

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-19\_\_\_\_\_

DOCKET NO. UG-19\_\_\_\_\_

DIRECT TESTIMONY OF  
DENNIS P. VERMILLION  
REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Dennis P. Vermillion and I am employed as the President of Avista  
4 Corporation, and also serve as Chairman of the Board of Directors for Avista Corp. subsidiary  
5 Alaska Electric Light and Power Company. My business address is 1411 E. Mission Avenue,  
6 Spokane, Washington.

7 **Q. Would you briefly describe your educational background and**  
8 **professional experience?**

9 A. Yes. I received a Bachelor of Science degree in electrical engineering from  
10 Washington State University in 1985. I started working for Avista in 1985 and have held  
11 numerous positions in energy trading, marketing, risk management, power transmission  
12 contracting, and resource planning and coordination. I was appointed as President and Chief  
13 Operating Officer of Avista Energy in 2001. I was appointed Vice President of Energy  
14 Resources for Avista Utilities in 2007 at the close of the sale of Avista Energy. In 2009, I was  
15 appointed President of Avista Utilities, and later in January 2018 was appointed President of  
16 Avista Corporation, and in that role serve on Avista Corporation's Board of Directors.

17 I currently serve as a board member for Western Energy Institute (WEI) and American  
18 Gas Association (AGA) and the Avista Foundation. I formerly served on the board of Spokane  
19 County United Way and was a past chairman of the Spokane County campaign.

20 **Q. What is the scope of your testimony in this proceeding?**

21 A. In my testimony I provide an overview of Avista, and our recent April 2019  
22 announcement regarding our "100% Clean Electricity Goal by 2045". I summarize the  
23 Company's proposal in this filing for a Two-Year Rate Plan, and address our continuing

1 capital investment, which continues to be the primary driver behind the Company’s most  
 2 recent general rate cases. Later, I discuss our ongoing focus on cost management and cost  
 3 efficiencies which have been undertaken to help mitigate the overall rate request, as well as  
 4 our continued focus on communicating with customers, our overall customer satisfaction, and  
 5 our customer support programs. Finally, I introduce the other Company witnesses who  
 6 support this general rate case filing.

7 A table of contents for my testimony is as follows:

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19  
 20 **Q. Are you sponsoring exhibits in this proceeding?**

21 A. Yes. I am sponsoring Exh. DPV-2. Page 1 of my exhibit is a diagram of  
 22 Avista’s corporate structure, page 2 is a map showing Avista’s electric and natural gas service  
 23 areas, and page 3 shows Avista’s natural gas service areas, natural gas fields, trading hubs and  
 24 major pipelines.

## II. OVERVIEW OF AVISTA

1  
2 **Q. Please briefly describe Avista Utilities.**

3 A. Avista Utilities serves approximately 388,000 electric and 355,000 natural gas  
4 customers in a 30,000 square mile service territory covering portions of Washington, Idaho  
5 and Oregon. As of December 31, 2018, Avista Utilities had total assets (electric and natural  
6 gas) of approximately \$5.5 billion (on a system basis), with electric retail revenues of \$801  
7 million (system) and natural gas retail revenues of \$288 million (system). As of December  
8 31, 2018, Avista had 1,766 regular and seasonal employees.

9 **Q. Please describe Avista's current business focus for its utility operations.**

10 A. Our strategy continues to focus on our energy and utility-related businesses,  
11 with our primary emphasis on the electric and natural gas utility business. Our strategic  
12 initiatives are now aligned across four focus areas: our customers, our people, performance,  
13 and innovation. We have placed additional emphasis upon our customers as being central to  
14 all that we do, to ensure our services are safe, reliable, and affordable.

## 15 16 III. 100% CLEAN ELECTRICITY BY 2045 GOAL

17 **Q. The Company recently announced a 100% clean electricity goal by 2045,**  
18 **with carbon neutral electricity supply by the end of 2027. Why is this important to the**  
19 **Company?**

20 A. The announcement made in April 2019 bolsters Avista's long-standing history  
21 of, and well-established approach to, providing clean, reliable and affordable energy to the  
22 customers and communities we serve. We believe that the 100 percent clean electricity goal  
23 is an important step forward in caring for our environment while continuing to meet the energy

1 needs of our customers and communities today and well into the future. Since Avista's  
2 founding on clean, renewable hydro power in 1889, we've served our customers with an  
3 electric generation resource mix that is more than half renewable, allowing us to keep our  
4 carbon emissions among the lowest in the nation. Further, the Company has always been  
5 committed to balancing reliability and affordability while maintaining responsibility for our  
6 environmental footprint, and our actions demonstrate these values. Just in the last three years,  
7 we've implemented three renewable energy projects on behalf of our customers. Our  
8 Community Solar project in Spokane Valley, Solar Select project in Lind, and the Rattlesnake  
9 Flat Wind project in Adams County together have allowed us to add to the clean electricity  
10 we already provide, meet the energy needs of our customers without increasing their bills and  
11 drive economic vitality in these communities.

