

Exhibit No. ___ (JLB-1T)
Dockets UE-150204/UG-150205
Witness: Jason L. Ball

**BEFORE THE WASHINGTON
STATE UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION dba
AVISTA UTILITIES,**

Respondent

**DOCKETS UE-150204 and
UG-150205
(Consolidated)**

TESTIMONY OF

Jason L. Ball

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Restating Adjustments and Expense Adjustments

July 27, 2015

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1 I. INTRODUCTION

2
3 Q. Please state your name and business address.

4 A. My name is Jason L. Ball. My office address is the Richard Hemstad Building, 1300
5 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington
6 98504. My email address is jball@utc.wa.gov.

7
8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Regulatory Analyst. Among other duties, I am responsible for
11 economic, financial, and accounting analysis, and power supply issues of the
12 investor-owned electric and gas utilities under the jurisdiction of the Commission.

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

15 A. I have been employed by the Commission since June 2013.

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

18 A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-
19 major in Economics and Government. In 2013, I graduated with honors from New
20 Mexico State University with a Masters of Economics specializing in Public Utility
21 Policy and Regulation.

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I testified on power supply and load forecasting in Avista Corporation's
3 ("Avista" or the "Company") general rate case Docket UE-140188. I co-sponsored
4 joint testimony in Puget Sound Energy's ("PSE") power cost only rate case in
5 Docket UE-141141. I also sponsored testimony in Pacific Power and Light
6 Company's ("Pacific Power") general rate case Docket UE-140762 on overall
7 policy, revenue requirement, inflation factors, and the Merwin Fish Collector
8 accounting deferral. I presented an economic feasibility study relating to line
9 extensions in Docket UE-141335. I presented Staff recommendations to the
10 Commission at open meetings in Dockets UE-131623, UE-131565, and UE-140617.
11 I also reviewed Avista's Energy Recovery Mechanism (ERM) annual true-up in
12 Docket UE-140540. I am the lead analyst for matters relating to the Bonneville
13 Power Administration's (BPA) Residential Exchange Program, for customers of
14 Avista, PSE, and Pacific Power.

15

16 **II. SCOPE OF TESTIMONY**

17

18 **Q. Please explain the purpose of your testimony.**

19 A. My testimony responds to Avista's restating and pro forma expense adjustments.
20 My testimony is generally focused on several accounting adjustments in the Staff's
21 pro forma revenue requirement case. The table below lists the specific adjustments
22 Staff contests and their Net Operating Income (NOI) impact. All numbers are
23 reflected in thousands of dollars.

Adjustment	Company (As filed)	Staff	Difference
2.08 – Restate Excise Tax	\$41	\$127	\$86
2.09 – Restate Net Gains/Losses	\$53	\$59	\$6
2.18 – Long Term Incentive Plan <i>New Staff Adjustment</i>		\$155	\$155
3.01 – Transmission Revenue/Expenses	(\$71)	\$59	\$130
3.02 – Labor Non-Executive	(\$2,503)	(\$1,872)	\$631
3.03 - Labor Executive	(\$143)	(\$79)	\$64
3.04 – Employee Benefits	(\$1,550)	(\$2,291)	(\$741)
3.05 – Insurance Expense	(\$168)	\$ -	\$168
3.07 – Information Services/Information Technology	(\$1,091)	\$(218)	\$873
3.10 – Major Maintenance Hydro, Thermal and Other Excluding Colstrip & Coyote Springs 2	(\$1,570)	\$ -	\$1,570
3.13 – Colstrip & Coyote Springs 2 Operations and Maintenance Expense <i>New Staff Adjustment/Reflects Multi- Party Settlement</i>	(\$2,309)	\$180	\$2,489
Total Electric Adjustments	\$(9,311)	\$(3,880)	\$5,431

Adjustment	Company (As filed)	Staff	Difference
2.08 – Restate Excise Tax	(\$213)	\$41	\$254
2.15 – Long Term Incentive Plan <i>New Staff Adjustment</i>		\$46	\$46
3.00 – Labor Non-Executive	(\$749)	(\$561)	\$188
3.01 - Labor Executive	(\$33)	(\$14)	\$19
3.02 – Employee Benefits	(\$466)	(\$690)	(\$224)
3.03 – Insurance Expense	(\$50)	\$ -	\$50
3.05 – Information Services/Information Technology	(\$268)	\$(9)	\$259
Total Gas Adjustments	(\$1,779)	(\$1,187)	\$592

2

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

4 A. Yes. I have attached five exhibits. In particular, Exhibit No. ___ (JLB-2C) is a
5 detailed breakdown of the electric adjustments listed above, and Exhibit No. ___

1 (JLB-3) is a detailed breakdown for the above listed gas adjustments, which is
2 discussed in Section VI of my testimony.

3
4 **Q. How is the remainder of your testimony organized?**

5 A. In Section III, I discuss Staff's general approach to pro forma adjustments. In
6 Section IV, I discuss electric pro forma adjustments related to operations and
7 maintenance expense (3.10 and 3.13). In Section V, I discuss the contested pro
8 forma expense adjustments for both electric and gas. Finally, in Section VI, I discuss
9 restating adjustments for both electric and gas operations.

10
11 **III. GUIDANCE ON PRO FORMA ADJUSTMENTS**

12
13 **Q. What is the Commission's standard for accepting pro forma adjustments?**

14 A. The Commission's standard is established in Washington Administrative Code
15 (WAC) 480-07-510(3)(iii), which provides that pro forma adjustments must "give
16 effect for the test period to all known and measurable changes that are not offset by
17 other factors."

18
19 **Q. Has the Commission provided any recent guidance on pro forma adjustments?**

20 A. Yes. The Commission stated in the most recent Pacific Power general rate case
21 proceeding:

22 Washington uses a hybrid test year approach that allows *pro forma*
23 adjustments only for known and measurable changes—not budgeted or
24 projected changes—that occur, generally within a reasonable time after the

1 end of the test year and, with some exceptions, almost never more than 12
2 months after the end of the test year.¹

3 Adhering to the known and measurable standard, Staff carefully reviewed any
4 proposed adjustments that were based on budgeted amounts. Staff witnesses
5 Christopher Hancock and Christopher McGuire elaborate further on the
6 Commission's recent guidance for pro forma plant additions.²

7
8 **Q. Does the Commission rely on any other standards to make pro forma
9 adjustments?**

10 **A.** Yes. The Commission, as well as Staff, have a strong preference for adhering to the
11 matching principle wherever possible.³ The matching principle is an important
12 accounting standard in which expenses and revenues are recognized in the same
13 periods that they occur.

