

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION D/B/A/ AVISTA UTILITIES

Respondent.

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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**

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**EXHIBIT SC-13**

Avista's Response to Public Counsel's Data Request No. 276, with Attachments A–G, on  
Updated Pension and OPEB Costs

**July 29, 2022**

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

JURISDICTION:	WASHINGTON	DATE PREPARED:	05/13/2022
CASE NO.:	UE-220053 & UG-220054	WITNESS:	Mark Thies
REQUESTER:	Public Counsel	RESPONDER:	Karrie Wilson
TYPE:	Data Request	DEPT:	Finance
REQUEST NO.:	PC – 276	TELEPHONE:	(509) 495-2345
		EMAIL:	karrie.wilson@avistacorp.com

**SUBJECT: Labor & Benefits Expenses, Refer to the Avista’s response to Public Counsel Data Request No. 126.**

**REQUEST:**

Please:

- a. Provide a comparison of the key assumptions (discount rate, Expected Rate of Return, salary increase rate, medical inflation, etc.) used in calculating pension and OPEB costs for each year 2019 through 2024. Explain the reasons for the change in these rates and provide the basis with supporting documents for the latest changes reflected in this rate case.
- b. Provide the impact on pension and OPEB costs (separately) before allocation between O&M and capital from a 10 basis points change in the discount rates in 2021 and future years, using 2020 or 2021 as a benchmark.
- c. Provide the impact on pension costs and OPEB costs (separately) from the change in the discount rates from the actuarial analysis performed in 2020 versus 2021, and also from 2021 versus 2022.
- d. Provide the impact on pension and OPEB costs (separately) before allocation between O&M and capital from a 10 basis points change in the expected return rates in 2021 and future years, using 2020 or 2021 as a benchmark.
- e. Provide the impact on pension costs and OPEB costs (separately) from the change in the expected return rates from the actuarial analysis performed in 2020 versus 2021, and also from 2021 versus 2022.
- f. Provide the actual returns earned by the pension and OPEB plan assets for each year 2010 to 2021 in Excel.

**RESPONSE:**

- a. See PC-DR-276 Attachments A-C for the detail on actual and forecasted expenses per our actuarial reports. Our average salary rate increase for years 2016-2020 is 4.8%. The Company assumes a 5% increase in medical costs and reviews this assumption annually.
- b. See PC-DR-276 Attachment F. Sensitivity analysis is performed on a 50 basis point change and is reported in our 10-K. We have not performed the analysis based on a 10 basis point change.
- c. See PC-DR-276 Attachments B-C. Our analysis does not look at the discount rate in isolation but incorporates all the assumption changes in a new calculation done by our actuary annually.
- d. See part b.
- e. See PC-DR-276 Attachments B-E. Our analysis does not look at the expected rate of return in isolation but incorporates all the assumption changes in a new calculation done by our actuary annually.
- f. See PC-DR-276 Attachment G.

**ATTACHMENT A TO AVISTA'S RESPONSE TO PUBLIC  
COUNSEL'S DATA REQUEST NO. 276**

	2019	2020	2021
Long-term return on assets	5.70%	5.30%	4.60%
Discount rate (expense)	4.32%	3.89%	3.27%
Discount rate (liability)	3.89%	3.27%	3.40%
Cost	\$8.70	\$10.60	\$8.90
Contributions	\$0	\$0	\$0
APBO (liability)	\$148.40	\$149.30	\$155.70
APBO Funded Status	30.20%	34.90%	38.20%

	2019	2020	2021
Long-term return on assets	5.90%	5.50%	5.40%
Discount rate (expense)	4.31%	3.85%	3.25%
Discount rate (liability)	3.85%	3.25%	3.39%
Cost	\$24.70	\$19.90	\$16.30
Contributions	\$22.00	\$22.00	\$42.00
PBO (liability)	\$708.00	\$787.00	\$760.00
PBO funded status	90.60%	91.60%	99.10%