12 **Q. Is the Company's clean energy goal limited to just its electric generation**  
13 **resource mix?**

14 A. No, Avista's clean energy focus is not limited to the electric generation  
15 resource mix. We view clean energy as a key element in driving economic development and  
16 shaping the sustainable communities of the future. Avista has created companies like Itron,  
17 Ecova and Relion that play a role in supporting clean energy and the efficient use of electricity.  
18 We serve as a founding partner of Urbanova, Spokane's Smart City living laboratory that is  
19 testing smart city concepts, and we're creating an EcoDistrict in Spokane that will allow the  
20 Company to not only shape how the grid of the future will operate, but also define how  
21 buildings can be developed to operate and utilize energy in the most efficient manner.

22 As we plan for the future, listen to our customers and continue to invest in renewable  
23 energy resources, we recognized the value of establishing a defined clean electricity goal. We

1 are committed to continuing our investments in research, development and a smarter grid to  
2 support the trend of lower costs and improved technology that will enable a clean electricity  
3 future. We are well on our way to achieving our goal of 100 percent clean electricity and will  
4 continue to engage with our customers, regulators and other stakeholders to make this goal a  
5 reality. Please recall that Avista has a strong track record of environmental stewardship,  
6 including the fact that Avista was one of the first utilities in the nation to establish an energy  
7 efficiency program, and since this program started, customer electric usage has been reduced  
8 by 15 percent. Further, in the 1980's, the Company built the first utility-scale biomass wood-  
9 fired power plant, thereby improving air quality where waste from the timber industry was  
10 otherwise burned onsite without emissions controls. Avista has enabled customers to switch  
11 from gasoline-fueled vehicles to natural gas-fueled and electric vehicles, building  
12 infrastructure to supply a cleaner fuel for vehicles and contributing to reductions in  
13 greenhouse gas emissions from the transportation sector.

14 **Q. How does natural gas fit with the Company's clean energy goal?**

15 A. Natural gas has been a key energy choice for Avista's customers for nearly 70  
16 years. It is an affordable and less expensive heating option for customers, especially for many  
17 large commercial and industrial customers who rely on it to run their business, provide jobs  
18 for their employees and serve their communities.

19 Natural gas is one of the cleanest burning fuels and is an essential part of reducing  
20 carbon emissions, particularly when used directly by customers in their homes rather than  
21 used to generate electricity to meet the same need. Compared to wood, heating oil and other  
22 fuels, natural gas improves air quality. Additionally, the use of compressed natural gas (CNG)

1 to fuel vehicles reduces carbon emissions in the transportation sector, which is a leading  
2 contributor of emissions.

3 Avista consistently engages customers to educate about natural gas efficiency, and  
4 offers natural gas energy efficiency programs that also support lower emissions. In short,  
5 direct use of natural gas is efficient, creates less environmental impact than other fuels and is  
6 an affordable option for customers.

7

8 **IV. SUMMARY OF TWO-YEAR RATE PLAN**

9 **Q. Would you please summarize the Company's proposals included in this**  
10 **electric and natural gas general rate case filing?**

11 A. Yes. In this filing, the Company is proposing a Two-Year Rate Plan, which  
12 would begin with new rates effective April 1, 2020, and with a second adjustment on April 1,  
13 2021. The Two-Year Rate Plan is designed to accomplish a number of objectives. First, this  
14 filing in April 2019 will continue to have the effect of changing the "cycle" of base rate  
15 adjustments from the middle of winter to April 1<sup>st</sup> – after the end of the winter heating season.  
16 Accordingly, customers will not experience a base rate increase in the middle of winter.  
17 Second, the Two-Year Rate Plan will reduce the burden on all stakeholders of processing a  
18 general rate case every year. Under the Two-Year Rate Plan, Avista would not file another  
19 general rate case that would result in new rates effective prior to April 1, 2022. Third, the Rate  
20 Plan will provide a degree of predictability of retail rates for customers for the next two years.  
21 Finally, the Two-Year Rate Plan will provide an incentive for Avista to manage its costs in  
22 order to have the opportunity to earn the authorized rate of return during the Rate Plan period.

1           **Q.     Is there a reason why the Company chose a Two-Year Rate Plan verses a**  
 2 **Three-Year Rate Plan?**

3           A.     Yes. The Company’s decision to propose a Two-Year Rate Plan rather than a  
 4 Three-Year Rate Plan was due to various circumstances, such as the timing related to the  
 5 completion of the Company’s Advanced Metering Infrastructure project scheduled for 2021,  
 6 changes on the horizon related to “100% Clean” legislation, as well as an opportunity to allow  
 7 for staggered peer utility rate plans.

8           **Q.     What are the revenue increases proposed for Avista’s electric operations?**

9           A.     The proposed electric revenue increases for the Two-Year Rate Plan are shown  
 10 in Table No. 1 below:

11 **Table No. 1 – Two-Year Rate Plan Summary - Electric**

	<b><u>Proposed Electric Revenue Increase</u></b>	<b><u>Base % Increase</u></b>	<b><u>Billed %<sup>1</sup> Increase</u></b>
12           April 1, 2020	\$45.8 million	9.1%	8.8%
13           April 1, 2021	\$18.9 million	3.5% <sup>2</sup>	3.3%

14  
 15  
 16  
 17  
 18  
 19           The Company’s electric and natural gas requests are based on a proposed rate of return  
 20 of 7.52%, with a common equity ratio of 50% and a 9.9% return on equity (ROE).

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<sup>1</sup> The “billed” percentage increase is lower than the “base” percentage, because the billed percentage calculation includes the revenues associated with other tariff schedules such as demand-side management (DSM) funding, and the Residential Exchange Credit.

