Exhibit BGM-1T
Dockets UE-240006 & UG 240007
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION, D/B/A AVISTA UTILITIES, Respondent.	DOCKETS UE-240006 & UG-240007

RESPONSE TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

July 3, 2024

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RESPONSE TESTIMONY OF BRADLEY G. MULLINS

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is Tietotie 2, Suite 208, Oulunsalo, Finland FI-90460.

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

A. I am the Principal Consultant for MW Analytics, a consulting firm that provides professional services to large energy consumers, primarily in the Western United States. I am appearing in this matter on behalf of Alliance of Western Energy Consumers ("AWEC"). AWEC is a non-profit trade association whose members are energy consumers located throughout the Pacific Northwest, including electric service and gas service customers of Avista.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I have a Master of Accounting degree from the University of Utah. I have sponsored testimony in several regulatory jurisdictions in the United States, including before the Washington Utilities and Transportation Commission (the "Commission"). A list of recent cases where I have submitted testimony can be found in **Mullins, Exh. BGM-2**.

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. I evaluate Avista's proposed electric service revenue requirement increases of $77,066,842 for Rate Year ("RY") 1 and $78,129,676 for RY 2. I also evaluate Avista's proposed natural gas service revenue requirement increases of $17,293,000 for RY 1 and $4,563,710 for RY 2. I also discuss Avista's proposed changes to its Energy Cost Recovery Mechanism ("ERM") and its insurance expense balancing account.

Q. PLEASE SUMMARIZE YOUR PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS.

A. Based on my review and considering the cost of capital recommendation of AWEC witness Kaufman, I recommend rate changes for gas and electric services specified in **Table 1**, below. These values are supported in **Mullins, Exh. BGM-3** for electric services and **Mullins, Exh. BGM-4** for gas services. Short descriptions of my recommended adjustments are also provided below.

Table 1
AWEC Revenue Requirement Adjustments ($000)

		Electric		Natural Gas	
		Rate Year 1	Rate Year 2	Rate Year 1	Rate Year 2
Avista Filed		**$77,067**	**$78,130**	**$17,293**	**$4,565**
Adjustments:					
Cost of Capital (Kaufman)		(17,804)	(696)	(4,283)	(119)
Capital Forecast	*4.01, 5.07*	(7,742)	777	(2,555)	(1,177)
Non-Labor O&M	*3.14, 5.06*	(9,319)	(2,368)	(1,715)	(341)
Benefits Expense	*3.07, 5.03*	(1,285)	(318)	(407)	(101)
Rent From Electric Property	*4.03, 5.13*	(2,205)	(286)	-	-
Wells and Mizuho Margin Accts	*1.03*	(2,485)	-	(311)	-
Directors' Fees	*3.20*	(819)	-	(259)	
Property Tax Update	*3.11, 5.04*	(570)	(42)	(85)	(1)
Non-Recuring Legal Expense	*2.12*	(421)	-	(27)	
Meters and IDD5 Flow-Through	*2.06*	(5,828)	-	(1,226)	-
NPSE: Forecast to Actuals	*3.00P*	(45,245)	-	-	-
NPSE: COB Margins	*3.00P*	(142)	-	-	-
NPSE: EIM Neutrality Charges	*3.00P*	(2,082)	-	-	-
Colstrip Wheeling Costs	*5.00P*	-	(4,165)	-	-
Colstrip Transmission Assets	*5.14*	-	(1,915)	-	-
Total Adjustments		**(95,947)**	**(9,013)**	**(10,868)**	**(1,738)**
Adjusted		**(18,880)**	**69,116**	**6,424**	**2,826**
Less: Customer Tax Credit Amort.		**-**	**(5,734)**	**(2,718)**	**-**
Adjusted with Amortization		**(18,880)**	**63,383**	**3,706**	**2,826**

- *Capital Forecast (Adjs. 4.01, 5.07):* I recommend the Commission adhere to the traditional used and useful standard and only allow pro forma capital in rates that is demonstrated to be used and useful as of the rate effective dates of the respective rate years.

- *Non-Labor Operations and Maintenance ("O&M") (Adjs. 3.14, 5.06):* Considering Avista's declining O&M expenses, and inconsistencies in the aggressive escalation factors it applied, I recommend applying no escalation to RY 1 non-labor O&M and 2.3% inflationary escalation to RY 2 non-labor O&M expense.

- *Benefits Expense (Adjs. 3.07, 5.03):* I recommend updating pension expense and Other Post Employment Benefits ("OPEB") to be based on more recent actuarial reports.

- *Wells and Mizuho Margin Accts (Adj 1.03):* I recommend removing certain commodity margin accounts from the investor supplied working capital calculation because those accounts earn interest, and the historical balances are not representative of expectations in the rate plan period.

- *Directors Fees (Adj. 3.20):* I recommend the Commission apply its long-standing policy of splitting directors' fees 50/50 between shareholders and ratepayers and remove directors' stock compensation entirely from revenue requirement.

- *Property Tax Update (Adjs. 3.11, 5.04):* I recommend property tax expense be updated based on more recent data provided in discovery.

- *Non-Recurring Legal Expense (Adj. 2.12):* I recommend that legal expenses associated with wildfire litigation and patent applications be removed from revenue requirement as non-recurring expenses.

- *Meters and Industry Director Directive ("IDD") #5 Flow-Through (Adj. 2.06):* I recommend fully transitioning to flow through tax accounting for meters and IDD#5 expenses consistent with the accounting application approved in Docket Nos. UE-200895 and UG-200896. I also recommend amortizing the remaining balances of the associated deferral over a one-year period beginning in RY2 for electric services and over a two-year period beginning in RY1 for gas services.

- *Forecast-To-Actuals (Adj. 3.00P):* I recommend eliminating the unsupported adjustment referred to as the Forecast-to-Actuals adjustment from Net Power Supply Expense ("NPSE") because that adjustment was not adequately supported and is inconsistent with sound power cost forecasting practices.

- *California-Oregon-Border ("COB") Margins (Adj. 3.00P):* Consistent with past modeling practice, I recommend modeling sales transactions at the COB market hub in NPSE.

- *Energy Imbalance Market ("EIM") Settlement Charges (Adj. 3.00P):* I recommend modeling greenhouse gas revenues and neutrality charge revenues as an addition to the EIM benefits calculation Avista performed.

- *Colstrip Wheeling (Adj. 5.00P):* I recommend removing wheeling expenses associated with Colstrip from NPSE in RY2.
- *Colstrip Transmission (Adj. 5.14):* I recommend reclassifying Colstrip related transmission assets to plant held for future use and removing the associated operating expense from revenue requirement.

Q. WHAT IS YOUR RECOMMENDATION FOR POWER SUPPLY EXPENSE IN RY2?

A. I recommend that a NPSE update be performed in August 2025, with a refresh on November 1, 2025, in order to set baseline NPSE for calendar year 2026, including updating the impact of removing Colstrip Units 3 and 4 from rates on December 31, 2025.

Q. WHAT IS YOUR RECOMMENDATION ON AVISTA'S PROPOSED CHANGES TO THE ERM?

A. I recommend no changes to the current structure of Avista's ERM. The Commission recently reaffirmed the design elements of a power cost mechanism such as the ERM in PacifiCorp Docket No. UE-230172, and Avista presents no valid reason to depart from the Commission's long-established, precedent on those design elements.

Q. WHAT IS YOUR RECOMMENDATION ON THE INSURANCE BALANCING ACCOUNT?

A. I recommend that the Commission decline to extend the Insurance Expense Balancing Account. The account is unnecessary because insurance expense is being forecast using forward-looking assumptions in the contest of the proposed rate plan and constitutes undesirable single-issue ratemaking.

Q. HAVE YOU ATTACHED RELEVANT DISCOVERY RESPONSES?

A. Yes. **Mullins, Exh. BGM-5** contains relevant discovery responses cited in this testimony. The responses are ordered sequentially.

II. REVENUE REQUIREMENT

Q. WHAT IS THE PURPOSE OF THIS SECTION OF TESTIMONY?

A. Avista's revenue requirement was calculated based upon its actual results over the period July 1, 2022, through June 30, 2023 (the "Historical Period"). Subsequently, Avista performed a series of pro forma adjustments, including provisional capital additions, to develop results representative of the respective rate years. This section of testimony discusses revenue requirement adjustments other than those related to the Customer Tax Credit, NPSE, and Colstrip Units 3 and 4.

Q. DO YOU SUPPORT AVISTA'S APPROACH TO REVENUE REQUIREMENT IN THIS DOCKET?

A. No. Historically, Washington has been a state that adhered strictly to the concept of an historic test period when calculating revenue requirements. The concept of an historic test period was an important ratepayer protection, as it relied on the principal that only actual costs or costs that could be demonstrated based on a known and measurable change, were eligible to be considered in a revenue requirement calculation. As a result of statutory changes, the traditional, modified historical test period is no longer being required of Washington utilities. In recent years, utilities have largely ignored critical ratepayer protections with the push towards highly complicated and opaque multi-year rate plan filings. Through these filings, the envelope of revenue requirement has been continually pushed in the favor of utilities and at the expense of ratepayers. It has come to the point where ratepayers have little recourse in a proceeding, such as here, with respect to forecasting assumptions, except perhaps having the ability to litigate an eventual refund in an after-the-fact capital review process, which has its own set of problems discussed below.

Put simply, the regulatory policy towards revenue requirement has been flipped on its head in Washington. The utilities now include forecast capital additions well beyond the rate effective date and aggressive assumptions regarding cost escalation of operating expense throughout the rate effective periods. By doing so, the utilities effectively have done away with traditional ratemaking principles, such as the used and useful and known and measurable standards. However, these standards continue to be important both in terms of fairness and equity between ratepayers and shareholders. They also encourage a utility to control costs and manage operations in a prudent and reasonable manner. The traditional concept of an historic test year was intended to protect customers, and the erosion of the historic test year and other traditional ratemaking principles has had negative impacts on ratepayers, evidenced by the repeated, major rate increases being proposed by nearly every utility in the state in recent years. The current proceeding is no exception.

Q. HAVE MULTI-YEAR RATE PLANS REDUCED ADMINISTRATIVE BURDENS?

A. No. By all accounts, moving to multi-year rate plans has only made the regulatory process in Washington more burdensome. Not only are the filings exponentially more complicated, but they have been no less frequent than before. The slew of contemporaneous dockets and processes necessary to manage the rate plan process after the fact have also made the process even more unworkable. Contrary to its purpose, the new policy towards multi-year rate plans has encouraged utilities to submit filings with forecasting assumptions that are increasingly aggressive, while at the same time ratepayers continue to struggle with inflationary cost pressures on nearly every aspect of their consumption.

Q. DOES THE COMMISSION HAVE TO APPROVE A MULTI-YEAR RATE PLAN?

A. No. I am not an attorney, although my understanding of RCW 80.28.425 is that a utility is required to include a multi-year rate plan option in its general rate case filing, but that the Commission has discretion to "approve, approve with conditions, or reject, a multi-year rate plan" filed by a utility. It also has the authority to approve or approve with conditions "an alternative proposal made by one or more parties."[1] Thus, a forecast test period is not mandatory in the context of the requirement for a utility to submit a multi-year rate plan. To the contrary, the Commission has broad flexibility in the assumptions that it uses to establish revenue requirement, whether approved in the context of a multi-year rate plan or not.

Q. CAN THE PROBLEMS WITH MULTI-YEAR RATE PLANS BE RESOLVED IN AFTER-THE-FACT CAPITAL REVIEWS?

A. No. If a utility has an approved budget in a rate case, it will have an incentive to spend up to that budget to avoid needing to issue a refund to customers in an after-the-fact capital review. As discussed below, setting rates based on budgetary forecasts provides little assurance that those rates are just and reasonable because there is no objective way of determining the reasonableness of a budget. Thus, the utility has an incentive to inflate its budget in a rate case which, if approved, gives it a corresponding incentive to

[1] RCW 80.28.425(1).

invest more capital than it otherwise would under an historical test year approach. In an after-the-fact capital review process, the reasonableness of the amount of capital deployed becomes largely irrelevant so long as the amount is within the approved budget. Consequently, at no point in the ratemaking process do parties or the Commission have an opportunity to objectively determine the reasonableness of a utility's capital spending. As seen in Avista's most recent capital review process, the distribution of capital relative to the rate case forecast was wildly different than Avista had forecast,[2] yet it still claims that its capital spending, distributed across an entirely different set of projects than contemplated, was reasonable in light of the overall budget the Commission approved in the 2022 General Rate Case ("GRC").