**ATTACHMENT B TO AVISTA'S RESPONSE TO PUBLIC  
COUNSEL'S DATA REQUEST NO. 276**

**Retirement Plan for Employees of Avista Corporation**  
**Estimated 2022-2026 Benefit Cost**  
**Reflecting 1/31/2022 Assets and a 3.64% Discount Rate for 2023-2026**  
**\$42m in contributions for 2022; and \$10m per year in 2023-2026**

	2021	2022	2023	2024	2025	2026
Discount Rate	3.25%	3.39%	3.64%	3.64%	3.64%	3.64%
Expected Return on Assets	5.40%	5.80%	5.80%	5.80%	5.80%	5.80%
Employer Contributions	42,000,000	42,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Expected Benefit Payments	(41,500,000)	(41,300,000)	(41,100,000)	(41,500,000)	(42,100,000)	(41,900,000)
1. Fair Value of Assets (FVA)	721,700,000	753,500,000	749,100,000	760,100,000	771,300,000	782,600,000
2. Accumulated Benefit Obligation (ABO)	679,100,000	653,000,000	639,600,000	646,500,000	655,300,000	664,000,000
3. Projected Benefit Obligation (PBO)	<u>788,200,000</u>	<u>762,000,000</u>	<u>745,800,000</u>	<u>756,100,000</u>	<u>766,400,000</u>	<u>776,500,000</u>
4. ABO Funded Status (1. / 2.)	106.3%	115.4%	117.1%	117.6%	117.7%	117.9%
5. PBO Funded Status (1. / 3.)	91.6%	98.9%	100.4%	100.5%	100.6%	100.8%
1. Service Cost	25,000,000	24,600,000	23,100,000	23,000,000	22,900,000	22,900,000
2. Interest Cost	24,900,000	25,100,000	26,400,000	26,800,000	27,100,000	27,500,000
3. Expected Return on Assets	(39,100,000)	(43,800,000)	(42,600,000)	(43,200,000)	(43,800,000)	(44,500,000)
Amortizations						
4. - Net Transition Obligation	0	0	0	0	0	0
5. - Net Prior Service Cost	300,000	300,000	300,000	300,000	300,000	300,000
6. - Net Gain/Loss	<u>5,300,000</u>	<u>2,600,000</u>	<u>4,700,000</u>	<u>4,300,000</u>	<u>4,200,000</u>	<u>3,900,000</u>
7. Net Periodic Pension Expense	16,300,000	8,800,000	11,900,000	11,200,000	10,700,000	10,100,000

**Assumptions:**

-Mortality Assumption: Same as 12/31/2021 disclosure for 2022-2026

-Local 77 union new entrants are assumed to replace participants leaving employment. The plan is closed to other new hires.

-2023-2026 assets projected from 1/31/2022 assets of \$707.6m, with 5.80% annual return

-Expected Return on Assets: 5.80% for 2022-2026

-Average future working lifetime at 1/1/2022 is 11.4 years

-Discount Rate: 3.64% for 2023-2026 (based on 1/31/2022 WTW BOND:Link discount rate model)

-Annual contributions of \$42 million for 2022 and \$10 million for 2023-2026 made in regular installments on March 15, June 15, and September 15 as a receivable for the prior plan year.

-All other assumptions and valued plan provisions are the same as described in the 12/31/2021 ASC-715 disclosure report.

Note that all projected liabilities and results are based on 1/1/2021 data.

**ATTACHMENT C TO AVISTA'S RESPONSE TO PUBLIC  
COUNSEL'S DATA REQUEST NO. 276**



**Avista Corporation Retiree Medical and Life Insurance Plans**  
**Estimated 2022-2026 Benefit Cost**  
**Reflecting 1/31/2022 Assets and a 3.64% Discount rate for 2023-2026**

