Exh. JH-1T
Dockets UE-190334, UG-190335,
and UE-190222
Witness: Joanna Huang

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION, d/b/a AVISTA UTILITIES,** **Respondent.**	**DOCKETS UE-190334, UG-190335, and UE-190222 (*Consolidated*)**

TESTIMONY OF

Joanna Huang

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Results of Operations and Revenue Requirements,
Restate Debt Interest, Pro Forma Labor Non-Executive,
Pro Forma Labor Executive, Pro Forma Employee Benefits,
Pro Forma Insurance Expense, Pro Forma IS/IT Expense,
Pro Forma Property Tax, Pro Forma Fee-Free Amortization,
Pro Forma Colstrip Amortization

October 3, 2019

TABLE OF CONTENTS

LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Joanna Huang. My business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is joanna.huang@utc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission ("Commission" or "UTC") as a Regulatory Analyst in the Energy Section of the Regulatory Services Division.

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

A. I have been employed by the Commission since June 1996.

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

A. I received a Bachelor of Business Administration degree with a major in Accounting from National Chung-Hsing University, Taiwan, in 1987, and a Master of Accounting degree from Washington State University in 1991. Prior to my employment at the Commission, I was employed by the Washington State Department of Revenue as an Excise Tax Examiner. I performed desk audits on Business and Occupation tax returns.

I began my employment with the Commission in June 1996. My work generally includes financial, accounting and other analyses for general rate case proceedings and other tariff filings by the electric and natural gas utilities regulated by the Commission. I attended the National Association of Regulated Utility Commissioners Annual Utility School in 1996 and 2001. In addition, I have attended numerous training seminars and conferences regarding utility regulations and operations.

Q. Have you testified previously before the Commission?

A. Yes. I testified in Puget Sound Energy (PSE) general rate cases in Dockets UE-090704 and UG-090705, and in Dockets UE-072300 and UG-072301; a PSE Power Cost Only Rate Case in Docket UE-130617; Pacific Power general rate cases in Dockets UE-152253, UE-130043 and UE-032065; Avista Corporation d/b/a Avista Utilities ("Avista" or "Company") general rate cases in Dockets UE-170485 and UG-170486, Dockets UE-160228 and UG-160229, Dockets UE-140188 and UG-140189, Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135, and Dockets UE-991606 and UG-991607; and a Northwest Natural Gas Company (NW Natural) purchased gas adjustment tariff filing in Docket UG-111233.

I have also participated in Staff's investigation in the following general rate cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483, Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and Dockets UE-110876 and UG-110877 (all Avista); Docket UG-152286 and Docket UG-060256 (Cascade Natural Gas Corporation); Docket UG-080546 and Docket

UG-031885 (NW Natural); and Dockets UE-070725 and UG-130137, UE-170033/UG-170034 (PSE).

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please explain the purpose of your testimony.

A. The purpose of my testimony is to present Staff's revenue requirement analysis for the first year (Rate Year 1) of Avista's proposed two-year rate plan. Staff conducted an independent, stand-alone analysis to determine the revenue required for the Company to have the opportunity to achieve Staff's recommended rate of return. Staff used a modified historical test year study with known and measurable pro forma adjustments. This portion of my testimony responds to the Company's Pro Forma Studies sponsored by Company witness Ms. Andrews in Exh. EMA-2 and Exh. EMA-3.

Q. In addition to the revenue requirement analysis, did you also analyze any specific adjustments in this proceeding?

A. Yes. I present Staff's recommendations on the following adjustments:

- Restate Debt Interest, Adjustment 2.14
- Pro Forma Labor Non-Executive, Adjustment 3.03
- Pro Forma Labor Executive, Adjustment 3.04
- Pro Forma Employee Benefits, Adjustment 3.05
- Pro Forma Insurance Expense, Adjustment 3.06
- Pro Forma IS/IT Expense, Adjustment 3.07
- Pro Forma Property Tax, Adjustment 3.08
- Pro Forma Fee-Free Amortization, Adjustment 3.12
- Pro Forma Colstrip Amortization, Adjustment 3.13

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

A. Yes. Exh. JH-2 and Exh. JH-3 present Staff's revenue requirement analysis using a modified historical test year Pro Forma Study for electric and natural gas operations, respectively. My Exh. JH-2 and Exh. JH-3 are Staff's responses to Avista witness Ms. Andrews's Exh. EMA-2 and Exh. EMA-3 for Avista's electric and natural gas operations for the Rate Year 1 revenue requirement.