Q. DO THE USED AND USEFUL AND KNOWN AND MEASURABLE STANDARDS PREVENT A UTILITY FROM EARNING ITS RETURN?

A. No. These standards do not prevent a utility from having the opportunity to earn its authorized rate of return. This is especially true given the "modified" historical test period the Commission had generally adopted prior to the use of multi-year rate plans. The modified historical test period provides utilities with a revenue requirement based on end-of-period rate base, including allowances for pro forma adjustments. Setting rates in this manner, based on known costs and actual plant, balances the interests of the utility in having a reasonable opportunity to earn its authorized return while creating an incentive to control costs and spending within historical levels. A utility, such as Avista, needs to

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[2] *See* e.g. Docket No. UE-220053 & UG220054, Avista Compliance Filing (Provisional Capital for 2023), Attachment A, (Mar. 29, 2024) (The absolute average error in capital spending was 73.8%, yet Avista claims that it spent more than its forecast, warranting no adjustment to provisional capital included in rates in the 2022 GRC).

manage its business to avoid an unsustainable cost trajectory and it is clear based on recent spending levels, that Avista is capable of doing so.

Q. HOW CAN THE COMMISSION EVALUATE THE REASONABLENESS OF A BUDGET, AS OPPOSED TO KNOWN AND MEASURABLE COSTS?

A. By contrast, setting utility rates based on budgets is problematic because there is no objective way to assess the reasonableness of a budget, other than questioning expertise or the intentions of those that developed it. Use of a budget puts the Commission and ratepayers in an impossible situation of having to accept what a utility says is reasonable, without a clear reconciliation to the actual costs incurred. Given Avista's current revenue increase request and the circumstances facing ratepayers, it is reasonable to hold Avista to traditional ratemaking standards. Now that we have more experience with multi-year rate plans, reconsideration of the current practice of forecasting capital in rates is warranted. While the boundaries have been pushed in the past, the pendulum has swung too far, and it is important to reinstate these important ratemaking concepts more firmly. With this in mind, I have reviewed Avista's filing and have developed several revenue requirement recommendations, which are critical in protecting the interest of ratepayers, discussed further below.

a. Capital Forecast (Adjs. 4.01, 5.07)

Q. WHAT IS YOUR RECOMMENDATION ON AVISTA'S CAPITAL FORECAST?

A. My recommendation regarding Avista's capital forecast is simple. I recommend that only capital demonstrated to be used and useful on or before the rate effective date of the respective rate years be considered in revenue requirement. This is consistent with the used and useful standard. It is also the baseline method described in the multi-year rate plan statute, which states "[f]or the initial rate year, the commission shall, at a minimum, ascertain and determine the fair value for rate-making purposes of the property of any gas or electrical company that is used and useful for service in this state as of the rate effective date."[3]

Q. IS IT MANDATORY FOR THE COMMISSION TO INCLUDE CAPITAL ADDITIONS AFTER THE RATE EFFECTIVE DATE?

A. No. My understanding is that under RCW § 80.04.250, the Commission has flexibility to consider rate period capital additions, but that doing so is not mandatory. The operative clause on this matter is permissive, stating that the "valuation *may* include consideration of any property of the public service company acquired or constructed by or during the rate effective period."[4] The only obligatory clause regarding test period capital is in RCW § 80.04.250(3), which requires the Commission to adopt a standard process for reviewing test period capital additions—a requirement the Commission complied with through its Used and Useful Policy Statement—although that process only applies if the Commission in fact decides to include rate period capital additions in revenue requirement in the first place.

Q. DOES COMMISSION'S USED AND USEFUL POLICY STATEMENT REQUIRE RATE PERIOD CAPITAL TO BE INCLUDED IN RATES?

A. No. The used and useful policy statement provides guidance for how the Commission would review test period capital additions, but again, it is not a pronouncement that the Commission would consider rate period capital additions in all cases. The Commission

[3] RCW § 80.28.425(3)(b).
[4] RCW § 80.04.250(2).

expressly affirmed the continued use of the modified historical test period approach stating:

> This Policy Statement affirms – and requires that regulated companies include and consider in their proposals – the Commission's longstanding practices regarding property placed in service. These practices require companies to show that the property will be used and useful; that proposed pro forma adjustments to test year amounts will involve known and measurable events and adhere to the matching principle (i.e., the principle that costs should be matched to offsetting factors), including accounting for all offsetting factors; and that costs were prudently incurred.[5]

Q. HOW DO YOU RECOMMEND THE CAPITAL FORECAST BE EVALUATED FOR RY1?

A. My recommendation is that only capital demonstrated to be in service as of December 21, 2024, be included in RY 1 revenue requirement. Considering that Avista used a Historical Period corresponding to the 12-months ending June 2023, developing revenue requirement based on capital in service as of the rate effective data still requires a forecast of capital additions over the approximate 18-month period of July 1, 2023, and December 21, 2024. To account for this, I recommend that Avista be required to file an attestation concurrent with its compliance filing that the capital included in its forecast for 2024 was placed into service. If the amount for any project exceeding $1,000,000 placed into service is less than Avista had forecast, Avista would be required to reduce the rates that go into effect by the revenue requirement impact of the difference. This would be a project-by-project attestation, with no offsets for overspending on a forecasted project.

[5] Docket No. U-190531, Policy Statement on Property That Becomes Used and Useful After Rate Effective Date at ¶ 20 (Jan. 31, 2020) (internal citations omitted).

Q. DO YOU SUPPORT THE USE OF A PORTFOLIO APPROACH IN A CAPITAL REVIEW?

A. No. Regardless of whether the Commission approves my recommendation to limit capital additions to those in service as of the rate effective date or adopts a post-rate period review process, I recommend that all future capital reviews be conducted on a project-by-project basis. Avista's recent Provision Capital Compliance Filing in Docket Nos. UE-220053 and 220054 demonstrates why it is critical that capital review processes be conducted on a project-by-project basis. That filing was the first capital review submitted under the new, multi-year rate plan construct, and it is apparent that the capital projects that Avista had forecasted in the 2022 GRC deviated substantially from its actual spend, and in some cases, the projects executed were not even included in Avista's direct filed case at all.[6] Avista spent the money, it was just on completely different projects that it had forecast and that parties had reviewed in the 2022 GRC. This is problematic. If Avista is going to spend on a completely different set of projects than identified in this rate case, then the Commission has no basis to establish that the capital forecast is reasonable to begin with. In its Used and Useful Policy Statement the Commission stated that "[t]he review will not, however, simply be a matter of matching identified rate base to the rate base provided in rate-year Commission Basis Reports."[7] Yet, this is precisely the approach Avista has used and is proposing in this case, requesting the Commission

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6 *See* e.g. Docket No. UE-220053 & UG220054, Avista Compliance Filing (Provisional Capital for 2023), Attachment A, (Mar. 29, 2024).

7 Docket No. U-190531, Policy Statement on Property That Becomes Used and Useful After Rate Effective Date at ¶ 42 (Jan. 31, 2020).

approve a placeholder for capital additions, as opposed to investments in specific and discrete projects.

Q. HOW DO YOU PROPOSE HANDLING THE CAPITAL ADDITIONS FOR RATE YEAR 2?

A. Given deficiencies in how Avista evaluated the removal of Colstrip Units 1 and 2 from rates, discussed below, it may be more efficient in this case to simply approve a single year revenue requirement. Most of the rate increase at issue in this case is related to the removal of Colstrip Units 1 and 2, so considering those costs in a rate filing next year may be more efficient and effective than considering the impacts so far in advanced in this case. Notwithstanding, if the Commission does approve a rate plan, the same recommendation that I recommended for RY 1 could be applied to RY 2. Avista's actual capital spending in calendar year 2025 would be compared to the forecast presented in this case on a project-by-project basis. At the time RY 2 rates go into effect, Avista would submit a compliance filing attesting to the specific project cost that were incurred in 2025 and to the extent that any project exceeding $1,000,000 were lower than forecast, rates would be reduced by the revenue requirement of the difference. Again, this would be done a project-by-project basis, with no offsets for overspending on a forecasted project.

Q. PLEASE SUMMARIZE THE IMPACT OF YOUR RECOMMENDATION.

A. Under my recommended approach there would be no after the fact capital review, streamlining the administrative burden with respect to the Avista's rate plan filing. The impact of my recommendation, which limits the capital included in revenue requirement to the amounts forecast as of rate effective dates of the respective rate years is detailed in **Table 2**, below, subject to the attestation process noted above.

Table 2
Impact of Using Rate Effective Date Capital for Respective Rate Plan Periods, Whole Dollars

	Electric	Gas
RY 1 to 12/31/2024 EOP:		
Gross Plant	(75,800,000)	(16,641,000)
Acum. Depr.	48,288,230	12,041,152
ADIT	1,751,000	1,396,000
Total Rate Base	(25,760,770)	(3,203,848)
Depreciation	(24,009,770)	(2,170,000)
RY 2 to 12/31/2025 EOP:		
Gross Plant	(1,040,852)	1,959,746
Acum. Depr.	(1,134,736)	86,071
ADIT	(6,863,261)	3,810,041
Total Rate Base	(9,038,850)	5,855,858
Depreciation	2,170,000	(1,605,000)

Note that the RY 2 impacts in Avista's filing were based on an adjustment, adding capital additions between a 2025 Average of Monthly Averages ("AMA) rate base to a 2026 AMA rate base. This adjustment modifies Avista's adjustment to include capital additions between a 2024 EOP rate base and a 2025 EOP rate base. Both calculations include approximately one year of capital additions, although the time frame of the additions is shifted back approximately six months in my analysis due to the use of the rate effective date values, as opposed to the AMA values. For this reason, the impacts of this change for RY 2 are relatively minor compared to RY 1.

b. Non-Labor Operations and Maintenance (Adjs. 3.14, 5.06)

Q. HOW HAS AVISTA CONSIDERED NON-LABOR OPERATIONS AND MAINTENANCE EXPENSE IN REVENUE REQUIREMENT?

A. In Adjustments 3.14 and 5.06, Avista incorporates its forecast of non-labor O&M expenses for the respective rate years. To do so, Avista applied a generic escalation factor to the Historical Period expense. The generic escalation factors were calculated based on a trending analyses of historical O&M expenses, albeit not solely limited to non-labor O&M expense.

Q. WHAT ESCALATION FACTORS DID AVISTA USE?

A. Avista proposed applying annual escalation factors of 6.30% for electric services and 4.57% for gas services to the Historical Period non-labor O&M results. These levels are concerning as they are well above expected inflation over the rate plan period.[8] Given the duration between the Historical Period and the rate plan period, these heightened escalation levels equate to 15.76% and 22.07% increases to electric service non-labor O&M expense for the respective rate years. It also equates to 11.44% and 16.01% increases to natural gas non-labor O&M expense for the respective rate years.

Q. HOW DID AVISTA CALCULATE THE FACTORS?

A. Avista calculated escalation factors using the trend of overall O&M expense over the period 2018 through 2022 based on its Commission Basis Reports for the respective periods.

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[8] *See* Federal Open Market Committee ("FOMC") June 12, 2024, inflation projections. *See* https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20240612.htm.

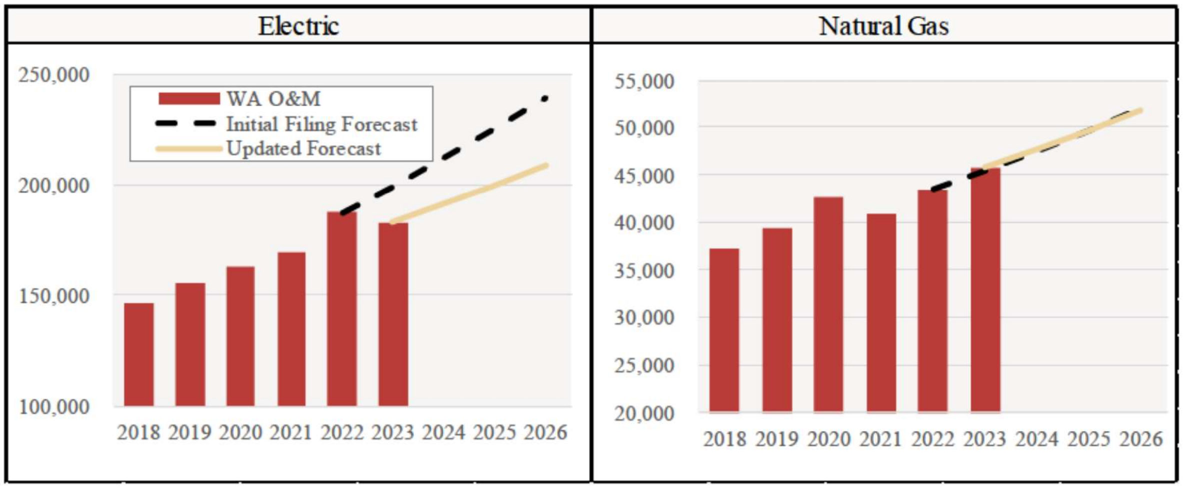
Q. DID AVISTA CALCULATE THE TREND IN NON-LABOR O&M EXPENSE?