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Discount Rate	3.27%	3.40%	3.64%	3.64%	3.64%	3.64%
Expected Return on Assets	4.60%	4.70%	4.70%	4.70%	4.70%	4.70%
Expected Benefit Payments	(6,100,000)	(6,500,000)	(6,700,000)	(6,800,000)	(6,900,000)	(7,100,000)
1. Fair Value of Assets (FVA)	52,200,000	59,500,000	59,300,000	62,100,000	65,000,000	68,100,000
2. Accumulated Postretirement Benefit Obligation	<u>148,600,000</u>	<u>156,400,000</u>	<u>154,000,000</u>	<u>157,400,000</u>	<u>160,900,000</u>	<u>164,500,000</u>
3. Funded Status (1. / 2.)	35.1%	38.0%	38.5%	39.5%	40.4%	41.4%
1. Service Cost	3,700,000	4,000,000	3,900,000	4,000,000	4,100,000	4,200,000
2. Interest Cost	4,800,000	5,200,000	5,500,000	5,600,000	5,700,000	5,900,000
3. Expected Return on Assets	(2,400,000)	(2,800,000)	(2,800,000)	(2,900,000)	(3,100,000)	(3,200,000)
Amortizations						
4. - Net Transition Obligation	0	0	0	0	0	0
5. - Net Prior Service Cost/(Credit)	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(200,000)	(100,000)
6. - Net Gain/Loss	<u>3,900,000</u>	<u>3,500,000</u>	<u>3,100,000</u>	<u>2,900,000</u>	<u>2,700,000</u>	<u>2,500,000</u>
7. Net Periodic Pension Expense	8,900,000	8,800,000	8,600,000	8,500,000	9,200,000	9,300,000

**Assumptions:**

- Mortality Assumption: Same as 12/31/2021 disclosure for 2022-2026
- Local 77 union new entrants are assumed to replace participants leaving employment. The plan is closed to other new hires.
- 2023-2026 VEBA assets projected from actual 1/31/2022 VEBA assets of \$56.9M
- Expected Return on Assets: 4.70% for 2022-2026
- Average future working lifetime in 2022 is 12.8 years
- Discount Rate: 3.64% for 2023-2026 (based on 1/31/2022 WTW BOND:Link discount rate model)
- Avista will make no contributions to the VEBA, and no benefits will be paid from VEBA funds.
- All other assumptions and valued plan provisions are the same as described in the 12/31/2021 ASC-715 disclosure report.

Note that all projected liabilities and results are based on 1/1/2021 data.

**ATTACHMENT D TO AVISTA'S RESPONSE TO PUBLIC  
COUNSEL'S DATA REQUEST NO. 276**

**Retirement Plan for Employees of Avista Corporation**  
**Estimated 2021-2025 Benefit Cost**  
**Reflecting final 12/31/2020 Assets and Assumptions and a 3.54% Discount Rate for 2022-2025**  
**\$42m in annual contributions for 2021-2022; and \$22m in 2023-2025**

	2020	2021	2022	2023	2024	2025
Discount Rate	3.85%	3.25%	3.54%	3.54%	3.54%	3.54%
Expected Return on Assets	5.50%	5.40%	5.40%	5.40%	5.40%	5.40%
Employer Contributions	22,000,000	42,000,000	42,000,000	22,000,000	22,000,000	22,000,000
Expected Benefit Payments	(39,700,000)	(40,400,000)	(40,700,000)	(40,600,000)	(41,200,000)	(41,800,000)
1. Fair Value of Assets (FVA)	642,200,000	722,000,000	762,300,000	804,500,000	828,500,000	853,200,000
2. Accumulated Benefit Obligation (ABO)	617,500,000	677,500,000	660,600,000	668,100,000	677,800,000	687,300,000
3. Projected Benefit Obligation (PBO)	<u>710,200,000</u>	<u>789,000,000</u>	<u>768,200,000</u>	<u>779,100,000</u>	<u>790,400,000</u>	<u>801,400,000</u>
4. ABO Funded Status (1. / 2.)	104.0%	106.6%	115.4%	120.4%	122.2%	124.1%
5. PBO Funded Status (1. / 3.)	90.4%	91.5%	99.2%	103.3%	104.8%	106.5%
1. Service Cost	22,100,000	25,300,000	23,500,000	23,400,000	23,300,000	23,200,000
2. Interest Cost	26,600,000	25,000,000	26,500,000	26,900,000	27,300,000	27,600,000
3. Expected Return on Assets	(34,900,000)	(39,100,000)	(41,300,000)	(43,000,000)	(44,300,000)	(45,600,000)
Amortizations						
4. - Net Transition Obligation	0	0	0	0	0	0
5. - Net Prior Service Cost	300,000	300,000	300,000	300,000	300,000	300,000
6. - Net Gain/Loss	<u>5,800,000</u>	<u>5,300,000</u>	<u>2,300,000</u>	<u>2,000,000</u>	<u>1,800,000</u>	<u>1,600,000</u>
7. Net Periodic Pension Expense	19,900,000	16,700,000	11,300,000	9,500,000	8,300,000	7,100,000

