) (“2009 Avista Order”), 21, ¶ 45. [↑](#footnote-ref-17)
17. *See* Gomez, Exh. No. \_\_ (DCG-20), Docket UE-140188, 2014 Capital Expenditure Final Report and 2015 Capital Expenditure Plan Update on behalf of Avista Corporation (February 26, 2015). [↑](#footnote-ref-18)
18. Gomez, Exh. No. \_\_ (DCG-33), Avista’s response to Staff Data Request No. 143 (Revised 2), Attachment B (July 10, 2015). [↑](#footnote-ref-19)
19. Gomez, Exh. No. \_\_ (DCG-22), Avista witness Jennifer S. Smith workpaper, Excel workbook titled 3) WA CapXAdditions 12.31.15, CAP15 Tab, E-CAP & G-CAP SUMMARY. [↑](#footnote-ref-20)
20. *Supra* note 11. [↑](#footnote-ref-21)
21. The Pacific Order refers to Commission rule WAC 480-140-040 which defines major construction projects as “all projects where the Washington-allocated share of the total project is greater than five-tenths of one percent of the company's latest year-end Washington-allocated net utility plant in-service, but does not include any project of less than three million dollars on a total project basis.” Staff’s application of these criteria to Avista in this case is as follows: Electric ERs > $6.4 million, Gas ERs > $1.3 million. [↑](#footnote-ref-22)
22. Kensok, Exhibit No. \_\_ (JMK-1T) 14:1-10, Table No. 2. [↑](#footnote-ref-23)
23. Pacific Order at 70-71, ¶ 165. [↑](#footnote-ref-24)
24. Kinney, Exh. No. \_\_ (SJK-1T) 13:1-24; Schuh, Exh. No. \_\_ (KKS-1T) 10:19-23 - 11:1-14; Schuh, Exh. No. \_\_ (KKS-4), page 3; Exh. No. \_\_ (KKS-5), Attachment No. GP-6. [↑](#footnote-ref-25)
25. In Ms. Schuh’s direct testimony, Exhibit No. \_\_ (KKS-1T) at 4:11-20, she describes the components of a business case which include milestones and key performance indicators which would be helpful in supporting the Company’s claimed transfer to plant amounts. None of these are present in her exhibits for this business case and many others for that matter. Furthermore, Avista’s compliance filing in UE-140188, 2014 Capital Expenditure Final Report and 2015 Capital Expenditure Plan Update dated February 26, 2015, which comprises my Exhibit No. \_\_ (DCG-20), contains transfer to plant amounts for this project which are inconsistent with those shown in the Company’s exhibits. [↑](#footnote-ref-26)
26. Staff requested Avista provide copies of these reports continuously through the discovery deadline in this case as indicated on the procedural schedule as September 22, 2015. [↑](#footnote-ref-27)
27. Gomez, Exh. No. \_\_ (DCG-5C), Avista response to Staff Data Request No. 60, page 2, ¶ 1 (April 13, 2015). [↑](#footnote-ref-28)
28. Gomez, Exh. No. \_\_ (DCG-6), Avista response to Staff Data Request No. 134 (May 20, 2015), page 2, ¶ 1. [↑](#footnote-ref-29)
29. Gomez, Exh. No. \_\_ (DCG-33), Avista’s response to Staff Data Request No. 143, Revised 2 Attachment B (July 10, 2015). [↑](#footnote-ref-30)
30. Avista witness Mr. DeFelice in his Exhibit Nos. DBD-4 and DBD-5 numbers the exhibit for this project as Attachment No. \_\_ GP-20. Gomez, Exh. No. \_\_ (DCG-21). Ms. Schuh in this case uses GP-16. [↑](#footnote-ref-31)
31. Schuh, Exh. No. \_\_ (KKS-5), Attachment No. \_\_ GP-16.1, Milestones (high level targets) and GP-16. [↑](#footnote-ref-32)
32. Gomez, Exh. No. \_\_ (DCG-33), Avista response to Staff Data Request No. 143 Attach B REVISED. [↑](#footnote-ref-33)
33. *Supra* note 11. [↑](#footnote-ref-34)
34. This would also include passing to rate payers benefits associated with this project like power costs or Operation and Maintenance expense reductions. [↑](#footnote-ref-35)