A. No. The trend that Avista used was based on total O&M expense, excluding power supply costs. It was not based on non-labor O&M expense. It included labor, pension expense, energy efficiency incentives, and all the other O&M expenses that are typically excluded from the analysis of non-labor O&M expense. Accordingly, the percentages that Avista calculated are not representative of an escalation factor that can be reasonably applied to non-labor O&M expense.

Q. DID AVISTA UPDATE THE ESCALATION FACTORS IN DISCOVERY?

A. Yes. In response to Public Counsel Data Request 297, Avista performed an updated analysis of historical non-labor O&M expenses, including expense data from 2018 through 2023. That analysis showed that 2023 electric non-labor O&M expense declined materially in 2023 relative to 2022 levels. Based on that analysis, Avista calculated revised escalation factors of 4.57% for electric services and 4.28% for gas services. The results of that update are detailed in **Figure 1**, below.

Figure 1
Avista Updated O&M Trend Calculation Per Public Counsel Data Request 297
($000)´



Given the reductions detailed in the 2023 Commission Basis Report, particularly for electric services, the forecast of non-labor O&M expense declined materially in Avista's update. For electric services, the update resulted in 11.2% and 12.6% reductions to non-labor O&M expense in the respective rate years. For gas services, the impact was more modest, with no material difference in RY 1 and a 0.3% reduction in RY 2. Notwithstanding the update, however, the generic escalation that would result under Avista's updated calculations was still significant and far exceeded the pace of inflation.

Q. DID NATURAL GAS NON-LABOR O&M EXPENSE INCREASE BY THE SAME AMOUNT AS DETAILED IN FIGURE 1?

A. No. Note that amounts in **Figure 1** represent total O&M expense and are not limited to the non-labor O&M portion of those expenses. While overall natural gas O&M expense increased in 2023, non-labor O&M expense did not. In contrast to **Figure** 1, natural gas non-labor O&M expense declined by 3.3% from $14,286,176 to $13,818,396. Not only did it decline materially, this disconnect between overall O&M expense and non-labor

O&M expense demonstrates why the O&M escalators Avista calculated are not reasonable, as they are inconsistent with the non-labor portion of O&M expense that they are being applied to.

Q. HOW DID AVISTA'S ACTUAL NON-LABOR O&M EXPENSE COMPARE TO ITS FORECAST IN THE 2022 GRC?

A. In the 2022 GRC, Avista forecast 2023 non-labor O&M expense of $71,359,782 [9] for electric services and $15,966,358 for gas service.[10] This was based on assumed annual expense escalation of 7.05% for electric services and 7.29% for gas services. Notwithstanding that forecast, Avista's actual non-labor O&M expenses, as reported in response to Public Counsel Data Request 297 were just $62,213,637 for electric services and $13,818,396 for gas services. In other words, Avista's approach in the 2022 GRC, which it also applied in this case, resulted in it over-forecasting non-labor O&M expenses by $9,146,145 for electric services and $2,147,962 for gas services. Compared to the aggressive escalation factors assumed, Avista's actual non-labor O&M costs, only increased by 0.45% for electric services and 0.33% for gas services (both on an annualized basis) relative to the September 30, 2021 historical period used in the 2022 GRC. In other words, Avista's non-labor O&M expense basically stayed flat relative to the 2022 GRC historical period. This pattern is concerning, particularly in that 2023 was the first year in which the multi-year rate plan process was being implemented; in the very first year in which escalation assumptions were allowed to be used for setting rate

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9 *See* UE-220053, Andrews WP "3.14, 5.07 PF Misc OM exp\Pro Forma Misc OandM," Tab "Electric," sum of Cells "J162:K162."

10 *See Id.* at Tab "Natural Gas," sum of Cells "J123:K123."

year operating expenses, Avista overstated its forecast by over $11 million for both service lines combined.

Q. DO THESE REDUCTIONS IN O&M EXPENSE DEMONSTRATE THAT AVISTA HAS AN ABILITY TO CONTROL ITS COSTS?

A. Avista is in full control of its costs. Ratepayers are not. In this instance, Avista's operating expenses for electric services actually declined by 2.39% in 2023. Natural gas non-labor O&M expense declined by 3.3%. Given these reductions and the experience in the 2022 GRC, the veracity of the aggressive non-labor O&M escalation assumptions included in Avista's filing is called into question.

Q. CONSIDERING THAT AVISTA'S OPERATING EXPENSES HAVE BEEN DECLINING, WHAT DO YOU RECOMMEND?

A. I recommend including no rate escalation in RY 1, and a modest inflationary escalator for RY 2. I propose no increase in RY 1 because of the cost reductions shown Figure 1 above for electric services and the reduction to non-labor O&M for gas services. Because costs declined in 2023 relative to the Historical Period, assuming no rate escalation from the Historical Period still provides Avista with a modest increase to O&M expense relative to 2023 actual levels. Correspondingly, the inflationary adjustment I recommend for RY 2 is 2.3%, which represents the mid-point Personal Consumption Expenditures ("PCE") inflation forecast of the Federal Reserve, Federal Open Market Committee ("FOMC"), per its June 12, 2024, projections.[11]

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11 *See See* Federal Open Market Committee ("FOMC") June 12, 2024. https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20240612.htm.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. The impacts of my recommendation are detailed in **Table 3**, below.

Table 3
Impacts of AWEC Recommendation on Non-Labor O&M Expense (Whole Dollars)

	Electric	Gas
RY 1	(8,875,949)	(1,633,694)
RY 2	(2,255,204)	(324,895)

c. Benefits Expense (Adjs. 3.07, 5.03)

Q. HOW DID AVISTA FORECAST PENSION AND POST RETIREMENT MEDICAL EXPENSES IN ITS FILING?

A. Pension expenses were based on the Historical Period expense levels corresponding to the 12-months ending June 30, 2023.[12] The calculation of pension expense also considered a pension settlement that occurred during that period, in late 2022. In addition, post-retirement medical expenses were based on an actuarial estimate of calendar year 2023 expense.[13]

Q. DID AVISTA INDICATE THAT IT WOULD UPDATE THESE BENEFITS EXPENSE ESTIMATES?

A. Yes. In Direct Testimony, Avista stated "[w]e anticipate updates for 2024 through 2026 to be available from our actuary sometime in the first quarter of 2024, after year-end results are available, and the Company will adjust pension expense at that time to reflect a prorated amount for RY1."[14] Avista's workpapers made similar statements.

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12 *See* Shultz workpaper 3.05-3.07, 5.02-5.03 PF Labor and Benefits-Confidential/Benefit Adjustment (WA 2024).xlsx. AWEC confirmed this workpapers was not confidential.

13 *Id.*

14 Schultz, Exh. KJS-1T at 60:16-19.

Q. HAS AVISTA PROVIDED THE UPDATED ACTUARIAL REPORT?

A. Yes. In response to AWEC Data Request 04, Avista provided an updated actuarial report, which was issued on February 15, 2024.[15]

Q. HOW DID THE UPDATED ACTUARIAL REPORT IMPACT AVISTA'S PENSION AND POST RETIREMENT MEDICAL EXPENSES?

A. The pension and other post-employment benefit costs were materially lower in the updated actuarial report than the values Avista used for its pro-forma adjustment.

Q. WAS THAT EXPECTED?

A. Yes. In particular, periodic pension expense was expected to decline as a result of a pension settlement event that occurred in late 2022. This settlement resulted in a one-time expense of $11,827,588 on a total-system basis, the recognition of which was otherwise expected to reduce future pension service costs. Consistent with the Commission's treatment in Docket Nos. UE-220898 and UG-220899, that settlement charge was deferred and is being amortized over an approximate 12-year period.[16] The purpose of the deferral was to match the settlement "losses to the offsetting gains that the Company will experience over time through lower annual pension benefit expense."[17] Avista did include the deferral amortization in its overall benefits expense calculation, but in relying on the Historical Period expense levels, it did not incorporate the full reduction to pension expense expected from the settlement accounting going forward. Thus, absent an update to the periodic pension expense, Avista's use of the Historical

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15 *See* AWEC Data Request 04, Confidential Attachment A.
16 *See* Dockets UE 220898 & UG 220899, Order 01 ¶ 4.
17 *Id.* Order 01 ¶ 5.

Period expense results in ratepayers paying for the amortized losses, but not receiving the offsetting gains from those losses.

Q. WHAT IS THE IMPACT OF USING THE UPDATED ACTUARIAL REPORTS?

A- **Table 4**, below, details the impact of the updated actuarial reports on Avista's pension and post-retirement medical expenses relative to Avista's initial filing.

Table 4
Impact of Updated Actuarial Reports Relative to Initial Filing
Expense (Whole Dollars)

	Electric	Natural Gas
RY1	(1,224,078)	(387,478)
RY2	(303,209)	(95,980)

Q. WHAT DO YOU RECOMMEND?

A. I recommend using the updated actuarial reports as the basis for calculating Avista's pension and post-retirement medical expenses. The impact of my recommended adjustment is set forth in **Table 4**, above.

d. Rent From Electric Property (Adjs. 4.03, 5.13)

Q. HOW DID AVISTA CALCULATE RENT FROM ELECTRIC PROPERTY IN ITS FILING?

A. Revenues associated with Rent From Electric Property are recorded in FERC Account 454. This account consists primarily of revenues from pole attachments, such as telecommunications wires and antennae. Avista has two sub-accounts for this FERC Account, including Account 454.1 for transmission-related revenues and Account 454.0 for all other revenues. In the Historical Period, Avista recognized $2,781,794 in

Washington jurisdictional revenues from this FERC account, including both sub accounts.[18] In its filing, Avista made only a minor adjustment to the Historical Period revenues removing $23,000 of business and occupation taxes in Adjustment 2.01.[19]

Q. HAS ACCOUNT 454 REVENUE BEEN GROWING?

A. Yes. Revenue in Account 454 has been growing rapidly. There has been increasing demand for pole attachments, particularly given the deployment of 5G mobile telecommunications services, which due to its lower frequency spectrum, must rely on antennae that are closer in proximity to cellular radios than prior generations of mobile telecommunication technologies. There has also been an increasing build out of broadband services in recent years, particularly in rural areas given federal grants and incentives. This is a high demand service, and accordingly, it is expected that pole attachment and joint use revenues for these services are going to increase exponentially in the coming years. In addition, Avista's rates for these providing services have been increasing year-over-year compounding the expected growth.

Q. CAN REVENUE GROWTH BE OBSERVED IN AVISTA'S RESULTS OF OPERATIONS?

A. Yes. The rapid revenue growth in Account 454 can be observed in Avista's results of operations. In response to AWEC Data Request 1, Avista provided updated results of operations for the 12-month period ending December 31, 2023. In those results of operations, Avista Recognized $4,275,421 of Washington jurisdictional revenues in

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18 *See* Schultz workpaper "1.00 Results of Operations\12E-2023.06-Avista Electric Pull," Tab "E-OPS," Cells "O25:O26."

19 *See* Shultz workpaper "3.01 PF Revenue Normalization\WA Elec Rev Norm Adj 12 ME 06.2023," Tab "Reconcile ROO to Restated," Cell "E30."

Account 454. Thus, moving forward the results of operations just 6-months resulted in a $1,493,627 or 53.7% increase to the revenue in Account 454.