**Assumptions:**

-Mortality Assumption: Same as 12/31/2020 disclosure for 2021-2025

-Local 77 union new entrants are assumed to replace participants leaving employment. The plan is closed to other new hires.

-2021-2025 assets projected from 12/31/2020 assets of \$722.0m

-Expected Return on Assets: 5.40% for 2021-2025

-Average future working lifetime at 1/1/2021 is 11.4 years

-Discount Rate: 3.54% for 2022-2025 (12/31/2020 rate adjusted +29 bps for change in ML 15+ corporate bond index from 12/31/2020 to 2/11/2021)

-Annual contributions of \$42 million for 2021-2022 and \$22 million for 2023-2025 made in regular installments on March 15, June 15, and September 15 as a receivable for prior plan year.

-All other assumptions and valued plan provisions are the same as described in the 12/31/2020 disclosure report.

Note that all projected liabilities and results are based on 1/1/2020 data.

**ATTACHMENT E TO AVISTA'S RESPONSE TO PUBLIC  
COUNSEL'S DATA REQUEST NO. 276**

**Avista Corporation Retiree Medical and Life Insurance Plans**  
**Estimated 2021-2025 Benefit Cost**  
**Reflecting final 12/31/2020 Assets and Assumptions and a 3.56% Discount rate for 2022-2025**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Discount Rate	3.89%	3.27%	3.56%	3.56%	3.56%	3.56%
Expected Return on Assets	5.30%	4.60%	4.60%	4.60%	4.60%	4.60%
1. Fair Value of Assets (FVA)	44,900,000	52,200,000	54,600,000	57,100,000	59,700,000	62,500,000
2. Accumulated Postretirement Benefit Obligation	<u>147,800,000</u>	<u>149,900,000</u>	<u>146,000,000</u>	<u>148,800,000</u>	<u>151,700,000</u>	<u>154,700,000</u>
3. Funded Status (1. / 2.)	30.4%	34.8%	37.4%	38.4%	39.4%	40.4%
1. Service Cost	3,600,000	3,700,000	3,600,000	3,700,000	3,700,000	3,800,000
2. Interest Cost	5,600,000	4,800,000	5,100,000	5,200,000	5,300,000	5,400,000
3. Expected Return on Assets Amortizations	(2,400,000)	(2,400,000)	(2,500,000)	(2,600,000)	(2,700,000)	(2,900,000)
4. - Net Transition Obligation	0	0	0	0	0	0
5. - Net Prior Service Cost	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(200,000)
6. - Net Gain/Loss	<u>4,900,000</u>	<u>4,000,000</u>	<u>3,200,000</u>	<u>2,900,000</u>	<u>2,800,000</u>	<u>2,600,000</u>
7. Net Periodic Pension Expense	10,600,000	9,000,000	8,300,000	8,100,000	8,000,000	8,700,000

\* Note that all projected liabilities and results are based on 1/1/2020 data. New entrants are assumed to replace participants leaving active status. There are no subsidized plan benefits for non-union employees hired after 12/31/2013 or for Local 659 employees hired after 3/31/2014.