35. Gomez, Exh. No. \_\_ (DCG-21), Docket UE-140188, DeFelice, Exh. No. DBD-5, Attachment No. \_\_ GP-19; Docket UE-150204, Schuh, Exh. No. \_\_ (KKS-5), Attachment No. \_\_ GP-15; Gomez, Exh. No. \_\_ (DCG-23), UE-140188, Kinney, Exhibit No. SJK-1T, Illustration No. 7, 12:1-15; Docket UE-150204 Kinney, Exhibit No. \_\_ (SJK-1T), Table 1, 11:9-19. [↑](#footnote-ref-36)
36. Gomez, Exh. No. \_\_ (DCG-22), Work papers of Jennifer S. Smith, Worksheet titled 3) CAP15 – WA CapX Additions 12.31.15. [↑](#footnote-ref-37)
37. Gomez, Exh. No. \_\_ (DCG-24), IPUC Docket No. AVU-E-15-05; Kinney direct testimony, Table 1, 14:1-15. [↑](#footnote-ref-38)
38. Schuh, Exh. No. \_\_ (KKS-1T) 10:20-22. [↑](#footnote-ref-39)
39. Gomez, Exh. No. \_\_ (DCG-23), Docket UE-140188, Kinney, Exh. No. SJK-1T 18:20-21; and Docket UE-150204, Kinney, Exh. No. \_\_ (SJK-1T) 16:1-2. [↑](#footnote-ref-40)
40. Gomez, Exh. No. \_\_ (DCG-21), UE-140188, DeFelice, Exh. No. DBD-4, pages 5 and 7 of 8 respectively. [↑](#footnote-ref-41)
41. Schuh, Exh. No. \_\_ (KKS-4), pages 3 and 5 of 8. [↑](#footnote-ref-42)
42. Using expenditure data from the compliance filing in UE-140188, contained in my Exhibit No. \_\_ (DCG-20), along with Avista’s supplemental response to Staff Data Request No. 97, Attachment F, in UE-140188, Staff has calculated that the Company has over budgeted expenditures for the CFSA by an average of $2.9 million (system) annually (2005 to 2014). For Staff, this confirms the budget planning disconnect between the Company’s Capital Planning Group (CPG) and the CFSA Management Committee, further eroding Staff’s confidence that Avista can accurately predict transfers to plant for this ER. [↑](#footnote-ref-43)
43. *See* Gomez, Exh. No. \_\_ (DCG-7), Avista’s response to Staff Data Request No. 133, Attachment C, provides the CFSA’s Management Committee’s 2014 budgeted capital additions listed by Protection, Mitigation and Enhancement (PM&E) category totaling $11.4 million. According to the attachment, actual capital additions corresponding to the CFSA’s 2014 capital budget only totaled $7.8 million. As a result, Staff concludes that the CFSA’s Management Committee’s estimates of capital additions would be no better than those offered by Ms. Schuh and Avista’s CPG. [↑](#footnote-ref-44)
44. Exh. No. \_\_ (KKS-1T) 5:12-16. [↑](#footnote-ref-45)
45. *Supra* note 11. The Company did not provide a specific explanation for its revision to its planned transfers to plant for Aldyl-A for 2015. [↑](#footnote-ref-46)
46. Gomez, Exh. No. \_\_ (DCG-26), UE-140188, Kopczynski, Exh. No. DFK-1T 11 - 13:14. [↑](#footnote-ref-47)
47. Gomez, Exh. No. \_\_ (DCG-32). The 2015-2017 Two-Year Plan has yet to be approved by the Commission. [↑](#footnote-ref-48)
48. Exh. No. \_\_ (DFK-1T) 20:21. [↑](#footnote-ref-49)
49. In the *Matter of Avista Corporation’s Pipe Replacement Program Plan*, PG-131837, Order 01 (October 30, 2013), the Commission approved Avista’s 2013-2015 Two-Year Plan and included the Company’s expected capital costs for the plan period. [↑](#footnote-ref-50)
50. Exhibit No. \_\_ (DFK-1T) 21:16-17. [↑](#footnote-ref-51)
51. Schuh, Exh. No. \_\_ (KKS-4), page 5, Attachment No. NGD-1, 2016 system-level amount is $17.4 million which corresponds to a Washington-allocated amount of $8.3 million. [↑](#footnote-ref-52)
52. The Company reports in its recently filed 2015-2017 Two-Year Plan (Gomez, Exh. No. \_\_ (DCG-32)) that its Washington-allocated investment in Aldyl-A for the years 2013-2015 (actual and forecasted) is $10.4 million (70.4 percent) higher than what the Company had estimated for this same period in its 2013-2015 Two-Year Plan. In his testimony in UE-140188, Exhibit No. DFK-1T, page 12, lines 9 to 11, Mr. Kopczynski attributes most of the increase to street repair requirements imposed by local jurisdictions. This testimony is contained in my Exhibit No. \_\_ (DCG-26). [↑](#footnote-ref-53)