I also sponsor Exh. JH-4 through Exh. JH-11. Exh. JH-4 shows Pro Forma Labor Non-Executive, Adjustment 3.03. Exh. JH-5 shows Staff's Pro Forma Labor Executive, Adjustment 3.04. Exhibits JH-6 through JH-9 show Staff's positions on Employee Benefits, Insurance Expense, IS/IT Expense and Property Tax. Exh. JH-10 shows Staff's Pro Forma Fee-Free Amortization, Adjustment 3.12. Exh. JH-11 shows Staff's Pro Forma Colstrip Amortization, Adjustment 3.13.

Q. Please identify the adjustments that other Staff witnesses address in their testimonies.

A. Betty Erdahl addresses working capital, Adjustment 1.03. Aimee Higby discusses Pro Forma 2019 Major Capital Additions, Adjustment 3.10. David Gomez addresses Production Plant (Adjustment 3.15) and Power Supply, in relation to Colstrip.

III. RESULTS OF OPERATIONS AND REVENUE REQUIREMENTS

A. Avista's Presentations of Revenue Requirements

Q. What revenue requirement does Avista present for its electric operations in Washington?

A. Avista proposes an annual revenue increase of $45.8 million to its electric revenues for Rate Year 1, beginning April 1, 2020. In addition, Avista proposes a subsequent revenue requirement increase of $18.9 million for the second year of the rate plan (Rate Year 2) beginning April 1, 2021.

Q. What revenue requirements does Avista present for its natural gas operations in Washington?

A. Avista proposes an annual revenue increase of $12.9 million to its natural gas revenues for Rate Year 1, beginning April 1, 2020. In addition, Avista proposes a subsequent revenue requirement increase of $6.5 million for Rate Year 2 beginning April 1, 2021.

Q. How does the Company present its Rate Year 1 revenue requirement calculation in this general rate case?

A. First, Avista's revenue requirement calculation starts with an average-of-monthly-averages (AMA) rate base as shown in Ms. Andrews' Exh. EMA-2 and Exh. EMA-3, page 1, column (b). Second, the Company calculates its own modified historical test period results of operations including several restating adjustments. Avista also includes a 2018 end-of-period (EOP) adjustment to rate base in Adjustment 2.19 Electric and Adjustment 2.15 Gas to arrive at the restated results of operations shown on page 7 of Ms. Andrews's Exh. EMA-2 and Exh. EMA-3 for electric and natural gas operations, respectively. Third, the Company includes its proposed pro forma adjustments to arrive at its intended pro forma level results of operations.[1] The Company's overall revenue requirement calculation is shown in the third column of page 2 of Ms. Andrews's Exh. EMA-2 and Exh. EMA-3.

B. Staff's Presentations of Revenue Requirements

Q. What is Staff's recommended revenue requirement for Avista's electric operations?

A. Staff's analysis, based on a modified historical test period with limited pro forma adjustments, results in a recommended increase in annual revenues of approximately $17.6 million for Avista's electric operations, or an increase of 3.51 percent.[2] Staff's revenue requirement calculation is based on Staff witness Mr. David Parcell's recommended 7.16 percent overall rate of return.

Q. What is Staff's recommended revenue requirement for Avista's natural gas operations?

A. Staff's analysis, based on a modified historical test period with limited pro forma

[1] Andrews, Exh. EMA-2 and EMA-3 at pages 8-10.
[2] Huang, Exh. JH-2 at 2:9.

adjustments, results in a recommended increase in annual revenues of approximately $7.0 million for Avista's natural gas operations, or an increase of 7.52 percent.[3] Staff's revenue requirement calculation is based on Staff witness Mr. Parcell's recommended 7.16 percent overall rate of return.

Q. Does your revenue requirement, based on a modified historical test period with limited pro forma adjustments, reflect Rate Year 2 of Avista's proposed rate plan?

A. No. My revenue requirement model and supporting exhibits recommend a single-year revenue requirement through the one-year rate period starting in April 2020. Staff witness Mr. Chris McGuire addresses Avista's proposed revenues for Rate Year 2 starting April 2021. My testimony only responds to Company witness Ms. Andrews with respect to her Exh. EMA-2 and Exh. EMA-3.