<sup>2</sup> The revenue increase for Year 2 of the Rate Plan is proposed to be implemented through a separate Tariff Schedule 96, and not through a change to base tariffs.

1           **Q.     How did the Company develop the proposed increase for Year 2 of the**  
2 **Two-Year Rate Plan?**

3           A.     For Rate Year 2, as discussed by Ms. Andrews, the Company's proposed  
4 incremental electric and natural gas revenue increases, effective April 1, 2021, were based on  
5 the Revenue Growth Rate percentages. This Revenue Growth Rate percentage is applied to  
6 Year 1 proposed revenues (excluding ERM and natural gas cost related revenues), resulting  
7 in the revenue increase for Year 2.

8           **Q.     How is the Company proposing to spread the April 1, 2020 and April 1,**  
9 **2021 electric increases to each of the customer rate schedules?**

10          A.     The proposed electric increase to each customer rate schedule effective April  
11 1, 2020, is shown in Table No. 2 below.<sup>3</sup>

12 **Table No. 2 – Proposed % Electric Increase by Schedule (April 1, 2020)**

<u>Rate Schedule</u>	<u>Increase in Base Rates</u>	<u>Increase in Billing Rates</u>
Residential Schedules 1/2	10.0%	9.8%
General Service Schedules 11/12	7.3%	7.0%
Large General Service Schedules 21/22	9.1%	8.7%
Extra Large General Service Schedule 25	9.1%	8.8%
Pumping Service Schedules 31/32	9.1%	8.7%
Street & Area Lights Schedules 41-48	<u>0.0%</u>	<u>0.0%</u>
<b>Overall</b>	<b><u>9.1%</u></b>	<b><u>8.8%</u></b>

18          The proposed electric increase to each customer rate schedule effective April 1, 2021,  
19 is shown in Table No. 3 below:

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<sup>3</sup> Company witness Mr. Miller provides details of the proposed spread of the increase to each customer rate schedule for each year of the Two-Year Rate Plan.

**Table No. 3 – Proposed % Electric Increase by Schedule (April 1, 2021)**

<b>Rate Schedule</b>	<b>Increase in Base Rates</b>	<b>Increase in Billing Rates</b>
Residential Schedules 1/2	3.8%	3.7%
General Service Schedules 11/12	2.8%	2.7%
Large General Service Schedules 21/22	3.5%	3.3%
Extra Large General Service Schedule 25	3.5%	3.3%
Pumping Service Schedules 31/32	3.5%	3.3%
Street & Area Lights Schedules 41-48	0.0%	0.0%
<b>Overall</b>	<b><u>3.5%</u></b>	<b><u>3.3%</u></b>

**Q. For April 1, 2020, what is the proposed monthly bill increase for a residential electric customer with average consumption?**

A. The proposed monthly bill increase for a residential customer using an average of 918 kWhs per month is \$7.93 per month, or a 9.8% increase in their electric bill. The present bill for 918 kWhs is \$81.21 compared to the proposed level of \$89.14, including all rate adjustments.

**Q. For April 1, 2021, what is the proposed monthly bill increase for a residential electric customer with average consumption?**

A. The proposed monthly bill increase for a residential customer using an average of 918 kWhs per month is \$3.46 per month, or a 3.9% increase in their electric bill. The bill for 918 kWhs is \$89.14, including the effects of the April 1, 2020 proposed rate change, compared to the proposed level of \$92.60, including all rate adjustments.

**Q. Is Avista proposing to update power supply costs as a part of the Two-Year Rate Plan?**

A. No. As explained further by Company witness Mr. Kalich, in Avista's 2017 general rate request (Docket No. UE-170485), the Commission stated in its Final Order 07

1 that baseline adjustments to power supply costs should only be made “in extraordinary  
 2 circumstances.” More specifically, the Commission stated:<sup>4</sup>

3 ... the Commission believes the number of recent baseline adjustments is excessive.  
 4 ...Moving the baseline upward or downward in each general rate case results in  
 5 distorted results. Going forward, the Commission will consider carefully any  
 6 adjustments to the power cost baseline and change it only in extraordinary  
 7 circumstances. (emphasis added)  
 8

9 Given that the Commission’s findings in Order 07 are very recent (April 2018), and  
 10 given that there have not been any extraordinary circumstances since that time as it relates to  
 11 the Company’s power supply portfolio and operations, the Company is not proposing to adjust  
 12 its power supply base in this filing.

13 **Q. What are the revenue increases proposed for Avista’s natural gas**  
 14 **operations?**

15 A. The proposed natural gas revenue increases for the Two-Year Rate Plan are  
 16 shown in Table No. 4 below:

17 **Table No. 4 – Two-Year Rate Plan Summary – Natural Gas**

	<b><u>Proposed Natural Gas Revenue Increase</u></b>	<b><u>Base % Increase</u></b>	<b><u>Billed %<sup>5</sup> Increase</u></b>
21 April 1, 2020	\$12.9 million	13.8%	10.1%
23 April 1, 2021	\$6.5 million	6.1% <sup>6</sup>	4.6%

<sup>4</sup> Dockets UE-170485 and UG-170486, Order 07, ¶160.

<sup>5</sup> The “billed” percentage increase is lower than the “base” percentage, because the billed percentage calculation includes the revenues associated with natural gas and upstream transportation costs, as well as rate adjustments in other tariff schedules such as demand-side management (DSM) funding, and LIRAP funding.