53. Gomez, Exh. No. \_\_ (DCG-22), Docket UE-150204, Work papers of Jennifer S. Smith, Worksheet titled 3) CAP15 – WA CapX Additions 12.31.15, Tab – 2015 Allocations-All, Gas AA Distribution: ER 3008; Gomez, Exh. No. \_\_ (DCG-28), Docket UE-140188, Work papers of Elizabeth Andrews, Worksheet titled WA CapX Additions 12.31.14, Tab – 2014 Allocations-All, Gas AA Distribution: ER 3008; and Docket UE-120436, Work papers of Elizabeth Andrews, Worksheets titled WA CAPx for 2012 and 2013. [↑](#footnote-ref-54)
54. See *supra* note 1. [↑](#footnote-ref-55)
55. *Supra* note 11. [↑](#footnote-ref-56)
56. In the *Matter of the Policy of the Washington Utilities and Transportation Commission Related to Replacing Pipeline Facilities with an Elevated Risk of Failure*, Docket UG-120715, ¶¶ 58-76 (December 31, 2012). [↑](#footnote-ref-57)
57. Exh. No. \_\_ (KKS-1T) 19:31-38, Exh. No. \_\_ (KKS-4) and Exh. No. \_\_ (KKS-5), Attachment No. \_\_ NGD‑3. [↑](#footnote-ref-58)
58. Gomez, Exh. No. \_\_ (DCG-22), Work papers of Jennifer S. Smith, Worksheet titled 3) CAP15 – WA CapX Additions 12.31.15. [↑](#footnote-ref-59)
59. In UE-140188, in Mr. DeFelice’s Exhibit No. DBD-5, Attachment No. \_\_ NGD-3, Avista predicted a system-level 2014 pro forma transfer to plant amount of $4.7 million for this program. See Gomez, Exh. No. \_\_ (DCG-21). The Company’s compliance filing in UE-140188 shows the actual 2014 amount to be $1.7 million higher. See Gomez, Exh. No. \_\_ (DCG-20). Mr. DeFelice goes on to predict the program’s total transfers for 2015 and 2016 to be slightly above $18.0 million. A year later, Ms. Schuh’s predictions for 2015 and 2016 are far lower by $6.0 million. Besides the lack of precision in year to year forecasts of actual transfers to plant for this program, Avista provides no detail around its estimates or actuals to allow Staff to properly match amounts with the period in which they are incurred. For example whether the $1.7 million in additional transfers is tied to non-2014 CWIP. [↑](#footnote-ref-60)
60. 2009 Avista Order at 18-23, ¶¶ 40-52 (December 22, 2009). [↑](#footnote-ref-61)
61. Schuh, Exh. No. \_\_ (KKS-1T) 21:21-27 along with her supporting exhibits: Exh. No. \_\_ (KKS-4), page 3 of 8, NGD-13, and Exh. No. \_\_ (KKS-5), Attachment No. \_\_ NGD-13. [↑](#footnote-ref-62)
62. Gomez, Exh. No. \_\_ (DCG-10). [↑](#footnote-ref-63)
63. Schuh, Exh. No. \_\_ (KKS-1T) 16:5-28 along with her supporting exhibits: Exh. No. \_\_ (KKS-4), page 3 of 8, G-7, and Exh. No. \_\_ (KKS-5), Attachment No. \_\_ G-7. [↑](#footnote-ref-64)
64. Gomez, Exh. No. \_\_ (DCG-29), UE-140188, Rosentrater, Exh. No. HLR-1T 28, Table 4 and 29:11-31, and Gomez, Exh. No. \_\_ (DCG-21), UE-140188, DeFelice, Exh. No. DBD-5, Attachment No. \_\_ ETD-6. [↑](#footnote-ref-65)
65. Comparison of UE-140188, DeFelice, Exh. No. DBD-5, Attachment No. \_\_ ETD-6 in and UE-150204, Schuh, Exh. No. \_\_ (KKS-5), Attachment No. \_\_ (ETD-6). [↑](#footnote-ref-66)
66. Comparison of Gomez, Exh. No. \_\_ (DCG-29), UE-140188, Rosentrater, Exh. No. HLR-1T 17:19 - 20:7, and Gomez, Exh. No. \_\_ (DCG-30), *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-120436 and UG-120437, Kinney, Exh. SJK-1T 17-19. [↑](#footnote-ref-67)
67. The Company’s Transmission and Distribution Capital Project testimony uses the term “investment” but the context and meaning in which it is being used is referring to transfer to plant amounts. [↑](#footnote-ref-68)
68. Thies, Exh. No. \_\_ (MTT-1T) 11:19 - 12:4. [↑](#footnote-ref-69)
69. UE-140188, Exh. No. DCG-1TC 4 - 12:7. [↑](#footnote-ref-70)
70. Thies, Exh. No. \_\_ (MTT-1T) 9:21-23. [↑](#footnote-ref-71)