14
15 **IV. OPERATIONS & MAINTENANCE EXPENSE**

16
17 **A. Multi-Party Settlement**

18
19 **Q. Does the Multi-Party Settlement affect Operations and Maintenance Expense?**

¹ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762, Order 08 (March 25, 2015), ¶ 44.

² Testimony of Christopher Hancock, Exhibit No. ___ (CSH-1T), pages 9-14; Testimony of Christopher R. McGuire, Exhibit No. ___ (CRM-1T), pages 11-15.

³ Docket UE-140762, Order 08, footnote 57 (explaining that deviation from matching principle generally reflects extraordinary rate treatment).

1 A. Yes. For electric operations, the Multi-Party Settlement establishes a level of pro
2 forma power supply expense, subject to a future update.⁴ Additionally, Operations
3 and Maintenance Expenses (O&M) for Colstrip and Coyote Springs 2 (CS2) are
4 removed from adjustment 3.00 pro forma power supply. Avista proposed through
5 discovery to include this amount in adjustment 3.10 Pro Forma Overhauls – Hydro,
6 Thermal, and Other.⁵ Per the Multi-Party Settlement, this amount includes Colstrip’s
7 budgeted O&M for 2016 provided by the operator of the plant, Talon Energy, and
8 the expected costs and management reserves for overhauls in 2016 for both Colstrip
9 and CS2.⁶

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Q. How does Staff’s case reflect the Multi-Party Settlement?

A. Staff witness Christopher Hancock presents the impacts of the Multi-Party
Settlement on the revenue requirement model for both electric and gas operations.⁷
Additionally, for electric operations Staff has created a new pro forma adjustment
3.13 to reflect O&M for Colstrip and CS2.⁸

⁴ See *Wash. Utils. & Transp. Comm’n. v. Avista Corp.*, Multi-Party Settlement Stipulation, (July 24, 2015).

⁵ Hancock, Exhibit No. ____ (CSH-4).

⁶ Avista response to Staff Data Request No. 176.

⁷ Hancock, Exhibit No. ____ (CSH-4) and Hancock, Exhibit No. ____ (CSH-5).

⁸ As shown in Mr. Hancock’s Exhibit No. ____ (CSH-4), the Company included Colstrip and CS2 O&M in adjustment 3.10 and removed it from pro forma power supply adjustment 3.00 in accordance with the Multi-Party Settlement. The O&M for Colstrip and CS2 is a large adjustment. Including it in adjustment 3.10 needlessly complicates an already contentious component of the revenue requirement (for instance, Staff recommends eliminating the original adjustment 3.10 in its entirety). Further, this approach makes it difficult to track the changes from the initial filing.

Comparison of Treatment for Colstrip & CS2 O&M

Adjustment	Initial Filing	Exhibit No. ____ (CSH-4) (including updates)	Staff
Colstrip & CS2 O&M	Included in Adj 3.00 – Power Supply	Included in Adj 3.10 – 2016 Pro Forma Major Maintenance – Hydro, Thermal, Steam	Included in unique Adj 3.13 – Colstrip & CS2 O&M

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B. Adjustment 3.10 (Electric) - Pro Forma Major Maintenance Hydro-Thermal-Other

5

Q. Please describe Adjustment 3.10.

6

A. The Company proposed to increase test year major maintenance expense by

7

\$2,415,209 on a Washington allocated basis. This reduces NOI by \$1,569,750 for

8

electric operations.

9

The Company included a correction to these numbers in its update for the

10

Multi-Party Settlement.⁹ The correction removed operations expense inadvertently

11

included in its original filing. The Company also revised its 2016 non-major

12

expense to reflect 2014 actuals. The new adjustment to expense is \$1,533,435 on a

13

Washington allocated basis. This reduces NOI by \$996,733 for electric operations.