IV. CONTESTED ADJUSTMENTS

A. Restate Debt Interest – Electric and Gas, Adjustment 2.14

Q. Please describe Staff's proposed Adjustment 2.14, Electric and Gas, - Restate Debt Interest.

A. Staff's proposed Restate Debt Interest calculates the tax effect on interest using Staff witness Mr. Parcell's recommended weighted average cost of debt, 2.65 percent,

[3] Huang, Exh. JH-3 at 2:9.

applied to Staff's recommended level of rate base. The difference between the Company's and Staff's adjustments results from differences in the weighted average cost of debt and the level of rate base used in the calculation.

The effect on federal income tax of the restated level of debt interest for the test period decreases Washington Net Operating Income by $869,000 and $190,000 for electric and natural gas operations, respectively.

B. Pro Forma Labor Non-Executive (Adjustment 3.03)

Q. What is the adjustment for Pro Forma Labor Non-Executive (Adjustment 3.03)?

A. This adjustment reflects changes to test period union and non-union employee wages and salaries, excluding executive salaries, which are handled separately in Adjustment 3.04, Pro Forma Labor Executive.

Q. Please explain how Avista adjusts the pro forma level of union employee wages and salaries for 2018, 2019 and 2020.

A. During the test year, Avista gave its union employees a 3 percent increase on March 26, 2018. The 2018 portion of the employee wage adjustment adjusts union employee wages effective January 1 to March 26, 2018, as if the raise were effective for the whole year. In addition, Avista adds 3 percent increases for 2019 and 2020 in accordance with contract terms.

Q. Please explain how Avista adjusts the pro forma level of non-union employee wages and salaries for 2018, 2019 and 2020.

A. For non-union employees, the adjustment annualizes the impact of non-union wage increases effective March 5, 2018. Avista also includes an additional 3 percent adjustment for the 2019 increases which became effective March 2019. Avista did not propose an increase for non-union employees for 2020.

Q. Do you agree with Avista's Pro Forma adjustment to capture the 3 percent wage increases in <u>2018</u>?

A. No. The 2018 wage increases are already embedded in current rates.

Q. Please explain how the 2018 wage increases are already embedded in current rates.

A. In its 2017 general rate case filing in Dockets UE-170485 and UG-170486, Avista included two pro forma adjustments reflecting 3 percent wage increases for both union and non-union employees: one 3 percent increase for the period 3/1/2017-**2/2/2018** and another 3 percent increase for the period 3/1/2018-**2/28/2019**.[4] In that rate case, these wage increases were uncontested and so were included in the Commission's final revenue determination. Therefore, the full 3 percent increase for 2018 is already embedded in current rates.

[4] Huang, Exh. JH-4 at page 6.

Q. Do you agree with Avista's Pro Forma adjustment to capture the 3 percent wage increase in 2019?

A. No. I disagree with Avista's adjustment.

Q. Why do you disagree?

A. As noted above, the Commission's final revenue determination for Avista's 2017 general rate case included a 3 percent raise in both union and non-union employee salaries for March 1, 2018 to February 28, 2019. Therefore, the 3 percent increase is already partially (1/1/2019-2/28/2019) embedded in current rates.

Q. Do you agree with Avista's Pro Forma Labor Non-Executive adjustment (Adjustment 3.03) as it pertains to the 3 percent increase for union employees in 2020?

A. Yes. I agree with the Company's position.

Q. What does Staff propose for the Pro Forma Labor Non-Executive adjustment (Adjustment 3.03)?

A. Staff completely removed the 3 percent wage increase for 2018 as it is duplicative of the 3 percent wage increase for 2018 already included in rates. For the 3 percent wage increase for 2019, Staff proportionally removed the increase for the period January 1, 2019, through February 28, 2019, as those amounts too are already embedded in rates. The resulting increase for 2019 is 2.52 percent. Staff does not contest Avista's pro forma adjustment for 2020 union wages.

Q. Please summarize your proposed adjustment for Pro Forma Labor Non-Executive for both union and non-union employees for 2018, 2019 and 2020.

A. The following table is a comparison of Avista and Staff positions for Pro Forma Labor Non-Executive for both union and non-union employees for 2018, 2019 and 2020.