71. In its response to Industrial Customers of Northwest Utilities (ICNU) Data Request No. 006, Attachment A, the Company provided a document titled Electric Transmission System 2014 Annual Update, dated March 31, 2014. See Gomez, Exh. No. \_\_ (DCG-14), [↑](#footnote-ref-72)
72. Comparison of Gomez, Exh. No. \_\_ (DCG-21), UE-140188, DeFelice, Exh. No. DBD-5, Attachment No. \_\_ ETD-11, with UE-150204, Schuh, Exhibit No. \_\_ (KKS-5), Attachment No. \_\_ ETD-11, and Gomez, Exh. No. \_\_ (DCG-20), Avista’s Compliance filing in UE-140188. [↑](#footnote-ref-73)
73. Gomez, Exh. No. \_\_ (DCG-11). [↑](#footnote-ref-74)
74. Gomez, Exh. No. \_\_\_ (DCG-11), Avista’s 2015 Electric Transmission System Asset Management Plan, page 30 of 52. [↑](#footnote-ref-75)
75. Gomez, Exh. No. \_\_ (DCG-22), Avista witness Jennifer S. Smith workpaper, Excel workbook titled 3) WA CapXAdditions 12.31.15, CAP15.3, ER-2577, Benewah-Moscow 230kV - Structure Replacement, $7.8 million; ER-2423, System Transmission: Rebuild Condition, $2.5 million; and ER-2564, Devils Gap-Lind 115kV Transmission Rebuild, $3.9 million. [↑](#footnote-ref-76)
76. Kensok, Exh. No. \_\_ (JMK-1T) 15:6-8. [↑](#footnote-ref-77)
77. Gomez, Exh. No. \_\_ (DCG-25), IPUC Docket No. AVU-E-15-05, Kensok direct testimony, Table No. 2, 17:3-24. [↑](#footnote-ref-78)
78. Gomez, Exh. No. \_\_ (DCG-16C), Avista response to Staff Data Request No. 141, Part A. [↑](#footnote-ref-79)
79. Gomez, Exh. No. \_\_ (DCG-31C), UE-140188, Kensok, Exh. No. JMK-2, Confidential Attachment 15. [↑](#footnote-ref-80)
80. Kensok, Exh. No. \_\_ (JMK-1) 20:1-6. Staff notes an inconsistency in Mr. Kensok’s testimony and exhibits regarding when the Board of Directors for Avista actually approved the first budget increase. In Mr. Kensok’s Exhibit No. \_\_ (JMK-2), page 12, paragraph 1, he states the Company’s officers and Board approved the budget increase in May of 2014. [↑](#footnote-ref-81)
81. Kensok, Exh. No. \_\_ (JMK-1) 20:1-6. [↑](#footnote-ref-82)
82. Kensok, Exh. No. \_\_ (JMK-1) 20:7-13. [↑](#footnote-ref-83)
83. Exh. No. \_\_ (JMK-2) 2. [↑](#footnote-ref-84)
84. Exh. No. \_\_ (JMK-1T) 20:10-13. [↑](#footnote-ref-85)
85. Kensok, Exh. No. \_\_ (JMK-2) 12, ¶ 1. These were the amounts in Avista’s as-filed case. These amounts are likely different than the final amounts at project close. [↑](#footnote-ref-86)
86. Avista’s confidential response to Staff Data Request No. 153. [↑](#footnote-ref-87)
87. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 14 (May 13, 2004), 34, ¶ 65, *citing Wash. Utils. & Transp. Comm’n v. Puget Sound Power & Light Co.,* Cause No. U-83-54, Fourth Supplemental Order (September 28, 1984), 32, and *citing* Goodman, The Process of Ratemaking, 856-57. [↑](#footnote-ref-88)
88. *Wash. Utils. & Transp. Comm’n v. The Wash. Water Power Co.*, Cause No. U-83-26, Fifth Supplemental Order (Jan. 19, 1984), p. 13. [↑](#footnote-ref-89)
89. Ibid*.*, p. 13 (“As with all issues, the company bears the burden to prove initiation, construction and continuation of the project was prudent”); *see Petition of Puget Sound Power & Light Co. for an Order Regarding the Accounting Treatment of Residential Exchange Benefits,* Docket No. UE-920433, Eleventh Supplemental Order (Sept 21, 1993), p.19 (“Puget must make an affirmative showing of the reasonableness and prudence of the expenses under review . . . even in the absence of a challenge by another party”). [↑](#footnote-ref-90)
90. Avista’s responses to Staff Data Request Nos. 140, 141, 152, 153 and 154. See Gomez, Exh. Nos. \_\_ (DCG-15C), (DCG-16C), (DCG-16C), (DCG-18C), and (DCG-19). [↑](#footnote-ref-91)