14

15

Q. Do you agree with this adjustment?

16

A. No, for three reasons. First, the Company's adjustment does not meet the known and

17

measurable standard. There is no underlying cost data, documentation, or even

18

competitive bid process to support the Company's cost estimates. As stated in

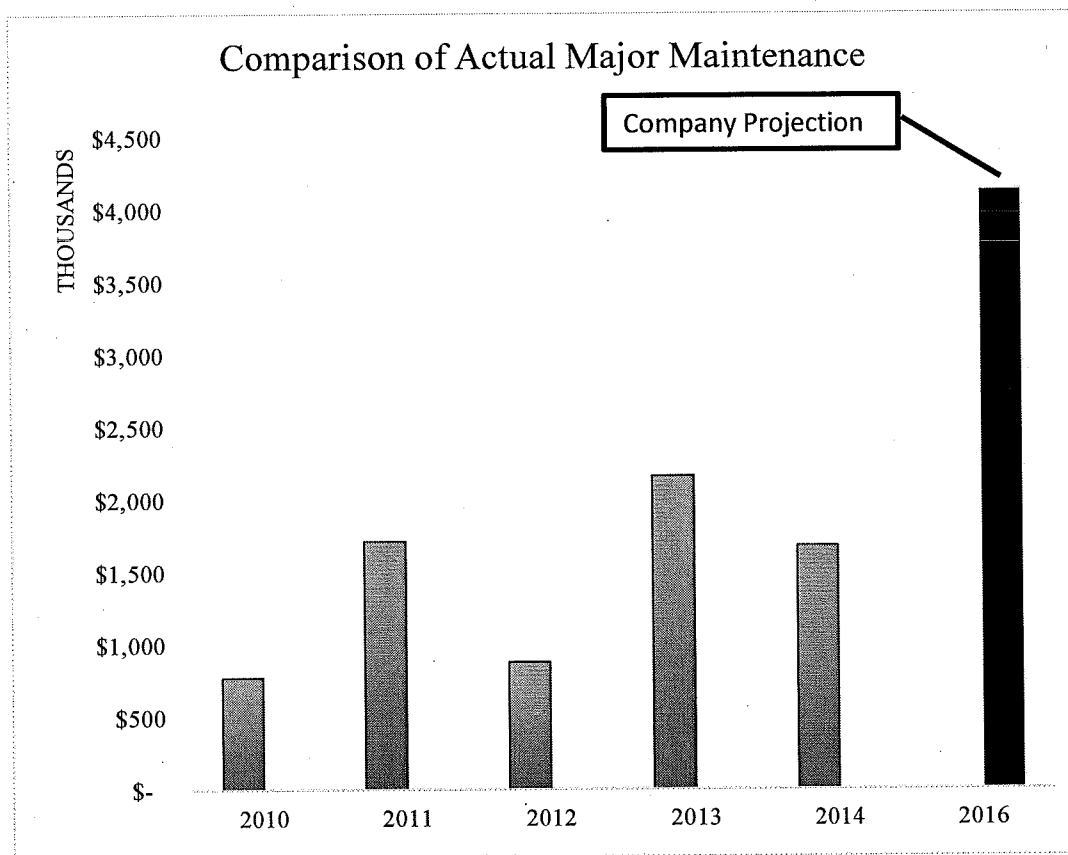
19

Avista's response to Staff Data Request No. 50, these amounts are:

⁹ Hancock, Exh. No. ____ (CSH-4).

1 Estimates based on past experience by the Company on similar projects.
2 These amounts will be updated in 2016 based on bids or further analysis.

3 Second, the Company's projection is not representative of on-going major
4 maintenance expenses and represents a dramatic departure from recent history. The
5 same type of major maintenance Avista is proposing for Rathdrum in the present
6 adjustment occurred as recently as 2012.¹⁰ As the graph below shows, the average
7 major maintenance expense over the last five years is only \$1,439,137. This is
8 significantly lower than the Company's estimates.¹¹



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¹⁰ Avista's response to Staff Data Request No. 171.

¹¹ Avista's response to Staff Data Request No. 042, Attachment A.

1 Third, the Company's projected 2016 major maintenance expense is
2 \$4,129,125. This is more than double the amount of major maintenance expense in
3 the test year.

4
5 **Q. Has the Company provided any explanation for this abrupt increase?**

6 A. Yes. The Company explained in response to Staff Data Request No. 48 that:

7 Specific to 2016 two of the major maintenance projects are performed based
8 on hours of service: the Rathdrum Hot Gas Path maintenance of \$710,000
9 and the Boulder Park 12,000 hour maintenance of \$150,000. And that based
10 on expected operating hours these projects will reach their thresholds and
11 require maintenance in 2016.

12 These amounts sum to \$860,000 and do not approach the Company's proposed
13 increase of \$2,352,255 in test year major maintenance.

14 The Company also explained that:

15 The timing of major maintenance is affected by the availability of crews to
16 perform not only the maintenance work, but also the planned capital projects.

17 The Company's prioritization of capital projects over major maintenance is not an
18 adequate justification for such a large increase in O&M. Indeed, the Company's
19 scheduled delay of maintenance and the prioritization of capital projects reflects how
20 the major maintenance expected in 2016 does not necessarily occur on a regular
21 yearly basis.

22
23 **Q. Please summarize Staff's recommendation for Adjustment 3.10 (Electric)?**

24 A. The Commission should reject the Company's pro forma adjustment and instead rely
25 on the test year level of expenses. The test year expenses are in line with the recent
26 average. Including the test year level of expense in revenue requirement can be

1 expected to pay for major maintenance occurring in the rate year, including both the
2 Rathdrum and Boulder Park maintenance.

3
4 **Q. Does Staff have any alternative recommendations on planned maintenance**
5 **activities?**

6 A. Yes. If the Commission wishes to include Rathdrum and Boulder Park maintenance
7 in the revenue requirement, then Staff recommends that the projects be normalized in
8 the same manner as Staff's proposal for Colstrip and CS2 overhauls, outlined below.
9 That is, the expenses should be normalized over the length of the maintenance
10 lifecycle. The Rathdrum and Boulder Park maintenance is based on run hours and is
11 therefore similar in principle to the planned overhaul for CS2.¹²

12
13 **C. Adjustment 3.13 – Colstrip & Coyote Springs 2 Operations and**
14 **Maintenance Expense**
15

16 **Q. Please explain this adjustment.**

17 A. Adjustment 3.13 is a new adjustment, proposed by Staff, to remove the costs
18 associated with "overhauls" of Colstrip and Coyote Springs 2 (CS2). The overhauls
19 reflect non-annual expenses and thus should be removed from the test year totals and
20 normalized over the period of the maintenance cycle. Therefore, Adjustment 3.13
21 includes two parts:

¹² Avista's response to Staff Data Request No. 048.

- 1 1) Reducing base level Colstrip and CS2 Operations and Maintenance
2 Expenses (O&M) to reflect typical annual expenses (which should exclude
3 overhauls), and
4 2) Normalizing those Colstrip and CS2 non-annual overhaul costs over the
5 appropriate period.

6
7 **Q. Please provide a description of the Company's proposed treatment for Colstrip**
8 **and CS2 O&M.**

9 A. As discussed earlier, Colstrip and CS2 O&M was removed from power supply as a
10 result of the Multi-Party Settlement. Therefore, Avista has proposed to include the
11 \$3.4 million of expenses in Adjustment 3.10 Pro Forma Overhauls – Hydro,
12 Thermal, and Other.¹³ This amount includes Colstrip's budgeted O&M for 2016 as
13 provided by operator of the plant, Talen Energy, and the expected costs and
14 management reserves for overhauls in 2016 for both Colstrip and CS2.¹⁴

15
16 **1. Colstrip and CS2 Test Year O&M Expense**

17
18 **Q. Do you agree with the Company's proposal to use 2016 rate year projections of**
19 **O&M?**

20 A. No. The O&M that occurred during the test year was very close to the O&M that
21 was expected to occur during 2014. Except for upcoming overhauls, there is no need
22 to use a 2016 projection for basic O&M.

¹³ Hancock, Exh. No. ____ (CSH-4).