<sup>6</sup> The revenue increase for Year 2 of the Rate Plan is proposed to be implemented through a separate tariff Schedule 196, and not through a change to base tariffs.

1           **Q.     How did the Company develop the proposed increase for Year 2 of the**  
2 **Two-Year Rate Plan?**

3           A.     For Rate Year 2, as discussed by Ms. Andrews, the Company's proposed  
4 incremental electric and natural gas revenue increases, effective April 1, 2021, were based on  
5 the Revenue Growth Rate percentages. This Revenue Growth Rate percentage is applied to  
6 Year 1 proposed revenues (excluding ERM and natural gas cost related revenues), resulting  
7 in the revenue increase for Year 2.

8           **Q.     How is the Company proposing to spread the April 1, 2020 and April 1,**  
9 **2021 natural gas increases to each of the customer rate schedules?**

10          A.     The proposed natural gas increase to each customer rate schedule effective  
11 April 1, 2020, is shown in Table No. 5 below.<sup>7</sup>

12 **Table No. 5 - Proposed % Natural Gas Increase by Schedule (April 1, 2020)**<sup>8</sup>

<u>Rate Schedule</u>	<u>Increase in Margin Rates</u>	<u>Increase in Billing Rates</u>
General Service Schedules 101/102	14.1%	10.4%
Large General Service Schedules 111/112/116	14.1%	9.2%
Interrupt. Sales Service Schedules 131/132	14.1%	6.2%
Transportation Service Schedule 146	14.1%	14.4%
Special Contracts Schedule 148	<u>0.0%</u>	<u>0.0%</u>
<b>Overall</b>	<b>13.8%</b>	<b>10.1%</b>

18          The proposed natural gas increase to each customer rate schedule effective April 1,  
19 2021, is shown in Table No. 6 below:

<sup>7</sup> Mr. Miller provides details of the proposed spread of the increase to each customer rate schedule for each year of the Two-Year Rate Plan.

<sup>8</sup> As discussed by Mr. Miller, rate schedules 121, 122 and 126 are proposed to be discontinued and the associated revenue has been moved to rate schedules 111, 112 and 116.

**Table No. 6 – Proposed % Natural Gas Increase by Schedule (April 1, 2021)**

<u>Rate Schedule</u>	<u>Increase in Margin Rates</u>	<u>Increase in Billing Rates</u>
General Service Schedules 101/102	6.2%	4.7%
Large General Service Schedules 111/112/116	6.2%	4.2%
Ex. Lg. General Service Schedules 121/122	0.0%	0.0%
Interrupt. Sales Service Schedules 131/132	6.2%	2.9%
Transportation Service Schedule 146	6.2%	6.3%
Special Contracts Schedule 148	<u>0.0%</u>	<u>0.0%</u>
<b>Overall</b>	<b>6.1%</b>	<b>4.6%</b>

**Q. For April 1, 2020, what would be the increase in a residential customer’s bill with average usage based on the proposed increase for Schedule 101?**

A. The increase for a residential customer using an average of 66 therms of natural gas per month would be \$4.60 per month, or 9.9%. A bill for 66 therms per month would increase from the present level of \$46.40 to a proposed level of \$51.00.

**Q. For April 1, 2021, what would be the increase in a residential customer’s bill with average usage based on the proposed increase for Schedule 101?**

A. The increase for a residential customer using an average of 66 therms of natural gas per month would be \$2.55 per month, or 5.0%. A bill for 66 therms per month would increase from \$51.00, including the effects of the April 1, 2020 proposed rate change, to a proposed level of \$53.55.

**Q. For both the electric and natural gas operations, the proposed increases are higher for the first year of the Two-Year Rate Plan. Why is that the case?**

A. The electric and natural gas revenue increases for Year 1 of the Two-Year Rate Plan are higher due primarily to the absence of revenue increases from May 1, 2018 through April 1, 2020. In a sense, the Company is seeking rate relief to “catch up”. It is important to

1 remember that, while Avista supported the inclusion of capital investment through calendar-  
2 year 2017 in its last general rate case, the Commission ultimately allowed only 12 projects  
3 (with balances at August 31, 2017) from 2017 to be included in new base rates effective May  
4 1, 2018. The unrecovered capital investment from 2017, plus all of the investment in 2018,  
5 and a portion of 2019 capital investment, is included in the first year revenue requirement in  
6 this case. That accounts for much of the size of the proposed revenue increase.

7 **Q. In your view, is the Company actually asking for less rate recovery than it**  
8 **could otherwise support in an attempt to moderate its request?**

9 A. In short, yes, we have tempered our overall rate request, being mindful of  
10 concerns expressed by the Commission and all of the parties regarding levels of requested rate  
11 relief. Accordingly, instead of including all capital investment for 2019 in Ms. Schuh's pro  
12 forma capital adjustment, we limited the level of capital included to only 20 discrete projects  
13 (out of 165 projects for 2019), accounting for only \$111 million out of \$206 million of 2019  
14 electric and natural gas capital projects.