91. The Company also uses the term “Solution Integrator,” which is synonymous in meaning to “System Integrator.” [↑](#footnote-ref-92)
92. Staff’s reference here to multiple companies is the result of two separate mergers and acquisitions of Avista’s SI during the tenure of this project. EP2M was acquired by Five Point in January of 2013, and Ernst and Young acquired Five Point on June 1, 2014. [↑](#footnote-ref-93)
93. Gomez, Exh. No. \_\_ (DCG-16C), Avista’s supplemental response to Staff Data Request No. 141, Attachment A, Project Change Request (PCR) FP 23N – Revised and Extended EY SI Services and Project Change Request (PCR) FP 24N - Extension, completion, and true up of EY resources - all signatures. [↑](#footnote-ref-94)
94. Gomez, Exh. No. \_\_ (DCG-15C), Avista’s confidential response to Staff Data Request No. 140, Attachment A, EP2M 04 – EP2M Avista Project SOW 7.9.2012, Page 15, Section 4.1 Project Objective. [↑](#footnote-ref-95)
95. Gomez, Exh. No. \_\_ (DCG-31C), UE-140188, Kensok, Exh. No. JMK-2, Attachment 10, “Project Compass Guidebook” dated January 27, 2012, shows Five Point personnel (Greg Galluzzi and Gary Weseloh) actively involved in contract negotiations and development of statements of work with SI vendors including EP2M which received the contract award. [↑](#footnote-ref-96)
96. Gomez, Exh. No. \_\_ (DCG-15C), Avista’s confidential response to Staff Data Request No. 140. [↑](#footnote-ref-97)
97. Ibid., Attachment A, 01 - EP2M Deal Sheet 6.29.2012 and 04 – EP2M Avista Project SOW 7.9.2012. [↑](#footnote-ref-98)
98. Ibid., Attachment B, provides monthly Project status reports, prepared for the Executive Steering Committee for the calendar year 2014. On the very first monthly report of the year (page 5 of 2664), project management reports as an issue that “Five Point has been challenged with resources to deliver integration and configuration code to meet Project deliverable dates.” [↑](#footnote-ref-99)
99. Gomez, Exh. No. \_\_ (DCG-17C). [↑](#footnote-ref-100)
100. A copy of the presentation made to the Company’s Finance Committee of its Board of Directors, supporting the revision of the Go Live date and implementation budget, were provided by Avista in response to Staff Data Request No. 153, Confidential Attachment A. See Gomez, Exh. No. \_\_ (DCG-18C). [↑](#footnote-ref-101)
101. Avista’s confidential response to UTC Staff Data Request No. 140, Attachment C, page 170 of 332, the Steering Committee Notes for June 16, 2014. See Gomez, Exh. No. \_\_ (DCG-15C), [↑](#footnote-ref-102)
102. Staff’s reading of Section 21 of the original Master Service Agreement (MSA) between Avista and EP2M contained in the Company’s confidential response to Staff Data Request No. 140, Attachment A, EP2M 02 - Avista MSA 7.11.2012, confirms EY as successor to EP2M and Five Point. See Gomez, Exh. No. \_\_ (DCG-15C). The Company has not shown how it leveraged its contractual rights under the original agreement in negotiations with EY. [↑](#footnote-ref-103)
103. *Wash. Utils. & Transp. Comm’n v. Puget Sound Power & Light Co.*, Docket UE-921262, Nineteenth Supplemental Order (Sep 27, 1994), 16:

     “The parties and the Commission therefore should be able to follow the company’s decision-making process, knowing what elements the company used, and the manner in which the company valued those elements. Such a process should certainly be documented.” [↑](#footnote-ref-104)
104. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc*., Docket No. UE-031725, Order 14, (May 13, 2004), ¶ 65, quoting Goodman, The Process of Ratemaking, 857 (“[t]he fundamental question for decision is whether management acted reasonably in the public interest, not merely in the interest of the company”).