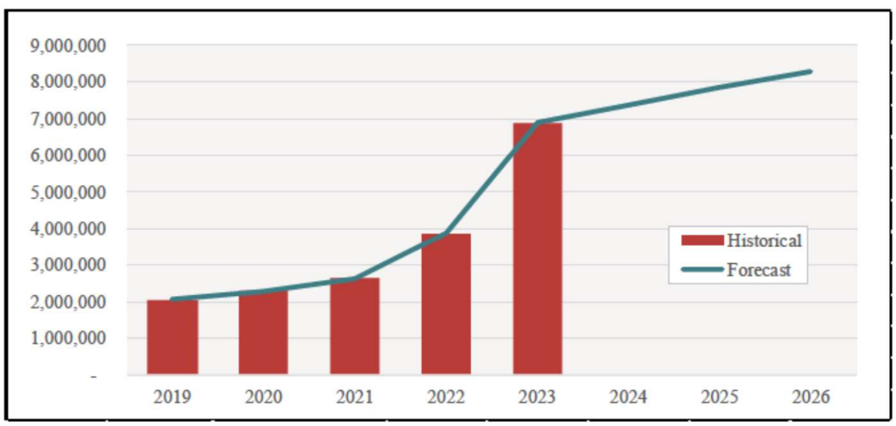
Q. DID YOU REQUEST DETAIL SUPPORTING THIS REVENUE?

A. Yes. In Data Request 12, AWEC requested that Avista provide detail for Account 454 revenue over the five-year period January 1, 2019, through December 31, 2023.

Q. WHAT DID AVISTA'S RESPONSE TO THAT REQUEST SHOW?

A. It shows that not only is there significant user growth for pole attachment and joint use services, but also that the rates have been increasing, leading to exponential revenue growth. This may be observed in **Figure 2**, below.

Figure 2
Account 454 Revenue From AWEC Data Request 12
Total-System Revenue (Whole Dollars)



Q. WHAT IS DRIVING THE INCREASES IN REVENUE?

A. In response to AWEC Data Request 13, Avista provided the calculation of its pole attachment rate calculations over the same 5-year period. In **Mullins, Exh BGM-5**, I have attached the Century Link rate calculation provided in response to that request. Century Link is one of Avista's larges pole attachment customers, which is why I have used those calculations as a reference. As can be seen, a principal driver of the increased pole attachment rates, which in turn has been driving revenue growth, is the growth in the cost of a bare pole. This is detailed in **Table 5**, below.

Table 5
Investment Per Bare Pole 2019-2020

Year	Bare Pole Cost $
2019	772.91
2020	830.87
2021	892.85
2022	910.07
2023	1,203.96

Q. HOW DO YOU RECOMMEND FORECASTING ACCOUNT 454 REVENUE IN THE RATE PLAN PERIOD?

A. My recommended forecast of Account 454 revenue is detailed in **Figure 2**, above. First, I recommend updating to the calendar year 2023 revenue levels, which, as noted above, were 53.7% higher than the Historical Period. Second, I recommend setting Account 454 revenue growth equal to the expected growth in distribution plant. This is a simplifying assumption, which aligns with the observation that distribution pole costs are a principal driver of the revenue growth in this account. It will also likely understate the expected revenue in the rate plan period because not only will the attachment rates increase, but the number of attachments will also likely increase in that period.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. The impact of my recommendation is detailed in **Table 6**, below, for the respective rate years.

Table 6
Impact of Recommended Forecast for Account 454
Electric Services, Whole Dollars

	Historical Period	2023	2024	2025	2026
Total-System	4,357,581	6,881,346	7,353,450	7,857,943	8,296,680
Washington	2,781,794	4,275,421	4,568,742	4,882,187	5,154,777
Adjustment				2,100,393	272,590

e. Wells and Mizuho Margin Accounts (Adj. 1.03)

Q. WHAT ARE THE WELLS AND MIZUHO MARGIN ACCOUNTS?

A. Avista maintains accounts with Wells Fargo Securities, LLC ("Wells") and Mizuho Securities USA, LLC ("Mizuho") in which it posts margin funds, or receives the benefit from margin funds, associated with transactions made in energy commodity markets. The balances in these accounts can be either positive or negative, depending on Avista's exposure to commodity markets.

Q. HOW HAS AVISTA CAPTURED THESE ACCOUNTS IN ITS REVENUE REQUIREMENT CALCULATION?

A. Avista has included the wells and Mizuho accounts in its calculation of cash working capital. In response to AWEC Data Request 11, Attachment A, Avista detailed a collective balance of $75,493,033 for these two accounts, which it has included in working capital. When including the balances in its working capital calculation, however, Avista made a deduction for a portion of the account balances that it deemed to be interest bearing. Based on its calculation, Avista assumed $6,074,169 was interest bearing. Historically, interest bearing accounts are not included in Avista's cash working capital calculation. Accordingly, these accounts would have otherwise been excluded from working capital, although Avista is now taking the position that only a portion of the balances should be excluded based on the amount of interest it has recognized on the balances.

Q. HOW DID AVISTA DETERMINE THE PORTION OF THE ACCOUNT BALANCE THAT IT CONSIDERED TO BE INTEREST BEARING?

A. Avista compared the interest earned or accrued on the account to the account interest rate. If the interest accrued was less than the amount it would have expected based on the account interest rate, Avista assumes that a pro-rata portion of the account balance was not interest bearing.

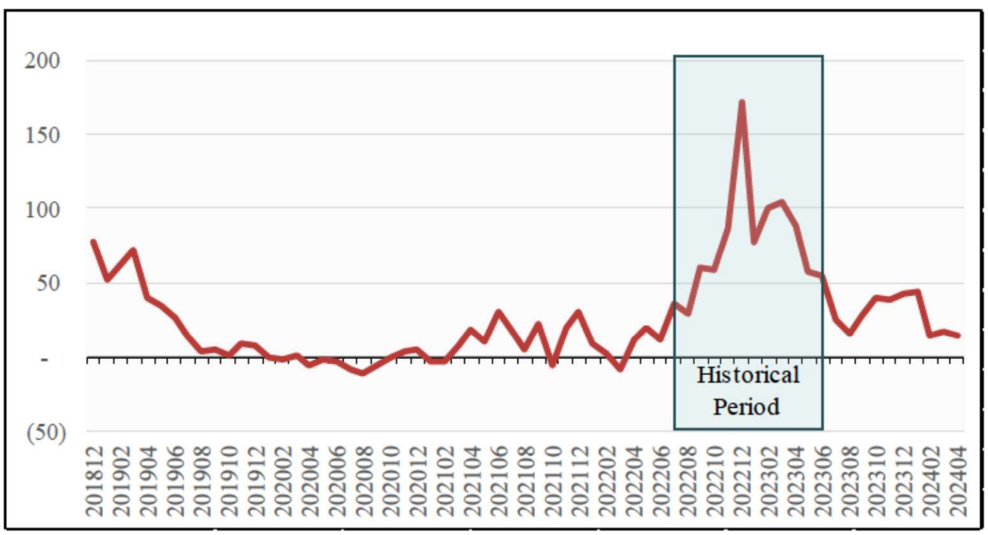
Q. IS THAT APPROACH VALID?

A. No. There are more factors that influence the interest that Avista earns or receives in connection with margin accounts than just the balances. The average balance of the account does not necessarily determine the amount of interest that is paid or received. Avista earns interest on whatever balance it has deposited, though that is offset by interest on margin requirements required of the banks in accordance with applicable commodity markets. Avista's margin requirements were described in response to AWEC Data Request 34. The balances, calculated using the method identified in Avista's response to that request, will change day-to-day depending on the calculations performed by the Intercontinental Exchange. Avista, however, does not make deposits on a day-to-day basis, but rather, its bank covers the difference and charges Avista interest, or pays interest, based on the difference. The margin interest paid or received corresponds to the overall margin position, not necessarily the funds deposited. Therefore, Avista's assertion that, based solely on the margin interest earned, a portion of theses balances do not earn interest is not accurate.

Q. IS THE EXPERIENCE IN THESE ACCOUNTS IN THE HISTORICAL PERIOD REPRESENTATIVE OF EXPECTATIONS IN THE RATE PLAN PERIOD?

A. No. The balances can be positive or negative, and the experience in the Historical Period is not representative of the experience expected in the rate plan period. In the Historical Period, commodity prices were extraordinarily volatile, with gas prices, for instance, reaching nearly $50.00/MMBtu at Sumas in January of 2023. In AWEC Data Request 34, Avista provided the account balances for these two accounts over the period January 2019 through April 2024, and based on that response, it is clear that the experience in the Historical Period is anomalous. This may be observed in **Figure 3**, below.

Figure 3
<u>Wells and Mizuho Margin Account Balances ($000,000)</u>



As can be seen, in the winter of 2022-2023, the margin balances were extraordinary, whereas in the past they hovered close to zero. If, for example, Avista were to use the 12-month average balance over the period ending April 2024, an average balance of

$32,668,002 would result, which is only 43% of the balance in the historical period. Thus, the balances in the historical period are not normal levels that can be used for purposes of forward-looking ratemaking.

Q. DOES AVISTA TRACK THE BALANCES SEPARATELY FOR GAS AND ELECTRIC SERVICES?

A. No. In response to AWEC Data Request 9, Avista confirmed that it does not separately track the portion of the balances attributable to gas versus electric commodity purchases. That is problematic because natural gas was likely a key driver of the large swings shown in the Historical Period in **Figure 3**, above, yet Avista has no way of determining which portion of the account is appropriately allocated to gas, as opposed to electric services.

Q. WHAT DO YOU RECOMMEND?

A. I recommend that these accounts be excluded from the investor supplied working capital calculation.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. In AWEC Data Request 10, AWEC requested Avista provide a working version of its cash working capital model. The Excel file it provided, however, only included hardcoded balances that fed into its modeling. Accordingly, it was not possible for me to perfectly duplicate Avista's calculation of working capital. Notwithstanding, I estimate the impacts to be a rate base reduction of $28,813,514 for electric services and $3,591,838 for gas services using the hardcoded model that Avista provided. This corresponds to $2,485,227 and $ $311,166 revenue requirement reductions for the respective services.

f. Directors' Fees (Adjs. 3.20)

Q. WHAT ADJUSTMENT HAS AVISTA MADE TO BOARD OF DIRECTORS' FEES?

A. In Adjustments 2.12 and 3.20, Avista makes a series of adjustments surrounding directors' fees and expenses. The adjustments are somewhat opaque because in Adjustment 2.12, Avista removes a portion of directors' fees incurred in the Historical Period as a restating adjustment, but subsequently, Avista adds back part of that amount in Adjustment 3.20. In Adjustment 2.12, Avista removes 50% of directors fees' from revenue requirement, which appeared to be based on the Commission's longstanding treatment of those expenses.[20] Notwithstanding, with no explanation, Avista added back the directors' fees amount in Adjustment 3.20, including expenses forecast equal to 90% of its forecast directors' fees, with only 10% assigned to non-utility operations.[21] In response to AWEC Data Request 23, Avista provided the workpapers, including the transactional details supporting the directors' fees that it was proposing to include in revenue requirement.

Q. WHAT AMOUNT OF DIRECTORS' FEES WERE INCURRED IN THE HISTORICAL PERIOD?

A. Based on its workpapers, Avista included $2,524,463 of costs that it referred to as directors' fees in the historical period.[22] This amount, however, included not only

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20 *See* Schultz, Exh KJS-1T at 45:2-6.

21 *See id.* at 84:4-11.

22 *See* Schultz workpaper "2.12, 3.20 Misc Restating and PF BOD Fees/2) 6.2023 WA GRC - Misc Restating and PF – BOD," Tab "MR-BOD-4".

directors' fees, but also directors' stock awards. In total, directors' fees comprised $1,219,763 in expense, whereas stock awards comprised $1,304,700.[23]

Q WHAT IS THE COMMISSION'S POLICY TOWARDS DIRECTORS' FEES?

A. In Avista's 2015 GRC, the Commission reiterated that its "practice is to allow the Company recovery of 50 percent of director fees from ratepayers."[24] Avista appears to have recognized this in its restating adjustment, but then reversed course in the subsequent pro forma adjustment.

Q. DID AVISTA PROVIDE ANY RATIONALE FOR NOT FOLLOWED THE COMMISSION PRACTICE IN THIS PROCEEDING?

A. No. Avista's only rationale for not following this practice is a single sentence that states it has included "the proper level of director fee expense that should be included during the rate period."[25] Notwithstanding, it is not clear why Avista believes its approach to be more "proper" than the Commission's long-standing practice.