Parties	Categories	2018	2019	2020
Avista	Union	0.714 %	3 %	3 %
	Non-Union	0.519 %	3 %	0 %
Staff	Union:	0 %	2.52 %	3 %
	Non-Union	0 %	2.52 %	0 %

Q. What is the overall impact of Staff's proposed Pro Forma Labor Non-Executive adjustment (Adjustment 3.03)?

A. The overall net impact of Staff's proposed Pro Forma Labor Non-Executive adjustment is a decrease to electric and natural gas Net Operating Income of $1,525,000 and $455,000, respectively. These amounts are shown in my Exh. JH-2 at page 8 for electric operations and JH-3 at page 8 for natural gas operations.

C. Pro Forma Labor Executive (Adjustment 3.04)

Q. What is the Pro Forma Labor Executive adjustment (Adjustment 3.04)?

A. This adjustment reflects executive salary levels approved by Avista's Board of Directors and that are in effect as of March 2019.

Q. Do you agree with Avista's Pro Forma Labor Executive adjustment?

A. No. Avista continues to include the salary of Mr. Scott Morris, CEO, in the pro forma level of expense in the rate year (4/1/2020-3/21/2021), even though Mr. Morris will be retiring March 1, 2020. Therefore, his salary will not be an expense in the rate year. Avista has failed to remove this amount even though the retirement is known and measurable.

Mr. Morris will transition his CEO duties to Avista's President Mr. Dennis Vermillion, who was elected as CEO by the board, effective October 1, 2019.[5]

Q. What is Staff's proposed adjustment to Pro Forma Labor Executive, Adjustment 3.04?

A. Staff removed the salary of Mr. Morris, CEO, from the pro forma adjustment, resulting in an increase to electric and natural gas Net Operating Income of $4,000 and $2,000, respectively. These amounts are shown in my Exh. JH-2 and JH-3 at page 8 for both electric operations natural gas operations.

D. Pro Forma Employee Benefits (Adjustment 3.05)

Q. Please explain Avista's adjustment for Pro Forma Employee Benefits.

A. Avista adjusts the 2018 retirement plans (401(k) and pension), and medical insurance for active employees and for those retired (post-retirement medical) to the expected amount for 2020. Annually, the Company works with independent consultants to

[5] Huang, Exh. JH-5 at page 4.

determine the appropriate level of expense for both the Retirement Plans (Willis Towers Watson) and the Medical Plans (Mercer).

Q. What is the amount of the adjustment?

A. Avista proposed including a 15.42 percent increase to its current employee benefits of $63,273,059. This equals a $9,754,395 pro forma increase to its test year level of expense.

Q. Do you dispute Avista's proposed increase for Employee Benefits?

A. Yes. Avista's proposed increase of $9,754,395 represents an abnormally high increase, especially considering that employee benefits expense embedded in the test year are already nearly 30 percent higher than only three years prior.[6] The Company's proposed changes to pro forma employee benefits from 2013 to 2018 have ranged from -3,494,110 to $8,726,888.[7]

Q. Has Avista been accurate in projecting the pro forma Employee Benefits expense?

A. No. For example, in Avista's 2014 general rate case, in Dockets UE-140188 and UG-140189, Avista proposed a pro forma level of Employee Benefits of $53,951,000.[8] In the next year's rate case, in Dockets UE-150205 and Docket UG-

[6] The pro forma level of employee benefits was $53,951,000 in Dockets UE-140188 and UG-140189. See Huang, Exh. JH-6 at page 3, shaded in green.
[7] Huang, Exh. JH-6 at page 3.
[8] Huang, Exh. JH-6 at page 3, shaded in green.

150206, Avista provided the actual expense for Employee Benefits. The actual expense level was $51,194,312,[9] which is approximately $2.8 million lower than what Avista claimed for the pro forma level of Employee Benefits in the prior year's general rate case.

In Dockets UE-150205 and UG-150206, Avista's proposed pro forma level of Employee Benefits was $59,921,200,[10] while the actual Employee Benefits provided in Dockets UE-160228 and Docket UG-160229 were $57,902,170,[11] again more than $2 million lower than what Avista claimed for the pro forma level in the prior year's general rate case.

