

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION D/B/A/ AVISTA UTILITIES

Respondent.

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

**SEBASTIAN COPPOLA
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT SC-20

Avista's Response to Public Counsel's Data Requests No. 91 and 256, on Capital Project
or Program Selection Criteria

July 29, 2022

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	04/20/2022
CASE NO.:	UE-220053 & UG-220054	WITNESS:	Elizabeth Andrews
REQUESTER:	Public Counsel	RESPONDER:	Liz Andrews
TYPE:	Data Request	DEPT:	Regulatory Affairs
REQUEST NO.:	PC – 091	TELEPHONE:	(509) 495-8601
		EMAIL:	liz.andrews@avistacorp.com

SUBJECT: Capital Additions RY1 and RY2

Elizabeth M. Andrews, Exh. EMA-1T at 21:1–29 and 22:1–3.

REQUEST:

In addition to the guidance provided by the Washington Utilities and Transportation Commission (“Commission”) and with regard to the capital projects included in RY1 and RY2, what additional criteria did the Company apply to include or exclude forecasted projects and related costs? In which stage of development must the project or program be to be included in RY1 and RY2? For example, were projects or programs at the conceptual phase included or excluded, were projects or programs at the design stage included or excluded, were projects or programs not bid out for work to vendors and contractors included or excluded, and were projects or programs not yet approved by executive management included or excluded? Must the project or program have started the construction phase to be included? Must the completion date, or in-service date, be within the end of RY1 to be included in that year’s capital additions, and similarly for RY2 projects? Please:

- a) Provide the detailed criteria used for capital projects and program spending included in RY1 and RY2 by category (Specific, Programmatic, Short-Lived, and Mandatory & Compliance).
- b) Please explain why you selected those criteria.
- c) Given that the project costs for RY1 and RY2 are forecasted costs, how do they meet the known and measurable standard?
- d) Is the Company’s assumption that if the project or program is scheduled to be completed or placed in-service by the end of the forecasted rate year, it is used and useful without other determinative criteria? If yes, please explain why. If no, please explain further.

RESPONSE:

See Ms. Andrews testimony, Exh. EMA-1T, starting at page 16, line 11, through page 25 for the ratemaking guidance the Company relied upon in preparation of this case. In general, the Company relied upon past general rate case orders for Avista, or other peer utilities, the Commission’s January 31, 2020 “Policy Statement on Property That Becomes Used and Useful After Rate Effective Date” (“Policy Statement”)¹, as well as the recent Engrossed Substitute Senate Bill 5295 (SB 5295), signed into law in May of 2021 (and effective in July 2021)² to determine the appropriate capital investment to include in its filed case.

As noted in Ms. Andrews testimony, the Company included all transfers to plant directly assigned or allocated to Washington for the period October 1 – December 31, 2021 (as pro forma adjustment), and

¹ Docket No. U-190531.

² On May 3, 2021, Governor Inslee signed into law Engrossed Substitute Senate Bill 5295.

included as “provisional” adjustments, all expected transfers to plant from January 1, 2022 through December 31, 2024. Given the required Two-Year Rate Plan per SB 5295, and recent guidance from the Commission, the Company did not otherwise exclude Business Cases that were expected to transfer to plant during the Two-Year Rate Plan.

Mr. Ehrbar provides at PDE-1T, starting at page 2, an overview of how capital projects are initially developed, are vetted within a business unit for approval or are denied, how the projects are then funded (in whole or in part, or delayed), and then how the combination of those projects are summarized and presented to senior management and the Board of Directors for ultimate approval. All projects included in the Company’s case have been vetted through this process, have approved Business Cases³, have management approval, and are included as planned transfers to plant at the amount and timing when the transfers to plant are expected to occur between October 1, 2021 through December 31, 2024. These amounts and dates are the expected in-service date, when investment is planned to be used and useful for customers. Because of the length of the Two-Year Rate Plan – projects included in the Company’s case will be at various stages throughout the process of this case, as well as during the Two-Year Rate effective periods.

Regardless of what is expected and included in the Company’s case, all projects during 2022 through 2024 will be subject to review and refund based on the Commission’s Used and Useful Policy Statement.⁴ As discussed by Ms. Andrews, the Provisional Reporting as proposed by the Company, will provide additional support, will serve to validate that such plant is, in fact, in-service, is used and useful and at what cost (after any offsetting benefits). This will provide the Commission with assurance that the provisional capital included prior to the rate effective period (for 2022 capital) and during RY 1 (2023 capital) and RY2 (2024 capital) is in service for customers during the rate effective periods, or will be subject to refund, with interest. See Provisional Reporting at

a) As discussed within Ms. Andrews testimony, the Company typically has approximately 120 plus projects (Business Cases) completed on an annual basis which represent the approximate \$445 million of capital spending for any given year. In order to facilitate the auditing of the projects, the Company grouped its Business Cases to fit into the Commission defined categories in its Used and Useful Policy Statement. These categories are: 1) specific, identifiable, and distinct, titled: Large and Distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets. The Company also uses a 4th category reflecting projects that are mainly “programmatic,” but required to meet regulatory and other mandatory obligations, titled: 4) Mandatory and Compliance. There are a few specific projects that are accounted for outside of these that include EIM, Wildfire Resiliency Plan, and Colstrip Units 3 & 4. These were isolated from the general additions to allow for specific review for the projects.⁵ Mr. Baldwin-Bonney, within his testimony at Exh. JBB-1T, also describes these groupings and the individual capital adjustments for the period January 2022 through December 2024 meant to include

³Capital witnesses testimony and exhibits were included providing information on all Business Cases included in the Company’s case, including expected costs, by in-service date. All Washington share of directly assigned or allocated transfer-to-plant data (actual or expected) is provided by Business Case, by witness, by month (the in-service “used and useful” date) within Mr. Baldwin Bonney testimony and exhibits pro formed in the Company’s case. Testimony and exhibits in support of the capital Business Cases are provided by capital witnesses, Mr. Thackston regarding production assets, including Colstrip assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista’s IS/IT projects and short-lived assets; Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets.

⁴ See Used and Useful Policy Statement, Docket No. U-190531, para. 11, p. 5 and para. 34, page 11.

⁵ The Commission discussed their consideration of Short-Lived assets in Order 08 of the most recently concluded Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.

these capital additions in the Company's case.⁶ Each Business Case was reviewed based on its type of asset and placed within one of the self-explanatory categories.

b) As noted above, the Company followed the Commission's guidance and grouped its Business Cases to fit into the Commission defined categories in its Used and Useful Policy Statement.

c) SB 5295 solidified the Commission's authority (codified primarily in RCW 80.28.425), with regard to protections for the utility, through recovery of a utility's capital investment, the valuation of property investment, determination of expenses and revenues – and the ability to approve multi-year rate plans, as well as protections for customers, through earnings tests and low income bill assistance.

With regards to the Commission's Policy Statement, the Commission at para. 6, p. 3, stated:

... In its 2019 session, the legislature clarified the Commission's ratemaking authority by enacting E2SSB 5116, which provides, in relevant part, that:

(2) The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state by or during the rate effective period and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. ...

(3) The commission may provide changes to rates under this section for up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. The commission must establish an appropriate process to identify, review, and approve public service company property that becomes used and useful for service in this state after the rate effective date. (footnotes omitted) (emphasis in original)

Furthermore, guidance from the Commission's Policy Statement, with regard to current applicable principles and standards for setting rates, stated:

..the Commission's longstanding ratemaking practice is to set rates using a modified historical test year with post-test-year rate-base adjustments using the known and measurable standard, the matching principle, and the used and useful standard, all while exercising considerable discretion under each of these standards in the context of individual cases. We intend to continue following these practices and standards as we implement the change to how and when we evaluate property as used and useful. It continues to be necessary within the context of a GRC to first develop a modified historical test year (*i.e.*, pro forma study) upon which requests to include property in rates will be considered. ... (para. 21, p. 8)

⁶ As noted, Mr. Baldwin-Bonney addresses the majority of the pro forma and provisional adjustments and provides the complete listing of capital additions included within each category, and identifies which Company witness discusses each Business Case – see Exh. JBB-1T, Table Nos. 2 and 3 (2021 additions), and Table Nos. 4 and 5 (2022 – 2024 additions). Other Company witnesses, *i.e.*, Mr. Thackston regarding production assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista's Information Service / Information Technology (IS/IT) projects and short-lived assets; Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets, provide more specific information on these business cases.

The Commission's longstanding interpretation of the property valuation provision of RCW 80.04.250 is that property or plant additions must be used and useful to serve Washington customers to be included in rates. "Used" means that the investment (plant) is in service, and "useful" means that a company has demonstrated that its investment benefits Washington ratepayers. (emphasis added) (footnotes omitted) (para. 26, pp. 9 - 10)

With the changes to RCW 80.04.250(3), we find that the requirements for pro forma adjustments discussed above hold true for requests for rate-effective period property, although they cannot be reviewed completely prior to rates going into effect. Accordingly, we must replace the traditional prospective review with a retrospective review for rate-effective period property requests. (emphasis added) (para. 27, p. 10)

Property that has been included in each RY1 and RY2 is expected to transfer to plant at the designated time. As noted in the guidance above, the Commission's standards, including the "known and measurable standard" hold true for requests for rate-effective period property. Although much of the RY1 and RY2 property cannot be reviewed completely prior to rates going into effect, accordingly, the Commission must replace the traditional prospective review with a retrospective review for rate-effective period property requests. "Provisional" adjustments included in RY1 and RY2 (2022 through 2024 additions) will be subject to retrospective review, as proposed by the Company per its Provisional Reporting, allowing for final review verifying all property ultimately approved by the Commission meets each the Commission's required criteria.

d) See c) above.

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	05/16/2022
CASE NO.:	UE-220053 & UG-220054	WITNESS:	Elizabeth Andrews
REQUESTER:	Public Counsel	RESPONDER:	Liz Andrews
TYPE:	Data Request	DEPT:	Regulatory Affairs
REQUEST NO.:	PC – 256	TELEPHONE:	(509) 495-8601
		EMAIL:	liz.andrews@avistacorp.com

SUBJECT: RE: Capital Additions TY1 and TY2

REQUEST:

Refer to the Avista’s response to Public Counsel Data Request No. 91 subpart (b).

The answer is not responsive to the question. The question referred to the criteria used to select and include projects in RY1 and RY2, as shown in the preamble to the question, such as projects at the conceptual phase, design stage, etc. It did not refer to the capital categories. Please provide a response to the question in subpart (b) to Public Counsel Data Request No. 91.

RESPONSE:

As explained in Avista’s response to PC-DR-91:

[T]he Company included all transfers to plant directly assigned or allocated to Washington for the period October 1 – December 31, 2021 (as pro forma adjustment), and included as “provisional” adjustments, all expected transfers to plant from January 1, 2022 through December 31, 2024. ...

All projects included in the Company’s case have been vetted through this process, have approved Business Cases¹, have management approval, and are included as planned transfers to plant at the amount and timing when the transfers to plant are expected to occur between October 1, 2021 through December 31, 2024. These amounts and dates are the expected in-service date, when investment is planned to be used and useful for customers. Because of the length of the Two-Year Rate Plan – projects included in the Company’s case will be at various stages throughout the process of this case, as well as during the Two-Year Rate effective periods.

This means, as previously asked and answered, that what was included in the Company’s filed case are projects that are or will be transferred to plant, used and useful, during the specific time frames, and will be at various stages throughout the process of this case.

¹Capital witness’s testimony and exhibits were included providing information on all Business Cases included in the Company’s case, including expected costs, by in-service date. All Washington share of directly assigned or allocated transfer-to-plant data (actual or expected) is provided by Business Case, by witness, by month (the in-service “used and useful” date) within Mr. Baldwin Bonney testimony and exhibits pro formed in the Company’s case. Testimony and exhibits in support of the capital Business Cases are provided by capital witnesses, Mr. Thackston regarding production assets, including Colstrip assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista’s IS/IT projects and short-lived assets; Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets.

Beyond the fact that projects have been vetted through the Company's capital process, have approved Business Cases, have management approval, and are included as planned transfers to plant during the Two-Year Rate Plan, the Company did not need to consider "additional criteria," "what stage of development", etc. to include or exclude projects. As stated previously, yes, to be included, all Business Cases, will be, or are expected to be completed, i.e. in-service / used and useful, to be included by December 31, 2023 for RY1 (2022-2023 Business Cases) and December 31, 2024 for RY2 (2024 Business cases). Note, 2023 additions are included on an AMA basis in RY1, and 2024 additions are included on an AMA basis in RY2.