Q. WHY IS IT APPROPRIATE TO SPLIT THE COST OF DIRECTORS' FEES BETWEEN SHAREHOLDERS AND RATEPAYERS?

A. While they are a necessary part of the governance structure for Avista, directors have a fiduciary responsibility towards shareholders, not ratepayers. Thus, when the interests of shareholders and ratepayers are aligned it can be said that directors are working for the benefit of ratepayers; otherwise, where there is a conflict, the board of directors acts in the interest of shareholders. Considering these divergent interests, it is reasonable for

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23 *Id.*

24 Docket Nos. UE-150204 and UG-150205, Order 05 at ¶ 220.

25 Schultz, Exh KJS-1T at 84:8-9.

shareholders and ratepayers to share in both directors' fees and expenses at the 50% level traditionally required by the Commission.

Q. IS IT REASONABLE FOR RATEPAYERS TO PAY FOR DIRECTORS' STOCK COMPENSATION IN REVENUE REQUIREMENT?

A. No. Compensation in stock is not a cost to the utility. Stock compensation does not result in any cash outlays by Avista, but rather, results in dilution of Avista's shareholder equity. Dilution of shareholder equity is not the type of cost that is includible in a revenue requirement calculation. Compensation in stock, as opposed to cash, is also provided to incentivize directors to act more for the benefit of shareholders, as opposed to ratepayers. For these reasons, I disagree with inclusion of any stock compensation for directors in revenue requirement, and recommend those amounts be excluded entirely.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. I recommend that the Commission's longstanding practice of splitting directors' fees 50/50 be applied in this case, and that all 100% stock compensation provided to directors be removed from revenue requirement. My recommendation results in a $819,022 reduction to electric service revenue requirement and a $259,201 reduction to gas service revenue requirement.

g. Property Tax (Adjs. 3.11, 5.04)

Q. DID AVISTA IDENTIFY AN UPDATE TO PROPERTY TAX EXPENSE IN DISCOVERY?

A. Yes. In Direct Testimony, Avista stated that it would perform and update to property tax expenses during this proceeding.[26] In response to Public Counsel Data Request 296, Avista provided the results of that update.

Q. WHAT WAS THE IMPACT OF THE UPDATE?

A. Based on Avista's response to Public Counsel Data Request 296, the property tax updated resulted in a RY 1 decrease to expense of approximately $543,000 for electric services and $81,000 for natural gas services, both stated on a Washington jurisdictional basis. For RY 2, the update resulted in a reduction to expense of approximately $40,000 for electric services and $600 for gas services. I recommend Avista's revenue requirement for RY 1 and RY 2 be adjusted accordingly.

h. Non-Recurring Legal Expense (Adj. 2.12)

Q. WHAT NON-RECURRING LEGAL COSTS HAVE YOU IDENTIFIED IN REVENUE REQUIREMENT?

A. In response to AWEC Data Request 16, Confidential Attachment A, Avista provided detail of legal expenses incurred in the test period by legal matter. Based on that response, several charges were for non-recurring matters, which I propose removing from revenue requirement.

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26 *Id.* at 70:6-8.

Q. WHAT ADJUSTMENTS DO YOU RECOMMEND BASED UPON YOUR REVIEW OF THOSE COST ITEMS?

A. I recommend two adjustments. First, I recommend removing costs associated with wildfire litigation. Wildfire litigation costs are non-recurring costs that should not be embedded in revenue requirement on a going forward basis. Second, I recommend removing costs associated patents and patent applications. Avista has a history of leveraging its utility operations to develop start-up venture corporations. For example, Avista developed businesses such as Ecova, which Avista sold for $136 million in 2014. Accordingly, it is most appropriate for Avista shareholders to bear any future costs associated with intellectual property rights. Further, patent costs that were recognized in the Historical Period are not appropriately viewed as an ongoing expense, and thus, appropriately removed from revenue requirement as a non-recurring item.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?

A. This recommendation results in a $420,867 reduction to electric service revenue requirement and a $26,884 reduction to gas service revenue requirement.

III. CUSTOMER TAX CREDIT

Q. WHAT IS THE CUSTOMER TAX CREDIT?

A. In October 2020, Avista filed two Forms 3115 with its 2019 federal tax return. Through these Forms, Avista changed its tax accounting method for deducting certain capitalized overhead expenditures—called Industry Director Directive No. 5 ("IDD #5") expenditures—and the method for deducting meter expenditures. Prior to the change in accounting method, these expenditures were capitalized for tax purposes and depreciated using the Modified Accelerated Cost Recovery System ("MACRS"). After the change, Avista transitioned to expensing and deducting the expenditures in the period when the expenditures are made, accelerating the tax benefits associated with such expenditures. As a result of the change in accounting method, a large sum—approximately $395,241,899 total-system—of previously capitalized IDD #5 and meter expenditures became immediately deductible, resulting in a massive up-front deduction and tax benefit.

Contemporaneous with implementing the change in tax accounting method, Avista filed for an accounting order and deferral request to return these benefits to customers. In Docket Nos. UE-200895/UG-200896, the Commission approved Avista's deferral request and its request to transition to flow-through accounting, rather than normalization accounting, for the tax expense associated with the IDD #5 and meters expenditures. Specifically, Avista requested that the Commission allow it "to change in its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant basis adjustments, including Industry Director Directive No. 5 (IDD #5) and meters, and to defer the benefits associated with these changes for future return to customers."[27] The IRS normalization requirements only apply to property being depreciated under IRC § 168(k). The IDD #5 and meters expenditures are now being expensed and are no longer depreciated through MACRS under IRC § 168(k). Accordingly, the IRS normalization requirements no longer apply to the tax benefit from these expenditures. This means that, for regulatory purposes, it became possible to use

[27] Dockets Nos. UE-200895/UG-200896, Application at 14.

flow-through accounting, where the entire tax deduction for the expenditures is considered as an offset to current taxes, with no associated deferred taxes.

a. Flow-Through Benefits (Adj. 2.06)

Q. HOW HAS AVISTA BEEN RETURNING THESE BENEFITS TO RATEPAYERS?

A. Avista has been deferring and amortizing the flow-through benefits from the accounting change to ratepayers through Schedules 76/176 Customer Tax Credit, and Schedules 78/178 Residual Customer Tax Credit. Notably, while this accounting change occurred several rate case cycles ago, the ongoing benefits have never been reflected in base rates but are rather continually being deferred and returned through these schedules. This is even though Avista, in its original application requesting this accounting treatment, stated that "the impact on federal income tax expense and ADFIT, which is a component of rate base, would be included in a future general rate case."[28] That "future rate case" has never happened.

Q. DO YOU RECOMMEND THAT THE COMMISSION FULLY TRANSITION TO FLOW-THROUGH ACCOUNTING IN THIS DOCKET?

A. Yes. It is inefficient, particularly considering the material calculation issues discussed below, to have this deferral outstanding, as opposed to fully transitioning to the flow-through method in the manner identified in the deferral application.

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28 *Id.* at ¶ 40.

Q. WHAT IS THE AMOUNT OF FLOW-THROUGH BENEFITS FORECAST IN 2025?

A. In response to AWEC Data Request 7, Avista provided its forecast of the flow-through benefits expected in 2025. Specifically, Avista calculated flow-through benefits of $4,385,523 for electric services and $923,080 for gas services in 2025.

Q. ARE THESE TAX FLOW-THROUGH BENEFITS UNCERTAIN?

A. These tax benefits are not any more, or less, uncertain than any other aspect of Avista's tax provision, so it is appropriate to consider them as a reduction to revenue requirement going forward. Accordingly, I have considered these flow-through benefits in my revenue requirement recommendation. Based on my review of Avista's response to AWEC Data Request 5, I was unable to identify any residual ADFIT that Avista had considered in revenue requirement with respect to these items. Accordingly, no adjustment to ADFIT was made when implementing this recommendation.

Q. WHAT IS YOUR RECOMMENDATION FOR FLOW-THROUGH BENEFITS?

A. In accordance with Avista's response to AWEC Data Request 5, I recommend that the Commission adopt a reduction of $4,385,523 for electric services and $923,080 for gas services from Avista's revenue requirement, which is reflected in my revenue requirement recommendation.

b. Residual Deferral Balance

Q. DOES TRANSITIONING TO FLOW-THROUGH ACCOUNTING RESULT IN THE ELIMINATION OF SCHEDULES 78 AND 178?

A. No. Even with the transition to flow-through accounting beginning on December 21, 2024, there will still be residual balances in the customer tax credit accounts as of that date that must be refunded to ratepayers. Accordingly, it will still be necessary to keep Schedules 78 for electric services and 178 for gas services to refund those balances to ratepayers.

Q. HAS AVISTA PROVIDED ITS CALCULATION OF THE BALANCE OF BENEFITS DUE TO RATEPAYERS?

A. Yes. In response to AWEC Data Request 6, Avista provided its calculation of the current balances, and in response to AWEC Data Request 7, Avista provided a forecast of the balances as of the rate effective date. As can be seen, by Avista's calculations, the balances due to customers are expected to decline to $1,453,162 for electric services and $2,358,371. These low balances, however, include carrying charges that were never approved by the Commission.

Q. HAS THE COMMISSION APPROVED THE CALCULATION OF THES BALANCES?

A. No. Each rate case since the initiation of the customer tax credit deferral has resulted in settlement, with specified levels of amortization from this deferral and no agreement on the balance remaining to be deferred in the account. In addition, the account is growing year over year due to ongoing benefits that Avista is recognizing, but that are not reflected in base rates.

Q. DO YOU AGREE WITH AVISTA'S CALCULATIONS?

A. No. Specifically, Avista includes a carrying charge for its calculation of the reduction to rate base resulting from the amortization expense. The Commission, however, never approved this aspect of the deferral, and therefore, it is not appropriate to apply a carrying charge against the balance in this context.

Q. WHAT INTEREST RATE HAS AVISTA USED?

A. Avista used its full cost of capital as the interest rate for the carrying charge. This, again, was not specified in its application, nor the order approving the deferral.

Q. WHAT DO YOU RECOMMEND?

A. Since the provision for a carrying charge was not requested nor approved in the deferral application, I recommend that all carrying charges included in the calculations be removed from the balances. In **Mullins, Exh. BGM-6**, I have performed updated deferral calculations, excluding the carrying charge on the deferral. Based on that calculation, approximately $5,733,917 and $5,436,066 of funds are due to ratepayers for electric and gas services, respectively, as of January 1, 2025. These amounts assume that the full transition to flow-through accounting occurs beginning in 2025, and I recommend that they be returned to ratepayers during the rate plan period.

Q. HOW DO YOU RECOMMEND REFUNDING THE BALANCES?

A. For electric services, I recommend that the amortization be used as a one-time offset RY2 revenue requirement. This delay in the amortization is reasonable given the proposed rate reduction in RY 1 and the large rate increase associated with the Colstrip retirement in RY 2. For gas services, I recommend that the natural gas balance be amortized ratably over both years of the rate plan period.

IV. NET POWER SUPPLY EXPENSE

Q. WHAT IS THE PURPOSE OF THIS SECTION OF TESTIMONY?

A. Avista is proposing a NPSE for RY 1 of $174,124,000 on a total system basis.[29] This forecast was based on Aurora modeling performed by Avista witness Kalich, with a -$65,756,061 adder described as a "forecast-to-actuals adjustment" in the Direct Testimony of Avista Witness Kinney.

Q. DID AVISTA PREPARE AN NPSE FORECAST FOR RATE YEAR 2?

A. No. For RY 2, Avista only removed the approximate net benefit of Colstrip Units 3 and 4 using a mark-to-market calculation. It did not consider the benefits or changes associated with other power supply elements that may change in RY 2. For example, with the removal of Colstrip, it is expected that Avista will dispatch its resources differently. Accordingly, a mark-to-market calculation for Colstrip is not necessarily an accurate representation of the difference between NPSE in RY 1 and RY 2. Other changes, such as changing market prices and contract terms are also necessary to be considered between the two time periods to establish an accurate ERM baseline for RY2, yet Avista did not attempt to consider those factors in its filing.

Q. DO YOU RECOMMEND AN UPDATE BE PERFORMED FOR RY 2?

A. Yes. I discuss the parameters of that update in relation to Colstrip Units 3 and 4 in the section of testimony subsequent to this one.