15 **Q. Are there "checks and balances" as part of Avista's Two-Year Rate Plan**  
16 **proposal to ensure that retail rates remain fair for customers throughout the Two-Year**  
17 **Rate Plan?**

18 A. Yes. Through the existing electric and natural gas Decoupling Mechanisms,  
19 Avista is subject to separate one-way earnings tests for each of its Washington electric and  
20 natural gas operations. As a part of this general rate case, Avista is seeking to extend its electric  
21 and natural gas Decoupling Mechanisms through March 31, 2025, and as a part of that request  
22 would keep the current one-way earnings test in effect. If Avista were to over-earn during the  
23 Two-Year Rate Plan, Avista would share half of the overearnings, protecting customers.

1 However, if Avista under-earns, there is no corresponding protection for the Company under  
2 these circumstances; Avista would simply absorb the shortfall.

3 In addition, for Rate Year 2, beginning April 1, 2021, the Company is proposing to  
4 file with this Commission an Electric and Natural Gas Capital Report by February 15, 2021.  
5 This report would provide actual year-end (end of period) net plant balances as of December  
6 31, 2020. This would provide assurance to the Commission that the rate increases approved  
7 effective April 1, 2021, would include a level of net plant that is actually in-service and serving  
8 customers prior to new rates going into effect.<sup>9</sup>

9 **Q. How does this Rate Plan compare with prior Commission guidance?**

10 A. As underscored in the 2016 rate case for Avista, the Commission stressed that  
11 any escalation over time must begin with development of a modified historical test year with  
12 pro forma plant additions. (See 2016 Case, at ¶62)<sup>10</sup> We have done so in this instance, by  
13 developing the revenue requirement for the first year by pro forming the 2018 historical test  
14 year. Next we used essentially the same “rigorous trend analysis” as previously characterized  
15 by the Commission in its 2016 Order (¶75). And, as discussed below, the analysis includes  
16 “mechanisms that result in a reasonable sharing of risks between shareholders and ratepayers”  
17 as instructed by the Commission. (See 2016 Order at ¶75). Finally, the Commission in its  
18 2016 Order said at ¶76:

19 “A future proposal for a multi-year rate plan such as that approved for Avista in 2012,  
20 or for PSE in 2013, for example could include both updated rates as a starting point

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<sup>9</sup> The Two-Year Rate Plan would not preclude tariff filings authorized by or contemplated by the terms of the Energy Recovery Mechanism (ERM), Purchased Gas Adjustment (PGA), Public Purpose Rider Adjustment (DSM/LIRAP) or similar adjustments. The Company is proposing that the Two-Year Rate Plan also not preclude the Company from filing for rate relief or accounting treatment for major changes in costs not reflected in this filing, such as new safety or reliability requirements imposed by regulatory agencies, or the recovery of unanticipated expenses beyond the Company’s control – e.g., fire, wind, and snowstorms.

<sup>10</sup> See Washington Utilities and Transportation Commission, Order 06, Dockets UE-160228 and UG-160229 (hereinafter the 2016 Order or Case).

1 and rate escalator one year later, or escalation annually for two or three years, subject  
 2 to reporting requirements, and, perhaps, an earnings test or sharing mechanism,”  
 3 (emphasis added)  
 4

5 All of these elements are satisfied in this filing.

6 **Q. In 2017, however, didn't this Commission reject the Company's proposed**  
 7 **Three-Year Rate Plan?**

8 A. Yes, it did, based on the unique circumstances of that case. In its 2017 Order<sup>11</sup>  
 9 at ¶47, however, it noted a multi-year rate plan remains a “tool”:

10 “Multi-year rate plans are a tool that the Commission has used in prior rate cases to  
 11 stop the annual cycle of rate cases, halt attrition of the Company's earnings, and  
 12 remove the risk associated with regulatory lag.<sup>12</sup> We continue to welcome use of  
 13 multi-year rate plans in appropriate circumstances to control the seemingly unending,  
 14 annual filings of rate cases.” (emphasis added)  
 15

16 It was just not appropriate “at this time,” because of surrounding “circumstances” –  
 17 i.e., the Tax Cuts and Jobs Act (“TCJA”), the then-pending Hydro One Merger, and Avista's  
 18 filed depreciation studies that included, among other things, changes to depreciation at  
 19 Colstrip Units #3 and #4.

20 Of course the issues related to the TCJA and Hydro One merger have been resolved,  
 21 and the issues related to depreciation of Colstrip have been included in this case, at the  
 22 direction of the Commission.<sup>13</sup> Even though the 2017 proposed rate plan was rejected, the  
 23 Commission was quick to note that it “doesn't reflect a change in our recognition of the value  
 24 of multi-year rate plans either to end the cycle of annual rate filings or to support the utilities  
 25 efforts at efficiency.” (Order 07, at ¶51)

<sup>11</sup> See, WUTC v. Avista, Docket No(s) UE-170485 and UG-170486, Order 07, (hereinafter 2017 Order or Case)