¹⁴ Avista response to Staff Data Request No. 176.

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Q. What are your recommendations related to O&M for Colstrip and CS2 in the test period?

A. As noted above, Staff proposes to remove the effects of overhauls that occurred during 2014 to be dealt with separately. After removing non-annual overhaul costs, the remaining Colstrip and CS2 expenses more accurately reflect annual O&M costs.

Q. Have you prepared an exhibit detailing the effects of this adjustment on a pro forma and attrition basis?

A. Yes. The reduction in test year O&M is reflected on pages 11-12, line 3 of Confidential Exhibit No. ___ (JLB-2C).

Q. After your adjustment, does the test year O&M represent normal operations?

A. Yes. Given the size of these two plants it is important to remove overhauls to get an accurate depiction of typical annual rate of O&M expenses. Page 2 of Confidential Exhibit No. ___ (JLB-4C) is a graph that shows actual O&M expense for Colstrip since 2008. Actual expenses are denoted by the black line and the average expected expenses through the test period are in red. Page 4 is the same chart showing actual CS2 O&M since 2008. As the charts illustrate, the O&M that occurred during the test period is in line with the actual O&M expenditures during the last six years.

1 **2. Colstrip and CS2 Overhauls**

2
3 **Q. Do you agree with Avista's proposal to include the full amount of 2016**
4 **Overhauls in rates?**

5 A. No. The Company's proposal increases revenue requirement to recover the full
6 amounts of overhauls in one year. This does not match the costs with the intervals of
7 these maintenance events and violates the matching principle. For instance, the
8 overhauls proposed for CS2 occur approximately once every four years. However,
9 the Company's cost proposal would ultimately receive revenue to recover these costs
10 every year until the next rate proceeding. All else equal, this results in four times as
11 much revenue as the actual cost of the overhaul.

12
13 **Q. What is your recommendation for treating overhauls scheduled to occur in 2016**
14 **for Colstrip and CS2?**

15 A. As noted above, these overhauls should be normalized over the expected overhaul
16 maintenance cycle. The Company performs an overhaul every three years for each
17 Colstrip unit; it performs an overhaul approximately every four years for CS2.¹⁵
18 These cycles are documented and predictable. Normalization provides for consistent
19 matching of revenues and expenses with their appropriate time period. Further, the
20 projected overhauls' costs should be reduced by removing the management reserve.

21

¹⁵ Direct Testimony of William Johnson, Exhibit No. ____ (WGJ-1T), page 14, lines 18-22.

1 **Q. What is normalization?**

2 A. Normalization is the spreading of a cost over the period it is expected to occur. This
3 is similar in principle to the accounting concept of amortization but involves no
4 deferral or accounting entries and is purely a regulatory tool. Normalization
5 combined with a modified historical test year to set rates provides consistent revenue
6 over the expected life cycle of a cost.

7
8 **Q. Is normalizing the Colstrip and CS2 overhauls consistent with the matching
9 principle?**

10 A. Yes. The Colstrip and CS2 overhauls in this adjustment occur regularly, but not
11 annually. By using the normalization process, the annual recognized expenses are
12 aligned with the expected period of the benefits provided by the expenditures. This
13 is the essence of the matching principle. For example:

	Revenues	Expenses	Impact on NOI
Year 1	\$ 1,000,000	\$ 0 -	\$ 1,000,000
Year 2 (Overhauls)	\$ 1,000,000	\$ 3,000,000	\$ (2,000,000)
Year 3	\$ 1,000,000	\$ 0 -	\$ 1,000,000

14

15 As this simple example demonstrates, the revenues that occur in year one and year
16 three are in excess of actual expenses, leading to an unusual increase in NOI. In year
17 two, revenues are significantly lower than the actual expenses leading to a revenue
18 shortfall and a significant reduction in NOI. Normalizing these expenses aligns the
19 costs with the years of corresponding benefits.

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Q. Why does Staff also recommend removing the management reserve?

A. The management reserve is a dollar amount for cost overruns and unexpected damage discovered during the course of an overhaul.¹⁶ Until an overhaul is underway, there is no way to predict how much, if any, of the reserve will be needed.¹⁷

For regulatory purposes, it makes little sense to include the management reserve when normalizing a standard overhaul schedule. If cost overruns do occur they will be captured in the actual O&M for that year. In extreme situations, the Company has other regulatory options, such as accounting petitions, to recover the unexpected overhaul expense. These tools are designed specifically to handle unexpected or unpredictable costs.

Q. Has Staff's proposed treatment been applied in any other case?

A. Yes. The last two settlements of PSE's Power Cost Only Rate Cases (PCORC) included similar accounting treatments.¹⁸ In the 2014 PCORC settlement, the settling parties also agreed to a similar accounting treatment for Colstrip as Staff proposes here.¹⁹

¹⁶ Avista Confidential response to Staff Data Request No. 172C.
¹⁷ *Id.*
¹⁸ See *Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-141141, Order 04, (Nov. 3, 2014), ¶ 8; *Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-130617, Order 06, (Oct. 9, 2014) ¶ 20.
¹⁹ See Docket UE-141141, Order 04. The PCORC adjusts PSE's Baseline Power Cost Rate which is similar in principle to Avista's ERM. Therefore, the treatment agreed to by the parties is subject to true-up for actuals through the PCA deferral mechanism.

1 In Avista's 2011 general rate case, the settling parties agreed to, and the
2 Commission approved, a deferral mechanism to capture differences between actual
3 O&M for Colstrip and CS2 and a baseline O&M established by the parties.²⁰ This
4 mechanism allowed a deferral of any differences, and amortized them over a four-
5 year period. This mechanism was discontinued as a part of the settlement in Avista's
6 2012 general rate case.²¹

7
8 **V. OTHER PRO FORMA ADJUSTMENTS**

9
10 **A. Adjustment 3.01 (Electric) - Transmission Revenue & Expenses**

11
12 **Q. Please describe the Company's proposed adjustment 3.01 to transmission**
13 **revenue & expenses.**

14 **A.** The Company proposes a pro forma adjustment to increase electric transmission
15 revenue and expenses for the rate year. The effect of the Company's adjustment
16 reduces NOI by \$71,000.