In Dockets UE-170485 and UG-170486, Avista included an uncontested pro forma level of employee benefits of $69,690,986.[12] However, the actual employee benefits expense in 2018 (presented in Dockets UE-190334 and UG-190335) was $63,273,059,[13] approximately $6.5 million lower than what Avista claimed for the pro forma level in the prior year's general rate case filing.

Q. What is the takeaway from these pro forma versus actual Employee Benefits expenses?

A. Avista consistently overestimates the level of Employee Benefits expense it will incur in the rate year.

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[9] Huang, Exh. JH-6 at page 3, shaded in green.
[10] Huang, Exh. JH-6 at page 3, shaded in purple.
[11] Huang, Exh. JH-6 at page 3, shaded in purple.
[12] Huang, Exh. JH-6 at page 3, shaded in orange.
[13] Huang, Exh. JH-6, page 3, shaded in orange.

Since its 2014 general rate case, Avista has overestimated its Employee Benefits by a total of $11 million. Therefore, Avista's ratepayers have overpaid $11 million over the last four years.

Q. What were Avista's actual Employee Benefits in the most recent three years?

A. Avista's actual Employee Benefits were $70,405,510 in 2016, $66,083,302 in 2017 and $63,273,059 in 2018[14] demonstrating a downward trend in costs.

Q. What was the average level of Avista's Employee Benefits in the last five years?

A. Avista's average Employee Benefits level was $61,919,122 for the last five years from 2014 to 2018.[15]

Q. Please summarize your conclusion to Avista's proposed Employee Benefits in this proceeding?

A. Avista proposes a 15.42 percent pro forma increase to its current medical benefit of $63,273,059. This adjustment represents an increase of $9,754,395 to the Company's test year level of expense, which increases the rate year level of Employee Benefits to $73,027,454. Given that Avista has consistently over-estimated these costs, and that Employee Benefits expense is trending downward rather than upward, Staff is unconvinced that Avista's pro forma level of expense is realistic.

[14] Huang, Exh. JH-6, Avista's Response to UTC Staff Data Request No. 9.
[15] Huang, Exh. JH-6 at page 4.

Q. What is your proposed adjustment to Avista's Employee Benefits in this proceeding?

A. Staff removes Avista's pro forma adjustment to Employee Benefits expense, and uses the test period actual expense for the revenue requirement calculation. The test period actual expense of $63,273,059 is known and measurable, and is reasonably consistent with Avista's average Employee Benefits of $61,919,122 for the last five years from 2014 to 2018.[16]

E. Pro Forma Insurance Expense (Adjustment 3.06)

Q. Please explain the Pro Forma Insurance expense adjustment.

A. This adjustment reflects the 2018 level of insurance expense for general liability, directors and officers ("D&O") liability, and property insurance to the level of insurance expense the Company will experience during the rate year. This pro forma Insurance expense excludes D&O insurance and is reduced by 10 percent for ratemaking purposes.

Q. Do you agree with Avista's Pro Forma Insurance expense adjustment?

A. No. I dispute the adjustment.

[16] *See* Huang, Exh. JH-6 at page 4.

Q. Why do you dispute the adjustment?

A. As with Employee Benefits expense, Avista has a history of overestimating its level of Insurance expense.

Q. Please explain Avista's history of overestimating its level of Insurance expense.

A. Avista's proposed level of pro forma Insurance expense was $5,813,343[17] in Dockets UE-140188 and UG-140189. This level of expense was not challenged and was approved by the Commission. The actual Insurance expense, which was provided in Dockets UE-150205 and UG-150206, was $4,917,693.[18] This actual Insurance expense is approximately $0.9 million lower than what Avista claimed for the pro forma level of Insurance expense in the prior year's general rate case.

In Dockets UE-150205 and UG-150206, Avista's proposed pro forma level of Insurance expense was $5,575,651.[19] This level of expense was not challenged and was approved by the Commission. The actual Insurance expense, which was provided in Dockets UE-160228 and Docket UG-160229, was $5,095,310.[20] This actual Insurance expense is nearly $0.5 million lower than what Avista claimed for the pro forma level of Insurance of $5,575,651 in the prior year's general rate case.