*Assumptions:*

*-Mortality Assumption: Same as 12/31/2020 disclosure for 2021-2025*

*-2021-2025 VEBA assets projected from actual 12/31/2020 VEBA assets of \$52.2 M*

*-Expected Return on Assets: 4.60% for 2021-2025*

*-Average future working lifetime in 2021 is 12.9 years*

*-Discount Rate: 3.56% for 2022-2025 (12/31/2020 rate adjusted +29 bps for change in ML 15+ corporate bond index from 12/31/2020 to 2/11/2021)*

*-Avista will make no contributions to the VEBA, and no benefits will be paid from VEBA funds.*

*-All other assumptions and valued plan provisions are the same as described in the 12/31/2020 disclosure report.*

**ATTACHMENT F TO AVISTA'S RESPONSE TO PUBLIC COUNSEL'S  
DATA REQUEST NO. 276**

The following chart reflects the assumptions used each year for the pension discount rate (exclusive of the SERP), the expected long-term return on plan assets and the actual return on plan assets and their impacts to the pension plan associated with the change in assumption (dollars in millions):

	2021	2020	2019
<b>Discount rate (exclusive of SERP)</b>			
Pension discount rate	3.39%	3.25%	3.85%
Increase/(decrease) to projected benefit obligation	\$ (15.6)	\$ 62.6	\$ 41.7
<b>Return on plan assets (a)</b>			
Expected long-term return on plan assets	5.40%	5.50%	5.90%
Increase/(decrease) to pension costs	\$ 0.7	\$ 2.5	\$ (2.2)
Actual return on plan assets, net of fees	7.10%	15.20%	20.40%
Actual gain on plan assets	\$ 50.4	\$ 96.6	\$ 109.9

(a) The SERP has no plan assets. The plan assets in this disclosure are for the pension plan only.

The following chart reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage (dollars in millions):

Actuarial Assumption	Change in Assumption	Effect on Projected Benefit Obligation	Effect on Pension Cost
Expected long-term return on plan assets	(0.5)%	\$ —	*\$ 3.6
Expected long-term return on plan assets	0.5%	—	* (3.6)
Discount rate	(0.5)%	58.2	5.3
Discount rate	0.5%	(51.7)	(4.7)

\* Changes in the expected return on plan assets would not affect our projected benefit obligation.

We provide certain health care and life insurance benefits for substantially all of our retired employees. We accrue the estimated cost of postretirement benefit obligations during the years that employees provide service.

## **Liquidity and Capital Resources**

### **Overall Liquidity**

Avista Corp.'s consolidated operating cash flows are primarily derived from the operations of Avista Utilities. The primary source of operating cash flows for Avista Utilities is revenues from sales of electricity and natural gas. Significant uses of cash flows from Avista Utilities include the purchase of power, fuel and natural gas, and payment of other operating expenses, taxes and interest, with any excess being available for other corporate uses such as capital expenditures and dividends.

We design operating and capital budgets to control operating costs and to direct capital expenditures to projects that support immediate and long-term strategies, particularly for our regulated utility operations. In addition to operating expenses, we have continuing commitments for capital expenditures for construction and improvement of utility facilities.

Our annual net cash flows from operating activities usually do not fully support the amount required for annual utility capital expenditures. As such, from time-to-time, we need to access capital markets in order to fund these needs as well as fund maturing debt. See further discussion at "Capital Resources."

We periodically file for rate adjustments for recovery of operating costs and capital investments and to seek the opportunity to earn reasonable returns as allowed by regulators.

Avista Utilities has regulatory mechanisms in place that provide for the deferral and recovery of the majority of power and natural gas supply costs. However, when power and natural gas costs exceed the levels currently recovered from retail customers, net cash flows are negatively affected. Factors that could cause purchased power and natural gas costs to exceed the levels currently recovered from our customers include, but are not limited to, higher prices in wholesale markets when we buy energy or an increased need to purchase power in the wholesale markets, and a lack of regulatory approval for higher

**ATTACHMENT G TO AVISTA'S RESPONSE TO PUBLIC  
COUNSEL'S DATA REQUEST NO. 276**



## Actual Returns on Pension and Retiree Medical 2010-2021

	Pension	Retiree Medical
2010	10.81%	12.17%
2011	4.72%	-1.84%
2012	15.77%	12.62%
2013	12.46%	17.57%
2014	12.40%	5.40%
2015	-1.10%	-1.40%
2016	8.50%	8.09%
2017	15.60%	13.75%
2018	-6.80%	-2.82%
2019	20.39%	21.79%
2020	15.21%	16.41%
2021	7.50%	14.20%