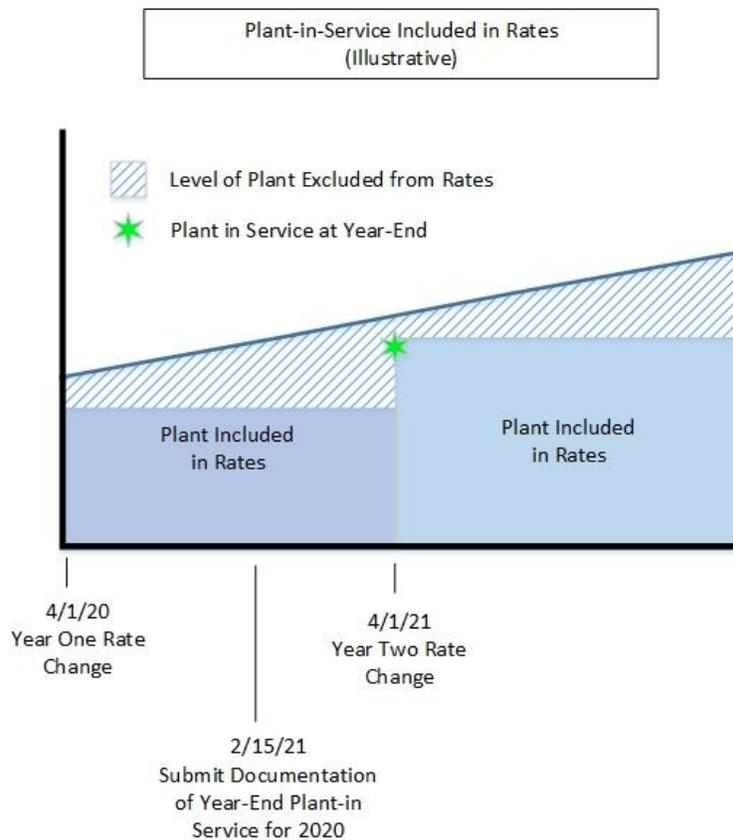
<sup>12</sup> See, WUTC v. Pacific Power & Light Company, Docket UE-152253, Order 12 (Sept. 1, 2016) and WUTC v. Puget Sound Energy, Dockets UE-121607 and UG-121705 et al, Order 07 (June 25, 2013).

<sup>13</sup> Docket Nos. UE-180167 and UG-180168, Order 04 (Modified), ¶29.

1           **Q.     Have you prepared a simple illustration of the Company’s Rate Plan to**  
 2 **reflect additional plant investment?**

3           A.     Yes. Illustration No. 1 below is simply meant to convey the concept of how  
 4 capital additions will be handled in the Two-Year Rate Plan, and is not otherwise drawn to  
 5 scale. (Company witness Ms. Schuh will provide more detail and explanation in her direct  
 6 testimony.)

7 **Illustration No. 1 – Plant-in-Service Included in Rates**



20           **Q.     You note in Illustration No. 1 above that documentation will be provided**  
 21 **on or before February 15, 2021 related to 2020 plant-in-service. Why is the Company**  
 22 **proposing to do this?**

1           A.     This report will provide an opportunity for review of the level of net plant prior  
 2 to new rates going into effect on April 1, 2021.<sup>14</sup> This would provide assurance to the  
 3 Commission that the rate increases approved effective April 1, 2021, would include a level of  
 4 utility plant that is actually in-service serving customers prior to new rates going into effect.  
 5 The Electric and Natural Gas Capital Report would include the following information:

6           1.     A summary report of actual capital additions (i.e. transfers-to-plant-  
 7 in-service) and actual year-end (end of period) net plant balances as of  
 8 December 31, 2020.

9  
 10          2.     A final results of operations report, (normally filed with the  
 11 Commission), showing the net plant level for Washington electric and  
 12 natural gas at December 31, 2020.

13  
 14          3.     A signed affidavit from the three capital witnesses in this case (Mr.  
 15 Thackston, Ms. Rosentrater, and Mr. Kensok), attesting to the fact that these  
 16 projects have transferred to plant-in-service, and are used and useful to  
 17 customers.  
 18

19           **Q.     Is there a similar sharing of risk and incentives to manage costs in**  
 20 **connection with the Company's expenses (vs. plant) as well?**

21           A.     Yes. As discussed further by Ms. Andrews, the Company has constructed a  
 22 Rate Plan with a “hard cap” on expenses in Year Two. That cap will be 30 basis points below  
 23 levels of anticipated expenses in Year Two, based on the escalation study performed by the  
 24 Company. Accordingly, instead of a 2.72% increase in electric expenses in Year Two, the  
 25 Company will reduce that to 2.42% and “cap” it at that level. Similarly, for natural gas, instead  
 26 of a 4.29% increase, the Company will “cap” recoverable expenses at 3.99%. As such, the

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<sup>14</sup> As discussed elsewhere, any prudence review would be conducted in the next general rate case, to be effective April 1, 2022.

1 Company will be provided with an incentive to further manage costs below the actually  
2 anticipated levels.

3 **Q. Ultimately, what is the final level of protection for ratepayers?**

4 A. Were the Company still somehow to earn in excess of its authorized return,  
5 ratepayers will participate in a 50/50 sharing of any returns in excess of the authorized rate of  
6 return – which is a continuation of current practice for electric and natural gas results,  
7 assuming the Commission also approves the Company’s request to extend its electric and  
8 natural gas Decoupling Mechanisms through March 31, 2025. This is a sharing of the risks  
9 and rewards, albeit in an asymmetrical way, because the Company is required to absorb 100%  
10 of any shortfall in earned returns. All of this translates into a real incentive for the Company  
11 to manage its costs.