Avista did not present traditional pro forma Insurance Expense adjustment in its next rate case, Dockets UE-160228 and UG-160229. In its "Cross Check" in that case, however, which resembled pro forma adjustment, Avista included estimated

[17] Huang, Exh. JH-7 at page 3, shaded in green
[18] Huang, Exh. JH-7 at page 3, shaded in green.
[19] Huang, Exh. JH-7 at page 3, shaded in purple.
[20] Huang, Exh. JH-7 at page 3, shaded in purple.

pro forma Insurance expense levels of $5,242,104[21] for 2017 and $5,515,707 for 2018. Avista did not make any Insurance expense adjustments in its next general rate case, in Dockets UE-170485 and UG-170486. In the instant proceeding, however (that is, Dockets UE-190334 and UG-190335), the actual Insurance expense that Avista provided was again lower than Avista's estimate. The actual Insurance expense for 2018 in Dockets UE-190334 and UG-190335 was $4,590,085.22 This actual Insurance expense for 2018 is more than $0.9 million lower than what Avista claimed for the "Cross Check" pro forma level of Insurance expense of $5,515,707 in Dockets UE-160228 and UG-160229. In addition, this actual Insurance expense for 2018 is $0.7 million lower than what Avista claimed for the "Cross Check" pro forma level of Insurance expense $5,242,104 for 2017 in Dockets UE-160228 and UG-160229.

Q. What do you conclude from your comparison of the estimated an actual Insurance expense levels over the five-year period from 2013 to 2018?

A. Avista has consistently overestimated its Insurance expense since its general rate case filing in Dockets UE-140188 and UG-140189.

Q. What is your proposed adjustment to Avista's Insurance expense in the current proceeding?

A. Staff proposes rejecting Avista's pro forma Insurance expense adjustment and leaving Insurance expense at the actual test period level. The test period expense

[21] Huang, Exh. JH-7 at page 3, shaded in yellow
[22] Huang, Exh. JH-7 at page 3, shaded in yellow.

level is more representative of the rate year Insurance expense than Avista's pro forma estimate.

F. Pro Forma IS/IT Expense (Adjustment 3.07)

Q. Please explain the Pro Forma IS/IT expense adjustment.

A. This adjustment purports to update the test year level of information services and technology expense of 2018 to levels expected during the rate period beginning April 1, 2020.

Q. Do you agree with Avista's adjustment on Pro Forma IS/IT expense?

A. No. I disagree. Like Employee Benefits and Insurance expense, Avista's proposed IS/IT expense is unsubstantiated.

Q. Can you please explain why you believe that Avista's proposed IS/IT expense is unsubstantiated?

A. Yes. Avista's proposed level of pro forma IS/IT expense was $2,173,626[23] in Dockets UE-140188 and UG-140189. This level of expense was not challenged and was approved by the Commission in Dockets UE-140188 and UG-140189. The actual IS/IT expense was provided in Dockets UE-150205 and UG-150206 and was only $832,324.[24] This actual IS/IT expense is more than $1.3 million lower than the pro forma level of IS/IT expense of $2,173,626 that Avista estimated in the prior

[23] Huang, Exh. JH-8 at page 3, shaded in green.
[24] Huang, Exh. JH-8 at page 3, shaded in green, non-labor only.

year's general rate case. Avista proposed and IS/IT expense adjustment in its Cross Check Study in Dockets UE-160228 and Docket UG-160229. In its Cross Check Study, Avista proposed an outrageous pro forma IS/IT expense of $23,226,485[25] for 2017 and $23,935,095[26] for 2018. The actual IS/IT expense of $18,558,146[27] that Avista provided in its 2017 general rate case in Dockets UE-170485 and UG-170486 was again much lower than the Company's estimate in its Cross Check Study in the 2016 general rate case.

Q. Did Avista propose any IS/IT expense adjustment in Dockets UE-170485 and Docket UG-170486?

A. Yes.

Q. Please continue.

A. In Dockets UE-170485 and UG-170486, Avista's proposed pro forma level of IS/IT expense was $19,897,122[28] for the 2017 level of pro forma IS/IT expense**.** In Dockets UE-170485 and UG-170486, Avista included the non-labor and labor portions of IS/IT expenses. This is significant because in its next general rate case Avista included only non-labor portions of the expense. My Exh. JH-8, at page 3, contains both the whole amounts and the separate amounts of the non-labor and labor portions of IS/IT expenses. The level of pro forma IS/IT expense was not

[25] Huang, Exh. JH-8 at page 3, shaded in red, non-labor only
[26] Huang, Exh. JH-8 at page 3, shaded in red, non-labor only.
[27] Huang, Exh. JH-8 at page 3.
[28] Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.

challenged in Dockets UE-170485 and UG-170486 and was approved by the Commission.