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[29] Kalich, Exh. CGK-3 line 76.

Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO NPSE FOR RY 1 IN THIS SECTION OF TESTIMONY?

A. I recommend three adjustments to NPSE in RY 1. First, I recommend eliminating the adder described as the forecast-to-actuals adjustment. Second, I recommend an adjustment for sales at COB, historically referred to in the NPSE table as CAISO Market Sales. Third, I recommend an adjustment to EIM benefits to account for greenhouse gas revenues and neutrality charges associated with congestion and marginal losses.

a. Forecast to Actuals Adjustment (Adj. 3.00P)

Q. WHAT IS THE FORECAST TO ACTUALS ADJUSTMENT INCLUDED IN POWER SUPPLY EXPENSE?

A. This adjustment, which added $65.8 million to power supply expense outside of the Aurora model, was discussed at a high level in the Direct Testimony of Avista witness Kinney.[30] As noted there, the purpose of the adjustment is to include a monetary adjustment to power supply expense to address alleged forecasting bias using the Aurora model. Commission Staff has filed a motion to for partial summary determination, which awaits Commission decision, requesting that the Commission exclude the forecast-to-actuals adjustment from Avista's case on the basis that it is not a known and measurable adjustment.

Q. WHAT CALCULATION DID AVISTA PERFORM?

A. Avista first calculated the mark-to-market value of its generation portfolio based on forward index prices as of September prior to the operational year. It then recalculated

[30] *See* Kinney, Exh. SJK-1T at 66:9-71:4

the mark-to-market value using actual market index prices. Avista performed this analysis over a five-year period from 2018 to 2022.

Q. DOES THE MARK-TO-MARKET VALUE REPRESENT A COST TO AVISTA?

A. No. A mark-to-market analysis of generation can be useful in understanding the benefits of generation resources, but the change in the market value of a generation resources does not necessarily equate to a cost that can be added to a NPSE forecast. The market value of a generator may rise and fall, but that does not necessarily equate to an increase or reduction to power supply expense. Power supply expenses are influenced by many factors, including things other than the market value of generation. In other words, the system dispatch of Avista's entire portfolio is dynamic and cannot be evaluated solely based on the market value of generators included in the portfolio. If power market index prices decline, for example, the market value of a generator may decline. Notwithstanding, the generator will dispatch less, and Avista will purchase more power on the market at lower prices, resulting in an offsetting benefit. Simply looking at one side of the equation, while ignoring the other, results in an incomplete picture of the impact of the change. Complicating Avista's calculation are its extensive pipeline rights into Canada, which provide their own unique value to NPSE based on the basis differential between AECO and Stanfield market prices. The value of this differential is a key driver of NPSE for Avista and not possible to evaluate solely in the context of mark-to-market calculations of its generation portfolio.

Q. IS THE TIME PERIOD AVISTA ANALYZED SIGNIFICANT ENOUGH TO DEMONSTRATE A BIAS IN ITS NPSE FORECAST?

A. No. There have been major changes and high volatility in energy markets in the Northwest in the past five years. Accordingly, Avista's calculation, which relies on the period 2018 through 2022, is not necessarily significant in demonstrating a bias in its power cost forecasting. What it does demonstrate is that there has been major volatility in market prices over that period.

Q. IS A MODEL VALIDATION ADJUSTMENT APPROPRIATE IN THIS CONTEXT?

A. No. While there are flaws in Avista's approach, its intention was to develop a back-casting analysis, sometimes referred to as model validation. A model validation analysis is one in which the model is configured to evaluate forecasting error based on the use of actual, historical data, as opposed to forecast data. This type of exercise is a viable and many times important technique to determine whether a model is producing an accurate forecast. While model validation is a good way to evaluate potential modifications to a forecasting model, it is not, however, good modeling practice to use the results of such an analysis as a plug to correct modeling results that were demonstrated to be invalid. If a bias is demonstrated through a model validation exercise, it is most appropriate to identify the factors that are driving the bias and make modeling changes to accommodate those factors. Demonstrating that the forecast is wrong, and then applying an after-the-fact plug to calibrate the end results, rather than adjusting the model itself, can lead to an even more inaccurate forecast.

Q. IS THE FORECAST-TO-ACTUAL ADJUSTMENT CONSISTENT WITH THE ENERGY RECOVERY MECHANISM (ERM)?

A. No. By using the historical forecast error, albeit based on a mark-to-market calculation, Avista's adjustment would have the practical effect of clawing back some of the increased power costs that it experienced in the past five years caused by the volatile market conditions it observes. The costs of these volatile conditions, however, have already been considered in the ERM.

Q HOW DO YOU RECOMMEND THE COMMISSION HANDLE THE FORECAST TO ACTUALS ADJUSTMENT?

A. I recommend the Commission exclude the forecast to actuals adjustment from NPSE included in revenue requirement. This reduces RY 1 electric service revenue requirement by $45,245,392 million, after the application of Washington's production/transmission factor to the adjustment amount.

b. California-Oregon Border Sales (Adj. 3.00P)

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR CALIFORNIA-OREGON BORDER ("COB") SALES?

A. Historically, Avista has included a line item in its NPSE forecast to account for sales at the COB market hub. Sales at COB historically have occurred at a premium to sales at the Mid-C market. To account for these sales, Avista has in past proceedings included a line item called CAISO Market Sales in its forecast.[31] In the forecast in this proceeding, however, Avista did not include that line item. I recommend it be reinstated.

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[31] *See* Docket No. UE-220053, Kalich, Exh. CGK-3 at 2:63.

Q. WHAT TRANSMISSION RIGHTS DOES AVISTA HOLD TO THE COB MARKET?

A. Avista described the transmission rights it holds to the COB market in response to AWEC Data Request 50. As described in that response, Avista has a contract with PGE for "100mw of transmission capacity between John Day and California Oregon Border ("COB")." Avista noted that "[t]he transmission contract connects two separate markets in the Pacific NW and California which allows Avista to more efficiently and economically dispatch our generation and serve customer load." It also stated that "[a]s this transmission contract connects two separate markets with different load profiles and energy supply resources it allows Avista to export excess supply economically and import to serve load in times of higher demand."

Q. ARE THESE BENEFITS REFLECTED IN ITS NPSE FORECAST?

A. No. With the removal of the CAISO Market Sale line item, those benefits are no longer being reflected in its forecast.

Q. WHAT IS THE AMOUNT OF THE BENEFIT IN THE FORECAST PERIOD?

A. AWEC attempted to perform the calculation of the benefit using forecast market prices. Notwithstanding, in response to AWEC Data Request 52, Avista refused to provide forward pricing for the COB market, stating that "Avista doesn't use the COB market for the rate case modeling as it is outside of the power supply methodology as agreed upon by parties and therefore does not have this prepared or readily available."

Q. HOW MUCH BENEFIT HAS AVISTA HISTORICALLY RECOGNIZED?

A. In response to AWEC Data Request 52, Avista provided the historical Intercontinental Exchange prices for the Mid-Columbia and COB markets. Based on those prices, I performed an analysis that estimates the historical margins Avista has recognized from its transmission ownership to the COB market. That analysis is quite simple, in that it simply calculates the margin on purchasing power at the Mid-Columbia market price and selling it at the COB market price. In my analysis, I limited the sales to 90 MW, as opposed to the 100 MW of transmission capacity that Avista owns. This assumption was necessary to account for the approximate effect of transmission derates on the California-Oregon interchange. The result of that analysis is detailed in **Table 7**, below.

Table 7
Avista Historical COB Margins – Total System (Whole Dollars)

Year	COB Margin
2020	187,304
2021	169,306
2022	226,548
2023	242,643
Average	206,450

Q. WHAT DO YOU RECOMMEND?

A. Based on the average value in **Table 7**, I recommend an adjustment to forward-looking NPSE to account for COB margins. After the application of Washington's production/transmission factor, this adjustment results in a $142,054 reduction to revenue requirement for electric services.

c. EIM Neutrality Charges (Adj. 3.00P)

Q. HOW DOES AVISTA FORECAST EIM BENEFITS IN NPSE?

A. The method for forecasting EIM benefits in NPSE was described generally by Avista witness Kalich. Avista, through its consultant, developed sub-hourly EIM market prices based on an historical analysis that evaluated the correlation between the Mid-Columbia Powerdex Index price and the relevant EIM price. Avista then reran its Aurora dispatch modeling on a sub-hourly basis using the EIM prices as opposed to the hourly forward prices used in its analysis. Avista then used this analysis as the basis for its NPSE forecast.

Q. WHAT AMOUNT OF EIM BENEFITS DID AVISTA FORECAST?

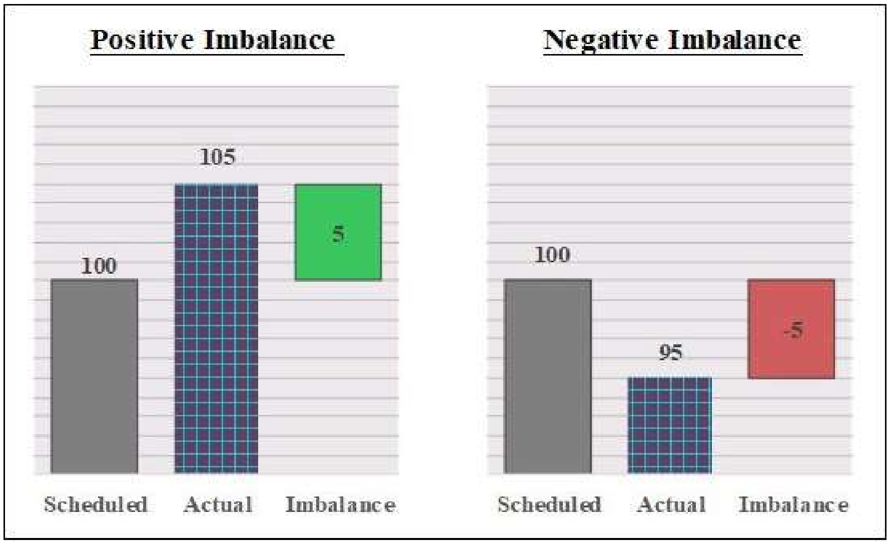
A. Avista forecast $5.5 million system benefit to customers in 2025.[32] These benefits, however, are driven entirely by sub-hourly dispatch. The sub-hourly dispatch captures the net revenues from instructed imbalances, which are described further below. It does not, however, capture the benefits of other market settlements, such as neutrality charges, flex awards and greenhouse gas revenues. These items represent material benefits to the EIM footprint and are separate from the sub-hourly dispatch benefits Avista calculated.

Q. WHAT IS AN IMBALANCE?

A. An imbalance represents the difference between the volume of load or generation scheduled (*i.e.*, planned or forecast) and the actual volume. The concept of an imbalance is described graphically in **Figure 4**, below:

[32] Kalich, Exh. CGK-1T at 14:4.

Figure 4
Illustration of Positive and Negative Imbalances from Energy Source (MWh)



Prior to an operating period, typically an hour, a wholesale transmission customer must submit a forecast to its transmission service provider detailing expected sources and uses of electricity in the operating period, including expected generation from network resources and expected loads based on its load forecast. These forecasts are generally referred to as a "schedule." To the extent that the actual sources or uses of electricity vary from the scheduled amount, the transmission customer will have an energy imbalance. A balancing area authority is responsible for maintaining the voltage and frequency of its transmission system. To meet these obligations, a balancing area authority must dispatch resources in real-time to serve imbalances in its area, including the imbalances of transmission customers. Correspondingly, transmission customers must reimburse the transmission service provider for the imbalance energy provided by, or be reimbursed for imbalance energy supplied back to, the balancing area. In other words, an energy imbalance can be both positive or negative, resulting in cases where sometimes the transmission provider must pay for shortfall imbalance energy and other times when it is paid for excess imbalance energy. The charges for these energy imbalance services are detailed in the transmission service provider's open access transmission tariff. Historically, energy imbalance services were settled using a percentage of monthly market index prices, but that changed with the initiation of the EIM.