12 **Q. Does this plan meet the concerns previously expressed by the Commission**  
13 **with respect to multi-year rate plans?**

14 A. Yes, this proposal:

- 15 1. Only includes plant that is in-service at the beginning of the rate effective  
16 period;
- 17 2. Provides an opportunity for review of the actual level of plant in-service  
18 before rates become effective in Year 2; and
- 19 3. It provides incentives for the Company to operate efficiently and shares  
20 risk between the Company and customers, both with respect to plant  
21 additions and expenses.

1           **Q.     How is the Company addressing issues surrounding Colstrip depreciation**  
2 **that were set aside in Dockets UE-180167 and UG-180168, for later review in this general**  
3 **rate case?**

4           A.     In the Commission’s Order 04 in the Avista depreciation dockets, all Colstrip  
5 depreciation issues were to be determined in this case. Among the issues to be addressed, are  
6 the appropriate end of useful life for depreciation purposes of Colstrip Units 3 & 4 and whether  
7 some or all of the remaining Excess Deferred Federal Income Taxes (DFIT) of \$11.7 million<sup>15</sup>  
8 under the new Federal Tax Act should be used as a partial offset to any increased depreciation  
9 expense resulting from accelerating depreciation. In addition, the appropriate amortization  
10 period of the undepreciated balance of Colstrip investment was to be discussed. Ms. Andrews  
11 will address the Company’s proposals in this regard.<sup>16</sup>

12           **Q.     Are any costs associated with the proposed merger with Hydro One**  
13 **included in the Company’s general rate request?**

14           A.     No, there are not. Any costs associated with the proposed merger were charged  
15 to non-utility accounts. As a second check, our Regulatory Affairs team did a thorough review  
16 of its general ledger to verify that no costs were included in this case that were associated with  
17 the proposed transaction.

18           **Q.     You mentioned earlier that the Company is requesting an extension of its**

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<sup>15</sup> The estimated remaining Excess DFIT is revised from \$10.9 million to \$11.7 million to include accrued interest of approximately \$0.8 million through March 31, 2020.

<sup>16</sup> The revenue requirement in this case was completed prior to the finalization of the “100% Clean” legislation, which is expected to be signed into law in early May 2019, requiring the removal of coal in Washington State by 2025. The Company will update the proposed impact of using an accelerated depreciation date of 2025 for its Colstrip assets in Washington after consulting with its Depreciation Consultant, Gannet Fleming, for revised depreciation rates, and our determination of the revised impact to the proposed revenue requirement. Based on preliminary estimates, the Company anticipates the increased Colstrip Regulatory Asset and amortization to reflect a 2025 depreciable life would require an increase in revenue requirement of approximately \$236,000, above moving to a 2027 depreciable life as included in this case.

1 **Decoupling Mechanisms. In summary, why should the Commission extend the**  
2 **Mechanisms through March 31, 2025?**

3 A. As discussed by Company witness Mr. Ehrbar, based on proven benefits to  
4 both the customer and the Company that the Decoupling Mechanisms have shown to date,  
5 and the lack of adverse impacts associated with these mechanisms, the Company requests the  
6 Commission approve the continuation of the Decoupling Mechanisms. By extending the  
7 mechanisms and providing some certainty to the Company that it can recover a significant  
8 portion of its fixed costs of providing service, the Company is able to maintain its central  
9 focus of being a trusted energy advisor to its customers without adverse or uncertain financial  
10 impacts from evolving customer choice in the future. The Company believes, consistent with  
11 the Commission's conclusion when it approved the Mechanisms in 2014, that the Decoupling  
12 Mechanisms continue to be in the public interest, promote the policy goals of increased  
13 conservation, and result in fair, just, reasonable, and sufficient rates.

14

15 **V. GENERAL RATE CASE DRIVERS**

16 **Q. What is the major driver causing the need for Avista to seek general rate**  
17 **relief?**

18 A. As I previously stated, the primary driver of the Company's requested rate  
19 relief is related to Avista's capital investments in our electric and natural gas infrastructure.

20 **Q. The Company has stated in previous general rate cases that it needs rate**  
21 **relief due to investment in capital. Didn't the Company just receive rate relief in May**  
22 **2018?**

1           A.     Yes, the Commission did grant a revenue increase for both electric and natural  
2 gas service (ignoring the effects of federal tax reform). In the Commission's Order 07 in  
3 Dockets UE-170485 and UE-170486, it allowed capital investment through calendar-year  
4 2016. In addition, the Commission allowed in rate base, through August 2017, only 10  
5 discrete projects (the Company had sought recovery of 121 discrete projects through  
6 December 2017). By including such a limited amount of capital investment into customer  
7 rates effective May 1, 2018, the Commission's final Order in that case has resulted in the  
8 Company experiencing significant regulatory lag associated with its capital investments.

9           **Q.     What are the effects to the Company due to the Commission's capital**  
10 **investment determination in the last general rate case?**

11          A.     Until the time new rates go into effect as a result of this general rate case,  
12 Avista will not have recovered its costs associated with most of its 2017 capital investment  
13 (the investment beyond the limited additional items allowed by the Commission in the last  
14 rate case), the capital investment in 2018, the capital investment in 2019, and a portion of  
15 2020 capital investment. That said, we are only including in this case the capital investment  
16 for 2017 and 2018, and limited additions in 2019. With new rates going into effect in April  
17 2020, we will start the rate effective period with already a one-year lag in capital investment  
18 recovery.