In Avista's 2017 general rate case, the Company proposed a rate plan. Associated with the rate plan, Avista presented a Rate Year Study for 2018 IS/IT expense. The estimated level of 2018 IS/IT expense in the Rate Year Study was $20,503,092.[29] The rate plan, and thus, the Rate Year Study, in Dockets UE-170485 and UG-170486 was not accepted by the Commission.

In Avista's next general rate case, in Dockets UE-190334 and Docket UG-190335, Avista used a level of IS/IT expense that included only non-labor portions of the expense. The actual level of 2018 IS/IT expense was $11,440,101. This actual IS/IT expense is approximately one half of the amount of what Avista claimed for the pro forma level of IS/IT Expense in the prior years' general rate case filings in 2016 and 2017. (For comparison purposes, I have used only the non-labor portion of IS/IT expenses here.)

Q. What was the trend that developed over the five-year period from 2013 to 2018?

A. Avista seems to habitually overestimate its IS/IT expense. My analysis demonstrates just how aggressive and far-fetched these estimates are. When Avista overestimates its IS/IT expense, ratepayers then overpay for something that was never implemented.

[29] Huang, Exh. JH-8 at page 3, shaded in peach color, non-labor only.

Q. What is your proposed adjustment to Avista's IS/IT expense in Dockets UE-190334 and Docket UG-190335, in this proceeding?

A. Staff proposes to leave the current test period actual expense as the pro forma level expense. The current test period actual expense is more representative of the pro forma level expense.

G. Pro Forma Property Tax (Adjustment 3.08)

Q. Please explain the Pro Forma Property Tax expense adjustment.

A. This adjustment is to bring the 2018 level of property tax expense included in adjustment (2.02) Restate 2018 Property Tax, to the level of property tax expense the Company will experience during the rate year.

Q. Do you agree with Avista's Pro Forma Property Tax expense adjustment?

A. No. I disagree with the Company's proposed Pro Forma Property Tax adjustment.

Q. How much is the Pro Forma Property Tax increase that Avista proposed in its general rate case filing on April 29, 2019, in this proceeding?

A. Avista proposed a 14.88 percent increase to its current property tax of $35,313,692. This adjustment represents an increase of $5,254,802 increase to the Company's test year level of Property Tax expense.

Q. Did Avista revise its Pro Forma Property Tax expense increase after its general rate case filing?

A. Yes. In a response to Staff discovery, Avista significantly reduced its proposed expense for both electric and natural gas operations.

Q. By how much did Avista propose to revise its Pro Forma Property Tax expense increase?

A. Avista proposed to reduce its original proposed amount by more than two-thirds for both electric and natural gas operations. This means that the Company's original proposed amounts were more than three times higher than the revised amounts for both electric and natural gas operations.[30] Even Avista seems to have recognized that it had overestimated Pro Forma Property Tax significantly.

Q. Please continue.

A. The following table shows the original proposed Pro Forma Property Tax expense contrasted with the revised amounts for both electric and natural gas operations.[31]

	WA Electric	**WA Gas**
Adjustment, as filed	$ 3,558,274	$ 475,894
Adjustment, as updated	**1,052,718**	**103,435**
Reduction to Property Tax Expense in GRC	$(2,505,556)	$(372,459)

[30] Huang, JH-9 at page 4.
[31] Huang, JH-9 at page 4.

Q. What is your proposed adjustment to Avista's property tax in this proceeding?

A. Staff proposes to adopt Avista's revised level of proposed Property Tax expense. The overall net impact of this adjustment to Avista's filed case is a decrease to electric and natural gas Net Operating Income of $832,000 and $81,000, respectively. These amounts are shown in my Exh. JH-2 and Exh. JH-3 at page 9 for both electric and natural gas operations.