Q. HOW DOES THE EIM CREATE A MARKET FOR IMBALANCE SERVICES?

A. The EIM provides an organized market for imbalance services that is settled in 15-minute and, subsequently, 5-minute intervals over the course of an hour. Before the EIM, each transmission system operator in the West managed imbalances independently. The EIM started trading nearly ten years ago in November 2014 between PacifiCorp and the California Independent System Operator ("CAISO") as a then novel framework to jointly dispatch in real-real time to serve imbalances in the most economical way possible across the two systems. It has since expanded rapidly through the fragmented balancing authority areas in the Western Interconnection, with most now participating in the market framework. In the EIM, real-time dispatch is managed and optimized collectively over the entire EIM footprint, as opposed to each balancing area going it alone. The market uses a computer model operated by the CAISO that optimizes dispatch in real-time and then settles imbalance energy based sub-hourly locational marginal prices ("LMP") calculated in the same model. As a part of the market, dispatchable generators are re-dispatched relative to their scheduled output and used to serve imbalance energy of non-dispatchable resources and loads across the entire EIM footprint, with the objective of doing so in the most economical way possible. Dispatchable generators are then compensated for responding to the market instructions.

Q. WHAT ARE INSTRUCTED AND UNINSTRUCTED IMBALANCES?

A. In the hour-ahead, all market participants must submit schedules that balance their individualized system, meaning that all scheduled generation and scheduled load must be equal. The CAISO market model, however, reoptimizes the sub-hourly dispatch for the entire EIM footprint, subject to the actual operating costs and capabilities of dispatchable resources, as well as transfer limitations and other security constraints between participants. Over the course of an hour, the market model will provide automated generation instructions for dispatchable resources to dispatch up or dispatch down, relative to the scheduled output to serve the footprint more efficiently. These instructions are referred to as an "Instructed Imbalance." In contrast, an "Uninstructed Imbalance" occurs when the actual energy from a non-dispatchable resource or a load is different from the forecasted schedule.

Q. HOW DO UTILITIES BENEFIT FROM RESPONDING TO MARKET INSTRUCTIONS?

A. The EIM settlement revenues from an instructed imbalance represent the gross proceeds from the EIM, and do not include the cost of fuel incurred to generate those proceeds. The net benefit of an instructed imbalance, therefore, is the margin between the gross settlement proceeds and the incremental fuel costs from responding to the EIM dispatch instructions. Importantly, dispatch instructions may be up or down. A high-cost dispatchable resource could also be instructed to back down production, in which case, the utility saves on fuel costs, but is also required to reimburse the cost of EIM energy that it consumed instead of generating. In this instance the net benefit is the difference between the fuel cost savings and the settlement payment made to the EIM.

Q. HOW DOES AVISTA FORECAST THE BENEFIT OF INSTRUCTED IMBALANCES?

A. In its sub-hourly dispatch calculation, Avista performs a counterfactual dispatch analysis where it estimates the benefits of dispatching again based on a forecast of EIM market prices. Effectively, the sub-hourly dispatch calculation Avista performs is designed to capture the benefit of instructed imbalances by calculating the incremental margins on thermal generation for responding to 5-minute dispatch instructions.

Q. DOES AVISTA'S FORECAST CONSIDER EIM SETTLEMENT REVENUES OTHER THAN INSTRUCTED IMBALANCES?

A. No. In response to AWEC Data Request 53, Avista provided the settlement data associated from the EIM since it began participating in the market in March 2022. While the majority of the interchange in the market is captured through instructed and uninstructed imbalances. As noted above, however, the benefits of several charges have been omitted from its calculation.

Q. WHAT CHARGES HAVE BEEN EXCLUDED?

A. Avista's calculations exclude the financial benefit of other valuable settlement transactions called "neutrality charges" or sometimes referred to as "offsets." These specific neutrality charge settlements that were excluded from Avista's EIM benefit calculation are congestion offsets and marginal losses offsets. Avista excluded greenhouse gas revenues charges from its calculation as well.

Q. HAVE YOU ATTACHED DOCUMENTATION FROM THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR DESCRIBING NEUTRALITY CHARGES?

A. Yes. The above charges are detailed in the Business Practice Manual for Settlements & Billing of the CAISO. **Mullins, Exh. BGM-7** contains the relevant configuration guides describing both of these settlements. Generally, these neutrality charges arise because the sum of the energy imbalance settlements paid and those received do not sum to zero, most commonly resulting in excess revenues for the market. These three settlement charges correspond to the three components of the locational marginal price – congestion, losses, and energy – and are designed to reallocate the excess revenues, or costs, earned in by the market using a cost-causative allocation method.

Q. WHY DO THE INSTRUCTED AND UNINSTRUCTED ENERGY IMBALANCE SETTLEMENTS NOT SUM TO ZERO?

A. As stated, LMPs have three different components: congestion, losses, and energy. Accordingly, LMPs are different at each point or node in the system. If they were not, one can devise a simplistic example, where the EIM is settled on a single price for all instructed and uninstructed imbalances. In such a case, the charges assessed for purchasing imbalance energy and the revenues paid for supplying it would be the same. It would result in zero net revenues for the overall market. That simplistic example, however, is not how the market operates. The market is specifically designed to assess higher prices where demand for energy imbalance services is higher, and lower where it is not. This is a fundamental part of the economic optimization of the EIM footprint. Because of the effects of congestion and losses, there are unique prices throughout the system and the charges assessed for purchasing imbalance energy will tend to be at higher prices than for supplying it, resulting in net revenues to the overall market footprint. This intuitively makes sense, because the points where energy imbalances are being purchased generally have higher demand, and correspondingly, higher prices. The CAISO, however, does not keep the net revenues resulting from the differential pricing for itself. It allocates the revenues to participants using the neutrality settlement charges identified above, one for each component of the LMP.

Q. IS AN ADJUSTMENT TO AVISTA'S EIM FORECAST FOR NEUTRALITY CHARGES NECESSARY?

A. Yes. The neutrality charges are not considered in the sub-hourly dispatch modeling Avista performed. Therefore, it is necessary to include them separately, as an addition to the EIM benefits calculation. Apart from the instructed imbalances, the neutrality charges represent a separate benefit to the overall footprint and are not otherwise captured in benefit of responding to market instructions. Absent considering Avista's share, the forecast EIM benefits included in NPSE will be understated.

Q. HOW DOES AVISTA EARN GREENHOUSE GAS REVENUES IN THE EIM?

A. In connection with California's cap and trade program, Avista is provided additional settlement revenue for dispatching carbon free resources in the EIM. The energy from this dispatch can be used by California utilities to comply with the cap and trade program, and accordingly, market participants that provide carbon free energy are compensated through greenhouse gas settlements. This is accomplished through an adder in the dispatch price assessed to eligible resources, which is not reflected in the EIM LMPs used for purposes of instructed imbalances and used in Avista's sub-hourly dispatch modeling. Accordingly, the EIM provides additional revenues through separate greenhouse gas settlement charges when an eligible carbon free resource is dispatches in the market. Other utilities, such as Puget Sound Energy, PacifiCorp, and Portland General Electric include discrete adjustments for greenhouse gas revenues in their EIM forecasting methods.[33] Since greenhouse gas revenues are not otherwise considered in Avista's forecast, it is appropriate to add them to Avista's modeling results as well.

Q. WHAT AMOUNT OF REVENUES HAS AVISTA HISTORICALLY RECOGNIZED FROM THESE SETTLEMENTS?

A. Even though Avista has only been participating in the market for a short period of time, the amount of revenues from these charges has been material. The average annual amount over the period May 2022 through April 2024 is detailed in **Table 8**, below.

Table 8
Average Annual Settlement Charges Excluded From EIM Benefits Calculation
Total-System (Whole-Dollars)

Congestion Offset	(1,657,679)
Marginal Losses Offset	734,313
GHG Revenue	(2,102,001)
Total	(3,025,367)

Q. WHAT DO YOU RECOMMEND?

A. I recommend an adjustment to incorporate the above settlements into Avista's EIM benefits calculation, based on the average annual historical values. This results in a reduction to Avista's revenue requirement of $2,081,693 after application of Washington's production/transmission allocation factor.

33 Docket Nos. UE-240004/UG-240005, Exh. BDM-1T at 34:15-35:2; Docket No. UE-230172, Exh. RJM-1CT at 39:1-3; OPUC Docket No. UE 391, Exh. PGE/100, Vhora-Outama-Batzler/24:6-25:1.

V. COLSTRIP UNITS 3 & 4

a. Net Power Supply Expense RY 2 Update

Q. HOW DO YOU RECOMMEND ACCOUNTING FOR THE REMOVAL OF COLSTRIP UNITS 3 AND 4 FROM RATES?

A. The removal of Colstrip Units 3 and 4 are the principal driver of the revenue requirement increase in RY 2, and the principal item of revenue requirement being sought in this case. As noted above, Avista performs a mark-to-market calculation to determine the power supply impact of removing Colstrip Units 3 and 4 from rates in RY 2. Based on this calculation it proposes a revenue requirement increase of $59,512,000 in RY 2,[34] representing nearly the entirety of the RY 2 revenue requirement increase in my modeling. Notwithstanding the significance of this item, only a high-level analysis was done to quantify the impact.

Q. IS IT REASONABLE TO CALCULATE THE IMPACT OF REMOVING COLSTRIP FROM NPSE BASED ON THE INFORMATION AVAILABLE AT THIS TIME?

A. No. It is not reasonable to determine the impact of removing Colstrip Units 3 and 4 based solely on the mark-to-market calculations that Avista performed for RY 2. There are many factors that will influence the cost of removing Colstrip Units 3 and 4 from revenue requirement other than just the mark-to-market value Avista identified. There will also be changes to other NPSE items, such as market prices and dispatch of other resources, that will potentially offset the impacts of removing Colstrip Units 3 and 4 in RY 2. Accordingly, my recommendations if for Avista to perform a full update to NPSE

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34 *See* e.g. Schultz, Exh. KJS-2 at 13:51.

for RY 2, which could be accomplished by either Avista filing a Power Cost Only Rate Case ("PCORC"), or through a more limited update.

Q. IF THE COMMISSION WERE TO ORDER AVISTA TO PERFORM A LIMITED UPDATE, WHEN DO YOU PROPOSE THAT UPDATE BE PERFORMED?

A. I recommend that the update be submitted in August 2025, with an update based on forward market prices effective November 1, 2025. In other words, Avista will make a filing in August, which parties will have an opportunity to review, followed by a price curve-only update in November, which will be used to set NPSE for RY2 of the rate plan period.

Q. WHAT ITEMS DO YOU PROPOSE BE UPDATED IN THE LIMITED FILING?

A. It is important to be very specific about what updates are permissible in the update filing to avoid potential controversies in the update process. In particular, I recommend that no modeling updates be permitted in the filing. This will prevent most forms of controversy in the update process. Otherwise, I recommend the update be limited solely to prices, contracts and resources. Apart from updated forward price curves, I recommend that Avista perform an update for new contracts and new resources that will be in service in the RY 2. Given the process identified above, parties will subsequently have an opportunity to review those contracts and resources during the review period to evaluate their prudence.

b. Colstrip Wheeling Costs (Adj. 5.00P)

Q. PLEASE DESCRIBE THE WHEELING COSTS THAT BPA INCURS WITH RESPECT TO POWER DELIVERED FROM COLSTRIP UNITS 3 AND 4.

A. Delivery of power from Colstrip Units 3 and 4 requires utilization of several segments of transmission capability. First the owners of the Colstrip facility also jointly own a transmission line that delivers power from the Colstrip power plant to a power line owned by the Bonneville Power Administration ("BPA"), known as the Montana Intertie. Second, the power must be wheeled across the Montana Intertie to the Garrisson substation, where it interconnects with BPA's main network transmission system. Finally point to point transmission on BPA's main network must be purchased to deliver power from the Garrison Substation to Avista.

Q. SHOULD THE WHEELING COSTS ASSOCIATED WITH COLSTRIP UNITS 3 AND 4 BE REMOVED FROM THE RY 2 UPDATE?

A. Yes. I recommend all wheeling costs associated with Colstrip be removed from rates in the update filing. Note, I have reflected the removal of these costs in **Table 1**, and request that the Commission affirmatively require that those contracts be removed in its order in this phase of the proceeding. Those contracts will no longer be used to benefit ratepayers following the removal of Colstrip Units 3 and 4 from rates, therefore, it is not appropriate to consider them in NPSE going forward.

c. Colstrip Transmission Assets (Adj. 5.14)

Q. PLEASE DESCRIBE THE COLSTRIP TRANSMISSION ASSETS.

A. Avista is a co-owner of certain transmission assets that interconnect the Colstrip generation facility to BPA's Townsend to Garrison system. In response to AWEC Data

Request 57, Avista detailed the revenue requirements associated with these assets. In total Avista has approximately $10,081,788 in plant balances associated with the assets and approximately $1,955,117 in annual expenses associated with the assets.