     [↑](#footnote-ref-105)
105. *Wash. Utils. & Transp. Comm’n v. Puget Sound Power & Light Co.*, Docket UE-921262, Eleventh Supplemental Order (Sept 21, 1993), 19-20. This decision cites to a prior Commission decision:

     The most credible evidence in this record supports a finding that such a study would may demonstrated the futility of continuing the licensing process on a new Hanford site. Such a study was not performed, however, and no one can state unequivocally that abandonment would have been recommended by mid-year 1980. **However, the responsibility for this absence of proof rests squarely on Puget’s executive officers and directors**. They elected to preserve the option of building a nuclear plant without a full review of the economic consequences of that action. It is the Commission’s conclusion that a full review would have shown the nuclear project to be uneconomic when compared to the coal alternative. It follows that all costs incurred on the Skagit/Hanford project after the point in time when a complete cost effectiveness study would have been available must be deemed imprudent and disallowed. (Fourth Supplemental Order, Cause U-83-54, pp. 32-33. Emphasis supplied.) [↑](#footnote-ref-106)
106. UE-140188, Gomez, Exh. No. DCG-1TC 12:9 – 18:19. [↑](#footnote-ref-107)
107. UE-140188 Staff Data Request Nos. 100 through 103 and Data Request No. 170. See Gomez, Exh. Nos. \_\_ (DCG-13) and (DCG-12). In particular, Staff points to Data Request No. 101, along with Avista’s response, which sought support for statements made by Company witness Ms. Rosentrater regarding capital expenditure and transfer to plant amounts for Transmission and Distribution. Attachment A of Avista’s response to Data Request No. 101 contains a document titled Avista System Planning Assessment, 2013 Local Planning Report. The report was prepared by the Company’s System Planning Department as an assessment of the Avista Transmission System (System) and Distribution System. According to the Company, the “purpose of the assessment is to identify projects needed to mitigate future reliability, load-service, and condition based requirements for the System. Emphasis is given to determining where the System exhibits an inability to meet performance requirements as defined in the NERC Reliability Standards, and develop Corrective Action Plans addressing how the performance requirements will be met.” [↑](#footnote-ref-108)
108. In my testimony in Exhibit No. DCG-6C in UE-140188, pages 1-18 are from the September Board Meeting Prep document dated August 12, 2013, which provides the assumptions behind a rate model used to help Avista’s Board of Directors arrive at its present level of capital spending. On page 12, the filing of annual rate cases is included as one of the assumptions behind the model for Avista to achieve the earnings targets listed. [↑](#footnote-ref-109)
109. *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Docket UE-140188, Order 05 (November 25, 2014), Appendix A, Settlement Stipulation, ¶ 20. [↑](#footnote-ref-110)
110. Staff’s recommendation is based on Avista’s current capital budgeting process described in Ms. Schuh’s direct testimony, Exh. No. \_\_ (KKS-1T) 4:11 - 5:11. Staff’s expectation would be that the “Capital Project ERs” contained in Exhibit No. \_\_ (KKS-5) be complete and in sufficient detail to allow analysis. Any referenced documents, standards, requirements, analysis, etc. in the ER would also be included in the compliance filing. [↑](#footnote-ref-111)