17
18 **Q. What is Staff's recommendation for the transmission revenue & expense**
19 **adjustment?**

20 **A.** This particular adjustment involves numerous individual line items. Staff has
21 reviewed each of the lines items and rejects or modifies seven of them. Staff

²⁰ *Wash. Utils. & Transp. Comm'n. v. Avista Corp.*, Docket UE-110876, Order 06, (Dec. 16, 2011), ¶¶ 20-23, ¶¶ 35-37.

²¹ *Wash. Utils. & Transp. Comm'n. v. Avista Corp.*, Docket UE-120436, Order 09, (Dec. 26, 2012), ¶ 41.

1 modified these items because they did not adhere to the known and measurable
2 standard or were not used and useful.

3
4 **Q. Which line items does Staff's recommend modifying or rejecting?**

5 A. The seven line items Staff recommends adjustments for are the following:

- 6 1. C – Colstrip Transmission (O&M/500kV Line) - The Company proposes an
7 increase in Colstrip transmission O&M by \$36,000. However, the
8 Company's work papers show that for the last several years the actual
9 expense amounts have been well below the budgeted amounts.²² The amount
10 included in the test year is consistent with this analysis. Therefore, Staff
11 rejects the Company's adjustment and recommends keeping the expense at
12 the test year level.
- 13
14 2. D – ColumbiaGrid Development/RTO - The Company is proposing an
15 increase in expense of \$39,000. However, the Company's workpapers show
16 that for the last several years the actual expense amounts have been well
17 below the budgeted amounts.²³ The amount included in the test year is
18 consistent with this analysis. Therefore, Staff recommends rejection of the
19 Company's adjustment and keeping the expense at the test year level.
- 20
21 3. E – ColumbiaGrid Planning - the Company is proposing to increase this line
22 item from \$162,000 to \$248,000, an increase of \$86,000. The Company's
23 proposed increase reflects ColumbiaGrid's forecasted staffing levels to
24 support the ColumbiaGrid Planning and Expansion Functional Agreement
25 (PEFA) and additional activities. According to the Company, these positions
26 are anticipated to be filled towards the end of 2015.²⁴ Since these positions
27 are merely anticipated, and thus not yet used and useful, Staff does not
28 include them in this adjustment.
- 29
30 4. J – OASIS Expenses (Columbia Grid Travel) - the Company is proposing to
31 increase this expense by \$8,000. The test year expense level was \$17. In the
32 last few rate cases, the Company has proposed an \$8,000 - \$9,000 expense
33 level for this item, although the actual expense amounts have been below the
34 Company's projected levels. Staff does not believe that the current level of
35 \$17 is indicative of normal expense level and that an accurate expense level
36 falls somewhere in between the current and projected expense amount. Staff
37 considers the three year average of this item's actual expense to better

²² Ball, Exh. No. ____ (JLB-5C), page 3.

²³ *Id.* at 4.

²⁴ Avista response to Staff Data Request No. 34.

1 represent the ongoing expense. Staff thus recommends \$1,500 be allowed for
2 this item.

- 3
- 4 5. K – BPA Power Factor Penalty - the Company is proposing to increase the
5 expense from the current level of \$43,000 to the budgeted level of \$80,000.
6 This is an increase of \$37,000. The “Power Factor Penalty” is a published
7 rate by which BPA recovers the cost of a portion of its fixed transmission
8 assets based upon real and reactive power flow over an interconnection.
9 However, BPA initiated a rate case on December 10, 2014 and there is no
10 Power Factor Penalty charge in its initial proposal.²⁵ Since the rate
11 proceeding is ongoing and its outcome is undetermined, Staff recommends
12 that this expense item be maintained at the test year level of \$43,000.
- 13
- 14 6. L – PEAK Reliability - the Company is proposing an increase of \$505,000
15 from the current expense level. Peak is a new organization that was
16 bifurcated from WECC and provides the Reliability Coordination function
17 that is required under national reliability standards. The Company’s cost is
18 based upon a ratio involving the entire Peak footprint. Avista explains that
19 the large increase in the proposed expense level is due to the bifurcation and
20 the additional overheads associated with Peak and its duties and
21 responsibilities given its new creation.²⁶ Staff recommends recalculating the
22 test year expense based on the known 2015 assessment and Avista’s pro rata
23 share of 1.2750 percent.²⁷
- 24
- 25 7. MC – WECC Loop Flow - the Company’s is proposing to increase the test
26 year expense level by \$16,000. The Company bases this higher level of
27 expense on increases seen in recent years and that Avista has no control over
28 these charges. Staff analyzed actual expense data for 2006 to 2014 and
29 concluded that the test year amount is an accurate representation of historical
30 expense. Therefore, Staff recommends rejecting the Company’s proposed
31 change and keeping this expense item at test year levels.

32

33 Attached as Confidential Exhibit No. ___ (JLB-5C) is a breakdown for each of these
34 items.

35

36 **Q. What is the impact of Staff’s recommendation regarding this adjustment?**

37 **A.** The effect of Staff’s adjustment is to increase NOI by \$59,000.

²⁵ Avista response to Staff Data Request No. 37.

²⁶ Cox, workpaper “J) – Mc) 566 Misc Xm Expense”.

²⁷ Avista response to Staff Data Request No. 38

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B. Adjustment 3.02 (Electric) & Adjustment 3.00 (Gas) - Pro Forma Labor Non-Executive.

Q. Please describe the Company's proposed adjustment 3.02 (Electric) and 3.00 (Gas) to non-executive labor.

A. The Company proposes a pro forma adjustment to increase non-executive wages throughout the end of 2016. The adjustment accounts for a 3 percent increase for 2014 which is annualized for the entire test year; a 3 percent increase for March 28, 2015 through March 27, 2016; and another 3 percent increase for March 28, 2016 through December 2016, annualized for nine months of the rate year. These wage increases are for both union and administrative personnel. The Company's proposed adjustment reduces NOI by \$2,503,000 for electric operations, and \$749,000 for gas operations.