Q. IS AVISTA CONTINUING TO INVEST IN THE COLSTRIP TRANSMISSION ASSETS DESPITE THE REMOVAL OF COLSTRIP FROM RATES?

A. Yes. In response to AWEC Data Request 57, the plant balances were forecast to increase over the rate plan period, meaning that continued investment was being forecast in the transmission lines.

Q. WILL AVISTA BE USING THESE TRANSMISSION ASSETS FOLLOWING THE REMOVAL OF COLSTRIP FROM RATES?

A. No. In response to AWEC Data Request 55, Avista noted that it is transferring all of its ownership interest in Colstrip Units 3 and 4 to Northwestern. Accordingly, Avista has provided no evidence that it will continue to utilize the transmission assets at Colstrip for Washington customers.

Q. WILL THOSE TRANSMISSION ASSETS BE USED AND USEFUL FOLLOWING THE REMOVAL OF COLSTRIP FROM RATES?

A. No. Accordingly, I recommend that the plant balances be transferred to plant held for future use and excluded from revenue requirement. I also recommend that the associated expenses, including depreciation expenses, be removed from revenue requirement. This adjustment has been reflected in **Table 1** of my summary, and results in a $1,915,196 reduction to RY 2 revenue requirement.

VI. ENERGY RECOVERY MECHANISM

Q. WHAT CHANGES HAS AVISTA PROPOSED WITH RESPECT TO THE ENERGY RECOVERY MECHANISM ("ERM")?

A. Witness Kinney discusses Avista's proposal with respect to the ERM. Specifically, Avista proposes to move to a "single 95% customer / 5% Company (95/5) sharing level applied to the entire difference between actual and authorized power supply costs presently included in the ERM and subject to deadbands."[35] As justification for this change, Avista cites forecast error, regional resource adequacy concerns, lack of market liquidity, uncertainty related to carbon emission policy, and changing market dynamics.[36] As I discuss below, however, the ERM is functioning as the Commission intended, and the Commission has repeatedly rejected arguments from Avista and other utilities to eliminate deadbands from cost sharing mechanisms. Therefore, I recommend the Commission reject Avista's proposal.

Q. WHEN WAS THE ERM ESTABLISHED?

A. The ERM was established through settlement and approved by the Commission in Docket No. UE-011595 in June 2002.[37] "The intent of the ERM is to share risk between the Company and customers and provide a financial incentive for Avista to reduce or to better manage power supply costs."[38] When the ERM was first established, through settlement, it contained a symmetrical deadband of $9 million and a 90/10 sharing

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35 Kinney, Exh. SJK-1T at 50:3-6.
36 *Id.* at 20:11-34.
37 *See* Docket No. UE-011595, Fifth Supplemental Order (June 18, 2002).
38 Kinney, Exh. SJK-1T at 52:22-23.

band.[39] That band, however, was reduced to $4 million in 2006 in Docket No. UE-060181.[40] The 2006 proceeding was an outgrowth of Docket No. UE-050482, in which the Commission required Avista to make a filing to initiate further review of the ERM.[41] In Docket No. UE-060181, Avista proposed to eliminate the $9 million deadband,[42] stating that "[r]epeatedly absorbing the $9 million deadband every year [was] undermining the Company's ability to regain its financial health."[43] Staff and intervenors opposed the Company's proposal to eliminate the deadband.[44] Ultimately, parties agreed that the $9 million deadband would be reduced to $4 million and the addition of a 50/50 sharing band for base power supply costs between $4 and $10 million. Thereafter, a 90/10 sharing band would apply to all differences between actual and base power costs in excess of $10 million. According to the stipulating parties, these modifications to the ERM struck "a reasonable balance between the interests of the Company and its customers.[45]

Q. IS THE ERM FUNCTIONING AS INTENDED?

A. Yes. Avista claims that power markets are outside of its control, that market price and liquidity concerns justify modifying the ERM, and that new policies such as the Climate Commitment Act ("CCA") also justify modifying the ERM. Most importantly, none of

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39 Docket No. UE-011595, Fifth Supplemental Order ¶ 36.

40 Docket No. UE-060181, Order No. 03 (June 16, 2006).

41 Docket No. UE-060181, Petition of Avista Corporation, at 1:2 (Jan 30, 2006).

42 *Id.* at 4:12.

43 *Id.* at 3:8.

44 Docket No. UE-060181, Gorman, Exh. No. MPG-1T at 1:22-23; Johnson Exh. No. SGJ-1T at 8:13; and Buckley, Exh. APB-1T at 5:17.

45 Docket No. UE-060181, Exhibit No. JT-1 at 4:3-6; 12:12-15.

the issues Avista raises have any relevance to the ERM. Power costs have always been volatile – that is why the ERM exists. Even if one were to assume for the sake of argument that power costs are more volatile today than they were in the past (which I do not concede), Avista's risk is no greater because the deadbands and sharing bands have remained the same since 2006 – nearly twenty years – as noted above. The ERM does not create power cost risk for Avista, it insulates it from this risk by allowing for a true-up of amounts that exceed the deadbands.

Q. HAS THE COMMISSION RECENTLY REJECTED SIMILAR ARGUMENTS?

A. Yes. In PacifiCorp's 2023 general rate case, the Commission addressed PacifiCorp's proposal to eliminate its power cost adjustment mechanism.[46] Similar to Avista, PacifiCorp argued that the variability of NPSE was outside PacifiCorp's control. In response, the Commission rightly determined that power costs have always been volatile, which was "one of the primary reasons why the Commission authorized PacifiCorp's PCAM," and "if variability is as pronounced as PacifiCorp argues then the need for such protection [through the deadbands and sharing bands] is even greater for customers."[47]

Also like PacifiCorp, Avista argues that customers have been harmed by the current ERM structure relative to Avista's proposed 95/5 sharing structure. The Commission rejected this argument as well, noting that the deadbands have insulated both customers and PacifiCorp from unreasonable risk and appropriately assign power cost risk between these two grounds. "Deadbands and sharing bands are cost sharing

46 Docket Nos. UE-230172 & UE-210852, Order Nos. 08 & 06 ¶¶ 330-404 (Mar. 19, 2024).

47 *Id.* at ¶ 394.

tools that prevent the utility customer from absorbing the risk from fuel adjustment mechanisms, like the PCAM, that benefit utilities."[48] The Commission went on, stating that "[w]ithout the guardrails of deadbands and sharing bands, the utility no longer has an economic stake in a major resource decision."[49]

Q. DO THE POLICY CHANGES CITED BY AVISTA JUSTIFY ELIMINATING THE ERM?

A. No. The concerns related to policy changes are speculative at best. As Avista admits, "CCA compliance costs *could* be very large. Depending on forthcoming Commission guidance, Avista *may* be required to include carbon costs in its plant dispatching decisions."[50] Beyond the CCA, Avista merely references the Energy Independence Act and CETA, stating that "[m]any unknowns exist on the path to decarbonization that likely are not reflected in our normalized NPE modeling and forecast."[51] Deviating from Commission policy and precedent to the detriment of ratepayers based on speculation is unreasonable.

Q. DO ORGANIZED MARKETS REDUCE AVISTA'S ABILITY TO AFFECT COSTS?

A. No. Avista argues that organized markets reduce the Company's ability to "affect costs because they reflect resource dispatch decisions made by the market operators, not the Company."[52] Again, these are arguments the Commission expressly rejected in PacifiCorp's most recent rate case, finding them to be "unsettling."[53] According to the

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48 *Id.* at ¶ 389.
49 *Id.* at ¶ 390.
50 Kinney, Exh. SJK-1T at 56:14-16 (emphasis added).
51 *Id.* at 64:12-14.
52 *Id.* at 65:15-20.
53 Docket Nos. UE-230172 & UE-210852, Order Nos. 08 & 06 ¶ 402.

Commission, a utility's "duty and ability to manage its power costs are not curtailed by entrance into [an organized market]."[54]

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission make no changes to Avista's ERM, as it is functioning as intended.

VII. INSURANCE EXPENSE BALANCING ACCOUNT

Q. PLEASE DESCRIBE AVISTA'S PROPOSED INSURANCE BALANCING ACCOUNT.

A. In this proceeding, Avista proposes to continue the Insurance Expense Balancing Account that was established under the terms of the settlement agreement adopted by the Commission in the Company's 2022 general rate case proceeding.[55] The Insurance Expense Balancing Account is a two-way balancing account that tracks the variability in insurance expenses relative to a baseline expense amount that is included in base rates. Costs are deferred and subject to an annual compliance filing process with the balance, net of what if included in base rates, being either deferred or surcharged through a separate tariff as appropriate, unless the deferral balance is less than $500,000. In its 2022 general rate case, Avista's Insurance Expenses Balancing Account baseline was set at $8,271,000 for electric and $1,746,000 for natural gas. In this case, Avista proposes to increase the baseline for electric to $12,795,000 for electric, representing a 54.7% increase above its 2022 baseline. For natural gas, Avista proposes to increase the baseline to $2,247,000, representing at 28.7% increase.

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[54] *Id.*

[55] Docket Nos. UE-220053/UG-220054, Order 10 para. 140 (Dec. 12, 2022).

Q. WHY DOES AVISTA BELIEVE THAT CONTINUATION WITH THE INSURANCE BALANCING ACCOUNT IN THIS CASE IS APPROPRIATE?

A. Avista finds that continuation of the Insurance Expense Balancing Account is appropriate because there continue to be "extraordinary" and "volatile" insurance expense increases that are beyond Avista's control,[56] and because Avista met the Commission's 2022 general rate case condition to "document its action to seek out, negotiate, and attain the best insurance at the lowest costs and file with the Commission such documentation, with explanatory narratives, in Avista's annual filing beginning September 1, 2023."[57]

Q. DID THE PARTIES TO AVISTA'S LAST GENERAL RATE CASE STIPULATE TO THE CONTINUATION OF THE INSURANCE EXPENSE BALANCING ACCOUNT?

A. No. Rather, the parties to that proceeding agreed that the new Insurance Expense Balancing Account "is non-precedential, and its continuation may be challenged in a future proceeding."[58]

Q. DO YOU AGREE THAT CONTINUATION OF THE INSURANCE EXPENSE BALANCING ACCOUNT IN THIS CASE IS APPROPRIATE?

A. No. As a matter of policy and in the interest of ratepayer protections, I recommend the Commission limit the number of true-up mechanisms, such as the Insurance Expense Balancing Account, available to Avista for expenses both between rate cases and within multi-year rate plans. The Insurance Expense Balancing Account mechanism is a single-issue ratemaking mechanism that allows Avista dollar-for-dollar recovery of insurance expense, thereby removing the Company's incentive to seek out, negotiate, and attain the

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56 Andrews, Exh. EMA-1T at 28:1-11.
57 *Id.* at 27:22-25.
58 Docket Nos. UE-220053/UG-220054, Order 10/04 Appendix A.

best insurance at the lowest costs. Given its greater control over the expenses, Avista, not ratepayers, is better positioned to bear the business risk associated with varying insurance costs between rate cases. Notably, the current Insurance Expense Balancing Account stems from settlement in Avista's 2022 general rate case proceeding, and thus represents a compromise of the settling parties to that proceeding and is subject to the Commission's reporting requirement described above. However, AWEC as well as other parties to this proceeding have since gained additional understanding of multi-year rate plans and the additional administrative burdens that they impose. Allowing Avista to continue its Insurance Expense Balancing Account subject to a reporting condition simply serves to create additional work for both Avista and the reviewing parties and introduces ambiguity in terms of what actions are available or appropriate upon review of Avista's documentation. This administrative burden, along with the removal of Avista's incentive to manage insurance costs between rate cases, support discontinuation of the Insurance Expense Balancing Account.

Q. DO YOU OPPOSE INCLUDING AVISTA'S FORECASTED INSURANCE COSTS IN BASE RATES?

A. No. Insurance is a cost of doing business, and AWEC does not oppose Avista recovering insurance costs from customers. AWEC's opposition is to the use of single-issue ratemaking to recover these costs.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes.