

**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-9

Avista's Response to Public Counsel's Data Request No. 121, with Attachment B, on
inflation factors

July 29, 2022

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

| | | | |
|---------------|-----------------------|----------------|-------------------------------|
| JURISDICTION: | WASHINGTON | DATE PREPARED: | 04/19/2022 |
| CASE NO.: | UE-220053 & UG-220054 | WITNESS: | G. Forsyth, Ph.D / E. Andrews |
| REQUESTER: | Public Counsel | RESPONDER: | G. Forsyth, Ph.D / E. Andrews |
| TYPE: | Data Request | DEPT: | Regulatory Affairs |
| REQUEST NO.: | PC – 121 | TELEPHONE: | (509) 495-8601 |
| | | EMAIL: | liz.andrews@avistacorp.com |

**SUBJECT: Miscellaneous Expenses (Inflationary Increases)
Andrews, Exh. EMA-1T at 125:9 and 128:10.**

REQUEST:

Please:

- a) Provide the data in Excel underlying Figures No. 2 and 3, at 126 and 127 respectively. Please keep any formulas intact and cells unlocked.
- b) Provide the most recent forecasted CPI-U and PPI rates for 2022, 2023 and 2024 available to the Company from IHS, the Federal Reserve, or other widely distributed publication. Please provide a copy of the source documents.
- c) Has the Commission allowed the Company to set O&M expenses, capital additions, or other costs in rates in prior rates cases based on or adjusted for forecasted inflation factors, such as the CPI-U or the PPI? If yes, please provide a specific reference where in the latest two rate cases the Commission has approved such inflationary adjustments.

RESPONSE:

a) Data for Figures No. 2 and 3 are included as PC-DR-121 Attachment A – PPIAC. For Figure No. 2, see tab, “PPIACO Figs 1 & 2”, column-row O-67. For Figure No. 3, see tab, “Inflation and Raw Fred Data Fig 3”, column-row A-902.

b) The Company primarily tracks inflation forecasts for the CPI-U and Personal Consumption Expenditures Index (PCEI). The PCEI is the Federal Reserves preferred measure of consumer inflation for determining the appropriate monetary policy and is calculated by the Bureau of Economic Analysis. The CPI-U (or one of its sub-variations) is still the most used index for indexing wages and federal benefits and is calculated by the Bureau of Labor Statistics. The company tracks the average inflation forecasts across individual surveys for forecasters and market-based forecasts that reflect the forecasts of multiple participants. The company then averages across these average survey values produce an “average of averages” forecast for inflation. The most current excel table for this can be found in PC-DR-121 Attachment B - Inflation Forecast. Under the titles, “Data Sources” and “Comments” the table includes links to web locations where the data can be found and clarifications when needed. Where there is no survey website or the site requires a subscription, the most recent examples of the surveys can be found in the file folder PC-DR-121 Attachment C - “Inflation Forecast Documents.”

Note that some forecasts focus on the CPI-U while others focus on the PCEI. In some surveys, forecasters are asked to provide forecasts of both. At the top of the table, there is a table break-out of forecasts for the CPI-U and PCEI (go to column-row J-2). The average across all forecasts (both PCEI and CPI-U) can be found starting in column-row M-28. Note that the breakout shows slightly different inflation rates; this reflects that the CPI-U and PCEI use different methodologies. Also note that the company does track individual forecasts of the International Monetary Fund (IMF) and Organization for

Economic Cooperation and Development (OECD) and then averages them under the category of “Avg. of International Agencies.” This agency average is used when averaging across the other forecast surveys.

The primary purposes for tracking these consumer inflation forecasts are to: (1) gauge by how much to “deflate” (i.e., inflation adjust) forecasted schedule rates (i.e., Avista’s energy prices to customers) to convert them to real prices (this is required when forecasted price is needed in an econometric model of use-per-customer); (2) to provide management and Human Resources with data about macroeconomic conditions that may impact the Company.

c) In the latest two rate cases the Company has requested, and the Commission has approved, a single year rate change based on its historical test period with limited pro forma methodology. Given the two-year rate plan and multi-year rate plan requirement per SB 5295, it is reasonable for the Company to include, and the Commission to approve, a reasonable level of O&M expenses, capital additions, or other costs during the Rate Year 1 (2023) and Rate Year 2 (2024) effective periods.

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)

**ATTACHMENT B TO AVIATA'S RESPONSE TO PUBLIC
COUNSELS'S DATA REQUEST NO. 121**

| Index | 2020 Actual | 2021 Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|-------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|
| PCEI | 1.2% | 3.8% | 1.4% | 2.4% | 2.2% | 2.0% | 2.0% | 2.1% |
| CPI-U | 1.2% | 4.6% | 1.2% | 2.2% | 2.0% | 2.0% | 2.0% | 2.0% |

| Forecast Source | Disclosure Date | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Actual | 2016 Actual | 2017 Actual | 2018 Actual | 2019 Actual | 2020 Actual | 2021 Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast | 2027 Forecast | Data Sources | Comments |
|---|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---|---|
| GCEA Poll (PCE) | Feb-22 | 1.8% | 1.3% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 3.9% | 2.5% | 2.3% | 1.9% | 2.0% | | https://ecf.wa.gov/sites/default/files/public_documents/publications/feb22pub.pdf | See Ch. 22, pg. 33. Note that Avista's Chief Economist serves on the Governor's Council of Economic Advisors (GCEA) and contributes to this forecast. |
| PMBC (PCE) | Mar-22 | 1.8% | 1.4% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 4.3% | 2.7% | 2.4% | 2.0% | 2.0% | 2.0% | https://www.independent.gov/monitors/pbc/1547/forecast-2022-2023-11.pdf | See page 2 of 17 |
| PHL Fed Survey (PCE) | 1Q 2022 | 1.8% | 1.3% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 3.1% | 2.5% | 2.5% | | | | https://www.philadelphiafed.org/media/press/surveys-and-data/survey-of-professional-forecasters/2022/q1pc22.pdf | |
| Bloomberg Poll (PCE) | Feb-22 | 1.8% | 1.3% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 3.8% | 2.3% | | | | | See file folder, "Forecast Documents." Open file "Feb 2022 Bloomberg Forecast Survey.pdf" | Subscription required; provided by Washington Trust Bank at request of Avista's Chief Economist |
| Wall Street Int. (PCE) | Jan-22 | 1.8% | 1.3% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 3.0% | 2.4% | 2.3% | | | | https://www.wsj.com/articles/economic-forecasting-survey-archive-11417814026 | Subscription required; see file folder, "Forecast Documents." Open file "WSJ econ Q122 forecasts.xls". This is the most recent forecast available as of April 1, 2022 |
| Keohack Term Structure (PCE) | Feb-22 | 1.8% | 1.3% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 2.6% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | https://www.philadelphiafed.org/surveys-and-data/real-time-data/econ/keohack | Some calculations by Company required to arrive at annual inflation numbers. |
| Blue Chip Poll (CPI) | Feb-22 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 4.6% | 2.4% | 2.3% | 2.3% | 2.3% | 2.3% | See file folder, "Forecast Documents." Open file "Feb 2022 Blue Chip from WA ERFC.pdf" | Requires subscription; this is provided to members serving on the Governor's Council of Economic Advisors (GCEA). |
| Bloomberg Poll (CPI) | Feb-22 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 4.8% | 2.4% | | | | | See file folder, "Forecast Documents." Open file "Feb 2022 Bloomberg Forecast Survey.pdf" | Subscription required; provided by Washington Trust Bank at request of Avista's Chief Economist |
| Wall Street Int. (CPI) | Jan-22 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 3.1% | 2.5% | 2.3% | | | | https://www.wsj.com/articles/economic-forecasting-survey-archive-11417814026 | Subscription required; see file folder, "Forecast Documents." Open file "WSJ econ Q122 forecasts.xls". This is the most recent forecast available as of April 1, 2022 |
| PHL Fed Survey (CPI) | 1Q 2022 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 3.8% | 2.4% | 2.3% | | | | https://www.philadelphiafed.org/media/press/surveys-and-data/survey-of-professional-forecasters/2022/q1cp22.pdf | |
| Livingston Survey (CPI) | Dec-21 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 4.5% | 2.5% | 2.4% | 2.4% | 2.4% | 2.4% | https://www.livingstonpoll.com/media/press/surveys-and-data/livingston-survey/2021/12/cpi-11.pdf | Only forecast survey that includes a PPI forecast. |
| Buena Vista Poll (CPI) | Feb-21 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 4.9% | 2.6% | 2.4% | | | | See file folder, "Forecast Documents." Open file "Buena Vista Forecast Survey of 2.15.22 CPI Annual % Chg YTD.pdf" | Company's subscription; latest forecast is downloaded by request of Avista's Chief Economist |
| Syr TPS Breakout (CPI) | Mar-22 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 3.3% | 3.3% | 3.3% | 3.3% | 3.3% | 3.3% | https://files.stlouisfed.org/files/31316 | Averaged over a 30 day period |
| Revoista Term Structure (CPI) | Feb-22 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 2.8% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | https://www.revoista.com/press/surveys-and-data/real-time-data-research/revista | Some calculations by Company required to arrive at annual inflation numbers. |
| Chevrolet Inflation Exp (CPI) | 1Q-21 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 3.0% | 1.7% | 1.7% | 1.7% | 1.8% | 1.8% | https://www.chevrolet.com/en/our-research/indicators-and-data/inflation-expectations.aspx | Some calculations by Company required to arrive at annual inflation numbers. |
| Department of Finance, Canada | Nov-21 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 3.5% | 2.4% | 2.3% | 2.2% | 2.1% | | https://www.canada.ca/en/department-of-finance/news-releases/2021/11/2021-11-16.html | |
| OECD (PCE) | Dec-21 | 1.8% | 1.3% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.8% | 4.4% | 2.5% | | | | | https://www.oecd.org/economy/united-states-economic-forecast/ | |
| IMF (CPI) | Oct-21 | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.1% | 2.4% | 1.8% | 1.2% | 4.6% | 3.5% | 2.7% | 2.6% | 2.5% | 2.3% | | https://www.imf.org/en/external/databases/forecast/consensus/actual/2021/10/2021-10-20-forecast | |
| Avg. of International Agencies: | | 1.9% | 1.4% | 1.6% | 0.2% | 1.1% | 2.0% | 2.3% | 1.6% | 1.2% | 4.2% | 4.0% | 2.6% | 2.6% | 2.5% | 2.3% | | | |
| Summary Values | | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Actual | 2016 Actual | 2017 Actual | 2018 Actual | 2019 Actual | 2020 Actual | 2021 Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast | 2027 Forecast | | |
| Forecast Average (CPI, PCE) | | 1.9% | 1.4% | 1.6% | 0.2% | 1.1% | 2.0% | 2.3% | 1.6% | 1.2% | 4.2% | 3.7% | 2.4% | 2.3% | 2.3% | 2.3% | 2.1% | | |
| Median | | 1.9% | 1.4% | 1.6% | 0.2% | 1.1% | 2.0% | 2.3% | 1.6% | 1.2% | 4.2% | 3.8% | 2.4% | 2.3% | 2.3% | 2.2% | 2.1% | | |
| High | | 1.9% | 1.4% | 1.6% | 0.2% | 1.1% | 2.0% | 2.3% | 1.6% | 1.2% | 4.2% | 4.9% | 3.5% | 3.3% | 3.3% | 3.3% | 2.4% | | |
| Low | | 1.9% | 1.4% | 1.6% | 0.2% | 1.1% | 2.0% | 2.3% | 1.6% | 1.2% | 4.2% | 2.6% | 1.7% | 1.7% | 1.7% | 1.8% | 1.8% | | |
| Fed Target | | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | | |
| High Target | | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | | |
| Low Target | | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | | |
| Average June 2014 Forecast | | | | 1.8% | 2.0% | 2.0% | 2.0% | 2.1% | 2.1% | | | | | | | | | | |
| Average June 2015 Forecast | | | | 1.6% | 1.6% | 1.6% | 1.6% | 1.6% | 1.6% | | | | | | | | | | |
| Average June 2016 Forecast | | | | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | | | | | | | | | | |
| Average June 2017 Forecast | | | | | | 2.2% | 2.2% | 2.1% | 2.1% | 2.0% | | | | | | | | | |
| Average June 2018 Forecast | | | | | | | | 2.1% | 2.2% | 2.2% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | | | |
| Average June 2019 Forecast | | | | | | | | | 1.8% | 2.0% | 2.1% | 2.0% | 2.0% | 2.0% | 2.0% | | | | |
| Average Fall 2019 Forecast | | | | | | | | | | 1.8% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | | | | |
| Average Spring 2020 Forecast | | | | | | | | | | | 1.8% | 1.8% | 1.8% | 1.8% | 1.8% | 1.8% | | | |
| Average Winter 2020 Forecast | | | | | | | | | | | | 1.3% | 1.9% | 1.9% | 1.9% | 1.8% | 1.8% | | |
| Average Spring 2021 Forecast | | | | | | | | | | | | | 1.3% | 2.1% | 2.2% | 2.1% | 2.1% | | |
| Average Fall 2021 Forecast | | | | | | | | | | | | | | 4.0% | 3.4% | 2.3% | 2.3% | 2.3% | |
| Average Spring 2022 Forecast | | | | | | | | | | | | | | | 3.6% | 2.6% | 2.3% | 2.3% | 2.2% |
| Avista ARIMA PCE Inflation Forecast (For Comparison Only) | | | | | | | | | | | | | | | 2.8% | 1.6% | 1.2% | 1.4% | 1.6% |