Q. What is Staff's recommendation for this adjustment?

A. Staff recommends allowing the wage increase for the test period, annualized for the remainder of the year as proposed by the Company, and the union contracted 3 percent increase for March 28, 2015 through March 27, 2016. The wage increase for administrative personnel follows the union contract increase; therefore, Staff supports the wage increases for both union and administrative personnel. However, Staff does not support the 3 percent increase that has been proposed by the Company for the nine months ending in 2016. This increase goes 27 months beyond the test

1 year and is currently not a contractually approved increase. Therefore, the proposed
2 2016 wage increases do not meet the known and measurable criteria.

3
4 **Q. Has the Commission previously issued an order on this issue?**

5 A. Yes. PSE proposed in its 2009 general rate proceeding to include several wage
6 increases outside of the test period. In Order 11, the Commission stated:

7
8 Although outside the test period, we allow the IBEW April 2009 contractual
9 increase, which does not appear to be in dispute, because it is close enough in
10 time to the end of the test year to limit our concerns about possible offsets.
11 We agree with Public Counsel that the other changes (IBEW and UA in
12 October 2009 and October 2010, and non-union in March 2010) are too
13 remote from the end of the test year to be included without risk of violating
14 the matching principle.²⁸
15

16 **Q. What is the impact of Staff's recommendation regarding non-executive labor?**

17 A. Staff's recommendation reduces NOI by \$1,872,000 for electric operations and
18 \$561,000 for gas operations. This is lower than the Company's adjustments by
19 \$631,000 for electric operations and \$188,000 for gas operations.

20
21 **C. Adjustment 3.03 (Electric) & Adjustment 3.01 (Gas) - Pro Forma Labor**
22 **Executive**
23

24 **Q. Please describe the Company's proposed adjustment 3.03 (Electric) and 3.01**
25 **(Gas) to executive labor.**

26 A. The Company proposes a pro forma adjustment to reflect an annualized 2014 level of
27 allocated executive officer salaries, effective March 2014. The Company did not

²⁸ *Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, (Apr. 2, 2010), ¶ 88.

1 include any additional increases in executive labor for 2015 and 2016. However, the
2 Company did update its utility and non-utility allocation factors using an 89 percent
3 utility to 11 percent non-utility split.²⁹ These allocations are based on an estimate by
4 each executive of time spent on utility and non-utility activities, current and past job
5 responsibilities, and anticipated changes in responsibilities due to projects and
6 strategic initiatives for the upcoming year.³⁰ While the level of base salaries did not
7 change from the 2014 level, the Company's proposal results in a decrease to NOI of
8 \$143,000 for electric operations, and a decrease to NOI of \$33,000 for natural gas
9 operations.

10
11 **Q. What is Staff's recommendation for this adjustment?**

12 A. Staff analyzed timesheet information during the test year provided by the Company
13 on discovery. The actual timesheet data for the test period showed approximate
14 allocation factors of 83 percent to utility and 17 percent to non-utility operations.³¹
15 Further, the Company did not provide a clear and convincing description of any
16 anticipated changes in current executive responsibilities.

17 Changing the allocation factors to Staff's recommendation reduces NOI by
18 \$79,000 for electric operations, and by \$14,000 for gas operations.

19

²⁹ Direct Testimony of Jennifer Smith, Exh. No. ____ (JSS-1T), page 27, lines 6-10.

³⁰ Smith Direct, Exh. No. (JSS-1T), pages 26:17-20 to 27:1.

³¹ Avista confidential response to Public Counsel Data Request No. 8.

1 **D. Adjustment 3.04 (Electric) & Adjustment 3.02 (Gas) - Pro Forma**
2 **Employee Benefits**
3

4 **Q. Please describe the Company's proposed adjustment 3.04 (Electric) and 3.02**
5 **(Gas) to employee benefits.**

6 **A.** The Company proposes a pro forma adjustment to account for changes in both
7 pension and medical insurance expense. The Company states in its initial filing:

8 The increase in pension expense (\$1.6 million Washington electric)³² is
9 primarily due to updated mortality tables, the discount rate on pension
10 liability and expected return on assets.³³

11 Further, Company witness Jennifer Smith explains the increase in medical insurance
12 and post-retirement expense (\$0.7 million Washington electric).³⁴

13 The increase in 2016 represents medical trend and utilization expectations, as
14 well as accounting for Health Care Reform mandates.³⁵

15 The effect of this adjustment is a decrease to NOI of \$1,550,000 for electric
16 operations.

17 For gas operations, the Company originally proposed an increase of almost
18 \$0.5 million in pension expense and \$0.2 million in medical expense for its gas
19 operations.³⁶ The effect of this adjustment is a decrease to NOI of \$466,000.

³² The Company updated this figure for electric operations to \$2.4 million in response to Staff Data Request No. 131 (Hancock Exh. No. ___ (CSH-4)). The Company adjusted the number again to \$2.6 million in response to Public Counsel's Data Request No. 40.

³³ Smith Direct, Exh. No. ___ (JSS-1T), pages 27:20 - 28:2.

³⁴ The Company updated this figure for electric operations to \$0.9 million in response to Staff Data Request No. 131 (Hancock Exh. No. ___ (CSH-4)). The Company adjusted the number again to \$0.9 million in response to Public Counsel's Data Request No. 40.

³⁵ Smith Direct, Exh. No. ___ (JSS-1T), page 29, lines 10-12.

³⁶ These figures were updated for gas operations in response to Staff's Data Request No. 131 (Hancock Exh. No. ___ (CSH-5)) to \$0.7 million for pension expense and \$0.27 million for medical expense. The Company revised the numbers again in response to Public Counsel's Data Request No. 40 to \$0.8 million and \$0.3 million respectively.