H. Pro Forma Fee-Free Amortization (Adjustment 3.12)

Q. Please explain the Pro Forma Fee-Free Amortization adjustment.

A. The Commission approved deferral of the costs Avista incurs to offer a fee-free payment program for its residential customers. Avista's residential customers previously had to pay a third-party vendor when making a credit or debit card payment through any payment channel or a one-time Automated Clearing House (ACH) payment. As approved in Dockets UE-160071 and UG-160072, Avista is allowed to recover the costs associated with offering this program from all customers in a general rate case. Pro Forma Fee-Free Amortization reflects the annual expense associated with the "fee-free" payment expense incurred during the rate year ($775,000 electric and $497,000 natural gas), as well as the annual amortization expense as a result of amortizing the "fee-free" payments deferred from February 2017 through March 2020 over a two year period (April 1, 2020 through March 31, 2022).

Q. When will Avista's fee-free payment program be discontinued?

A. Avista's fee-free payment program concludes January 31, 2020, which is three years after the initial starting date.

Q. How does the program work?

A. Avista defers the actual costs associated with this program incurred from a third-party vendor. The deferrals are recorded in FERC Account 182.3 – Other Regulatory Assets. Avista is authorized to amortize (over a two-year period) the actual costs to FERC Account 407.3 – Regulatory Debits – Amortization. The deferred actual costs can be recovered in a general rate case proceeding.

Q. What is at issue for this adjustment?

A. Avista has presented deferred costs for recovery in this proceeding, based not only on incurred costs but on projections. Staff has no issue with Avista's fee-free payment program with respect to the program itself. And Staff does not dispute recording deferrals as FERC Account 182.3 – Other Regulatory Assets or amortizing the actual costs over a two-year period in FERC Account 407.3 – Regulatory Debits. What is at issue here is that Avista estimated how much the monthly cost will be for the future rate year and added a layer of uncertain costs to the program.

Q. Why is an estimated monthly program cost for the whole year not appropriate?

A. Avista's original accounting petition for deferring a fee-free payment program cost proposes a deferral up to 36 months of ACTUAL program expenses, not estimated program expenses.[32]

Q. What is Staff's proposed adjustment to the Pro Forma Fee-Free Amortization adjustment?

A. Staff removed Avista's estimated program expense for the 12-month period for the pro forma level of adjustment. Staff believes that Avista should defer the actual program costs, not the estimated program costs, as approved in Avista's accounting petition in Dockets UE-160071 and UG-160072. The overall net impact of this adjustment is a decrease to electric and natural gas Net Operating Income of $1,029,000 and $660,000, respectively. These amounts are shown in my Exh. JH-2 and Exh. JH-3 at page 9 for both electric and natural gas operations.

I. Pro Forma Colstrip Amortization (Electric, Adjustment 3.13)

Q. Please explain the Pro Forma Colstrip Amortization adjustment.

A. This adjustment reflects the Company's proposed treatment for recovery of its investment in Colstrip Units 3 and 4 after applying an accelerated depreciation rate through 2027.

[32] Avista's Accounting Petition, page 12, lines 26-27, to page 13, line 1.

Q. Did Avista revise its adjustment to Pro Forma Colstrip Amortization, Adjustment 3.13 after its general rate case filing on April 29, 2019?

A. Yes, in response to Staff discovery, Avista significantly changed its adjustment to Pro Forma Colstrip Amortization, Adjustment 3.13, on August 26, 2019.[33]

Q. What did Avista change in its updated adjustment to Pro Forma Colstrip Amortization, Adjustment 3.13?

A. Avista changed two items: (1) the amount of capital that will transfer to plant in 2019 for Colstrip and (2) depreciation expense.[34] Regarding the first item, Avista originally estimated the Colstrip expense through December 2019. The revised adjustment used actual Transfer to Plant (TTP) of Colstrip for January 1, 2019, through May 31, 2019, and simultaneously updated its forecasted TTP through December 2019. Second, Avista inadvertently omitted from the adjustment the 2019 depreciation and its impact on accumulated depreciation. The revised adjustment corrected this error.

Q. What is your proposed adjustment to Pro Forma Colstrip Amortization, Adjustment 3.13?

A. Staff's adjustment reflects Avista's updates to this adjustment, which the Company provided in a supplemental response to Staff discovery.[35] The overall net impact of

[33] Huang, Exh. JH-11 at page 3.
[34] Huang, Exh. JH-11 at page 4.
[35] Huang, Exh. JH-11 at 3-4.

this adjustment is a decrease to electric Net Operating Income and Rate Base of $1,315,000 and $14,194,000, respectively.

Q. Does this conclude your testimony?

A. Yes.