1 The Company revised these numbers several times during discovery. With
2 the revisions, the final effect of these adjustment is a decrease to NOI of \$2,330,000
3 for electric operations and a decrease of \$701,000 for gas operations.
4

5 **Q. What is Staff's recommendation for this adjustment?**

6 A. Staff accepts the Company's revised pro forma adjustment, except for a minor
7 calculation error. Avista inadvertently included \$220,000 of administrative fees in
8 its medical expense calculation twice. With the removal of the duplicate
9 administrative fees, the overall effect of the adjustment is a decrease to NOI of
10 \$2,291,000 for electric operations and a decrease of \$690,000 for gas operations.
11

12 **E. Adjustment 3.05 (Electric) & Adjustment 3.03 (Gas) - Pro Forma**
13 **Insurance Expense**
14

15 **Q. Please describe the Company's proposed adjustment 3.05 (Electric) and 3.03**
16 **(Gas) to insurance expense.**

17 A. The Company proposes a pro forma adjustment to increase insurance expense to
18 reflect the 2016 expected level of insurance. The proposed adjustment is an increase
19 in expense of \$259,000 for electric operations and \$77,000 for gas operations. The
20 effect of this adjustment is a decrease to NOI of \$168,000 and a decrease of \$50,000,
21 respectively.
22

23 **Q. Did the Company provide an explanation for the increase?**

24 A. Yes. The Company stated in its initial filing that

1 The increase is due to primary insurance policy providers seeking increases
2 due to adverse impacts over the last several years from increased claim
3 history and due to suspension by insurance providers of the continuity credit
4 provided in previous years.³⁷
5

6 **Q. What is Staff's recommendation for this adjustment?**

7 A. Staff recommends rejecting the Company's pro forma adjustment and keeping the
8 insurance expense at the test year level. The Company's pro forma adjustment is
9 more than a 13 percent increase from the test year. Staff analyzed insurance expense
10 from 2009 through 2014 and found that the test year increase of 3.3 percent is in line
11 with the average 4.6 percent increase since 2009. However, the changes in insurance
12 expense varied significantly from 2008 to 2013 with both decreases and increases
13 occurring during the period.³⁸ Due to such variance in the historical amounts, Staff
14 determined that is not possible to quantitatively project the expense with sufficient
15 accuracy. Therefore, Staff cannot support the Company's projected numbers. Staff's
16 reliance on the test year amounts best meets the known and measureable standard.

17
18 **F. Adjustment 3.07 (Electric and Gas) - Pro Forma Information**
19 **Technology/Services Expense**

20
21
22 **Q. Please provide a description of the Adjustment 3.07 (Electric and Gas) - Pro**
23 **Forma Information Technology/Services Expense.**

24 A. The adjustment increases expenses related to information technology and services
25 through costs the Company expects to occur in 2015 and 2016. The Company's

³⁷ Smith Direct, Exh. No. (JSS-1T), page 30, lines 11-14.

³⁸ Based on Staff's general review of Dockets UE-120436 and UG-120437, and Dockets UE-140188 and UG-140189.

1 adjustment increases operating expenses on a Washington allocated basis by
2 \$1,679,000 for electric operations and \$412,000 for gas operations. This is a
3 reduction to NOI of \$1,091,000 and \$268,000, respectively.
4

5 **Q. Do you agree with this adjustment?**

6 A. No. Most of the expenses the Company includes in this adjustment are not known
7 and measurable. For example, the Company listed in the associated workpaper
8 several contracts with the vendor as "TBD." In response to Staff Data Request No.
9 163 the Company stated:

10 To be determined was used because the vendor is not yet known or
11 contractually engaged with Avista to deliver products or services for the
12 project identified.

13 Since there is no signed agreement or contract providing a fee schedule or term of
14 the expense, these amounts are not known and measurable.

15 The Company is also including in the adjustment newly created Avista
16 positions for 2015 that will eventually take the place of current outsourcing
17 contracts.³⁹ These positions and the additional contractual savings should be
18 included in revenue requirement only after the actual positions are filled and the
19 current contracts are terminated.
20

³⁹ Direct Testimony of Jim Kensok, Exh. No. ___ (JMK-1T), pages 11:41 – 12:2.

1 **Q Does your adjustment include any contract amounts?**

2 A. Yes. The adjustment includes expenses for which the Company provided signed
3 agreements or contracts.⁴⁰ These agreements and contracts provide a term and fee
4 schedule that are known and measureable.

5

6 **Q. Have you prepared an exhibit describing the incremental expenses you propose**
7 **including?**

8 A. Yes. Attached as Exhibit No. ___ (JLB-6C) is a description of each of these contracts
9 and Staff's reasoning for including or excluding them from the adjustment.

10

11 **Q. Please discuss the relationship of this adjustment with Project Compass.**

12 A. Project Compass, an IT infrastructure improvement project, is discussed in Mr.
13 Gomez's testimony. The Company stated in its initial filing:

14 There will be a net increase of \$235,272 over current operating expenses
15 associated with the deployment of the Company's new Customer Service and
16 Work and Asset Management Systems implemented as part of Project
17 Compass.⁴¹

18 Unfortunately, Staff was unable to verify several components of the projected
19 support costs for Project Compass. Of the 15 contracts and projects the Company
20 included in its workpapers related to Project Compass, only two had signed
21 contracts.

22 Further, Project Compass went live on February 2, 2015, well beyond the end
23 of the test year.⁴² With no test year data, no historical information (given that it's a

⁴⁰ Avista confidential response to Staff Data Request No. 180.

⁴¹ Kensok Direct, Exh. No. ___ (JMK-1T), page 7, lines 26-28.

⁴² Kensok, Direct Exh. No. ___ (JMK-1T), page 19.

1 new system), and no contractual agreements to support future costs, the Company's
2 proposed costs are not known and measurable, and therefore Staff recommends
3 maintaining the support costs at the test year level.

4
5 **Q. Has the Company provided any additional rationale for this adjustment?**

6 A. Yes. The Company stated in Staff Data Request No. 163:

7 The timing of capital projects going into service in 2015 has a direct effect on
8 the timing of expenses being realized where portions of pro forma
9 expense from Project Compass, as well as subsequent projects dependent on
10 Project Compass completion, are planned to occur now that the Q1 go-live is
11 complete.
12

13 **Q. Do you agree with this rationale?**

14 A. No. The Company's inclusion of these expenses is inconsistent with the
15 Commission's guidance on pro forma adjustments because they are not known and
16 measurable. Projects which are "planned" to occur outside the test year do not meet
17 the known and measurable test. The Company has provided no additional
18 justification for such significant changes to the test period.
19

20 **VI. RESTATING ADJUSTMENTS**

21 **A. Adjustment 2.08 (Electric & Gas) - Restate Excise Tax**

22
23
24 **Q. Please describe the Company's restated adjustment 2.08 for excise tax.**

25 A. The purpose of this adjustment is to remove the effect of a one-month lag between
26 the collection and the payment of taxes. In the Company's initial filing, the effect of

1 this adjustment increases NOI by \$41,000 for electric operations, and reduces NOI
2 for gas operations by \$213,000.

3
4 **Q. Please describe Staff's change to the Company's excise tax adjustment.**

5 A. Staff analyzed the Company's workpapers and found that the Company inadvertently
6 recorded the same revenue amount as collected in April and May 2014. The
7 Company acknowledged this error in its workpaper and submitted revised pages
8 directly to Staff.⁴³ The effect of the revision is an increase in NOI of \$127,000 for
9 electric operations and \$41,000 for gas operations. During a phone conversation
10 with Staff, the Company agreed to correct this error on rebuttal. Staff supports the
11 corrected amounts.

12
13 **B. Adjustment 2.09 - Net Gains/Losses**

14
15 **Q. Please describe the Company's restating adjustment 2.09 for net gains/losses.**

16 A. This adjustment reflects a ten-year amortization of net gains realized from the sale of
17 property disposed of between 2005 and September 30, 2014. This adjustment is
18 made as a result of the Commission's Order in Docket No. UE-050482. In the
19 Company's initial filing, the effect of this adjustment increases NOI by \$53,000 for
20 electric operations.

21

⁴³The corrected pages were submitted directly to Staff via email on May 20, 2015.

1 **Q. Please describe Staff's change to the Company's net gains/losses adjustment.**

2 A. Staff analyzed the Company's workpapers and the Company inadvertently excluded
3 certain cells from the calculation. During a phone conversation with Staff, the
4 Company acknowledge the error and agreed to correct it on rebuttal. The effect of
5 the revision increases NOI by \$59,000 for electric operations. There was no
6 calculation error in gas operations. Staff supports the adjustment for gas operations
7 as filed and supports the revised amount for electric operations.

8

9 **C. Adjustment 2.18 (Electric) & Adjustment 2.15 (Gas) - Remove Restricted**
10 **Stock Units included in Long Term Incentive Plan**

11

12 **Q. Please describe Staff's proposed adjustment 3.14.**

13 A. Staff proposes a new adjustment that removes the Long Term Incentive Plan (LTIP)
14 expenses included in the results of operations. This reduces test year expenses by
15 \$238,000 for electric operations and \$71,000 for gas operations. This is an increase
16 in NOI of \$155,000 and \$46,000, respectively.

17

18 **Q. What is the Long Term Incentive Plan?**

19 A. As stated in the document, "Long-Term Incentive Plan Avista Corporation"

20 The purpose of the Avista Corporation Long Term Incentive Plan is to
21 enhance the long-term shareholder value by offering opportunities to
22 employees, directors and officers . . . to participate in the Company's growth
23 and success.⁴⁴

⁴⁴ Avista response to Staff Data Request No. 7, Attachment B, at page 2.

1 The LTIP is made up of two components: restricted stock for 25 percent of the award
2 and performance shares accounting for 75 percent of the award.⁴⁵ As stated in its
3 response to Public Counsel Data Request No. 17:

4 The Plan Administrator had determined the basis for Restricted Stock Units is
5 time-based, vesting in three equal annual increments, provided the executive
6 remains employed by the company on the last day of each year of the three
7 year vesting period.

8
9 **Q. Does the Company's results of operations reflect the entire LTIP for the test**
10 **year?**

11 A. No. The results of operations reflect only incentives related to restricted stock units
12 (RSU) for executive officers.⁴⁶

13
14 **Q. What is the Company's rationale for including the RSU portion of the LTIP in**
15 **rates?**

16 A. The Company states:

17 The Restricted Stock is designed to provide an incentive for employees to
18 remain employed by the Company and is therefore, appropriate to be
19 included in rates . . . Employees with a long tenure of employment with the
20 Company are well versed in the Company's culture and will continue to
21 cultivate the values we have built our Company on.⁴⁷

22 This is the only justification provided by Avista for the RSU to be included in rates;
23 no Avista witness presented testimony in the initial filing discussing this topic.

24

⁴⁵ Avista response to ICNU Data Request No. 31 at Page 2, Line 29-30.

⁴⁶ Avista response to ICNU Data Request No. 31 at Page 2, Lines 39-42.

⁴⁷ *Id.* at 2, 33-38.

1 **Q. Has the Commission provided direction previously on such incentive programs?**

2 A. Yes. The Commission provided guidance for incentive bonuses in Docket UG-
3 920840 by stating:

4 Plans which do not tie payments to goals that clearly and directly benefit
5 ratepayers will face disallowance in future proceedings.⁴⁸

6
7 **Q. Does the Company's case meet the Commission's test for providing clear and
8 direct benefits to ratepayers?**

9 A. No. The LTIP includes none of the defined goals included in the Company's
10 currently-approved short term incentive plan. These include: reducing the utility
11 cost per customer; improving customer satisfaction and system reliability; or
12 reducing response time in outages.

13
14 **Q. Are there other reasons to not allow LTIP in revenue requirement?**

15 A. Yes. The LTIP should not be included in revenue requirement for three additional
16 reasons:

- 17
- 18 • The Company has not included the LTIP in rates for the last five rate
19 cases nor has the Company proposed or implemented any changes to its
20 LTIP. Avista has not provided adequate justification for suddenly
21 including the RSU component of the LTIP in rates.
 - 22 • The RSU three year vesting component does not incentivize employees to
stay with the Company for longer than three years. Rather, it only

⁴⁸ *Wash. Utils. & Transp. Comm'n. v. Washington Natural Gas Co.*, Docket UG-920840, 4th Supp. Order (Sep. 27, 1993), p. 19.

1 incentivizes employees to stay with the Company for the first three years
2 when they are receiving the restricted stock units.

3 • Granting stock as an incentive could give employees the perverse
4 incentive to value only increases in shareholder value at the expense of
5 ratepayers.

6 The Company has not made a convincing argument as to how the LTIP, specifically
7 the RSU component, ties in with goals that clearly and directly benefit ratepayers.
8 Therefore, Avista's shareholders should continue to bear the costs for the RSU
9 incentive plan

10

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

12 A. Yes

13