19          **Q.     What were the Company's electric and natural gas earned returns in**  
20 **2018?**

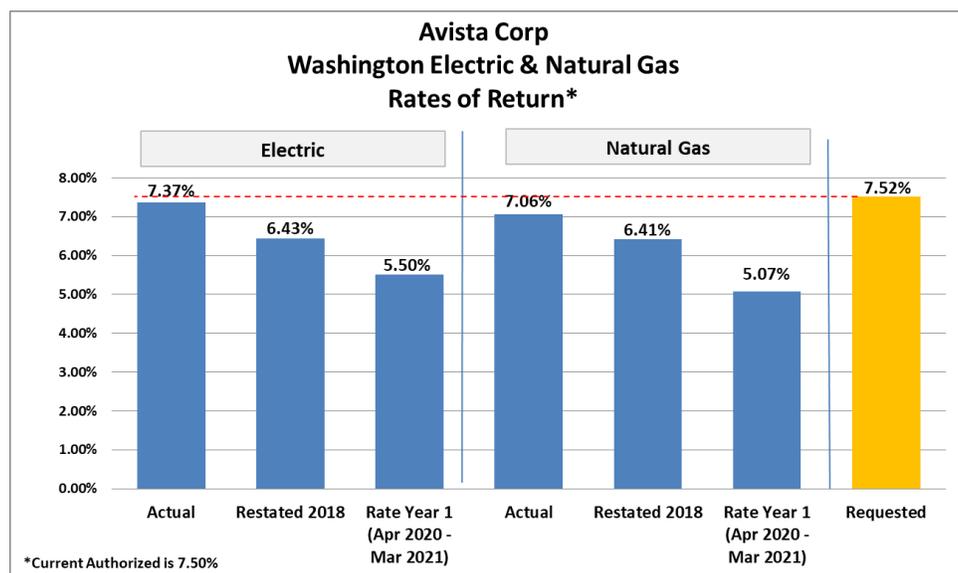
21          A.     In 2018, Avista achieved an electric rate of return of 7.19 percent and 7.39  
22 percent for natural gas, on a Commission Basis (see. Exh EMA-1T). This is compared to the  
23 authorized level of 7.50 percent as set by the Commission in the Company's last general rate

1 case. On an actual basis, Avista's Washington electric results were 7.37 percent and for  
2 natural gas were 7.06 percent.

3 **Q. Are 2018 results, whether actual or Commission Basis, relevant to the**  
4 **Company's rate request?**

5 A. No, not for purposes of setting future rates. This general rate case filing is based  
6 on a rate year beginning on or about April 1, 2020. Costs continue to rise from 2018 through  
7 the first rate year. Additionally, the Company continues to invest the necessary and  
8 appropriate capital to maintain a safe and reliable system. While revenues will also increase  
9 in between rate cases, a deterioration of earnings will occur absent the requested amount of  
10 rate relief in this case. In fact, results through March 2019 are already beginning to show the  
11 deterioration of the Company's earnings from the December 2018 level.

12 As Ms. Andrews demonstrates, absent rate relief, the Company will not have a  
13 reasonable opportunity to earn its allowed rate of return in the rate effective period. As Ms.  
14 Andrews shows in Illustration No. 3 in Exh. EMA-1T (reproduced below), absent rate relief  
15 in this case, the rates of return for Rate Year 1 would be 5.50% (electric) and 5.07% (natural  
16 gas).

**Illustration No. 2<sup>17</sup>**

**Q. How was the Company able to mitigate regulatory lag related to capital investment during 2018?**

A. There were several unanticipated items that occurred which helped to offset regulatory lag associated with capital investment. Examples of some unusual and unexpected items included reductions in pension and medical expenses, credit and collection expenses, and software licensing expenses. Pension expenses unexpectedly decreased due to changes in asset allocation and expected returns on the fund balance. The Company has a self-insured medical plan. Claims under the plan for 2018 have been coming in lower than projected, which has resulted in lower medical expenses. In addition, as can be seen in Mr. Thies' testimony, the cost of debt has decreased, which has helped mitigate other cost increases.<sup>18</sup> The accrual

<sup>17</sup> The electric and natural gas "Restated 2018" rates of return shown in Illustration No. 2 reflect normalized Commission Basis results restated to include end-of-period 2018 net plant results, as shown in Ms. Andrews Exh. EMA-2 and Exh. EMA-3.

<sup>18</sup> As discussed by Ms. Andrews, the actual cost of debt was 5.38% (per Washington Commission Basis Reports for calendar 2018) versus the current authorized level of 5.62%, improving earnings in 2018.

1 for bad debt expenses (write-offs of delinquent customer accounts) decreased during the year  
2 because of process improvements in the credit and collections processes. The Company  
3 planned to incur certain software licensing expenses in 2018, but that did not occur due to the  
4 timing of certain information technology projects. These unexpected decreases also affected  
5 natural gas operations.<sup>19</sup>

6 **Q. What is driving the need for continued capital investment?**

7 A. Exh. MTT-4, sponsored by Company witness Mr. Thies, is a copy of Avista's  
8 "Infrastructure Investment Plan", a plan that provides an overview of our capital investment  
9 prioritization process and the six key "investment drivers", which are:

- 10 1. Respond to customer requests for new service or service enhancements;
- 11 2. Meet our customers' expectations for quality and reliability of service;
- 12 3. Meet regulatory and other mandatory obligations;
- 13 4. Address system performance and capacity issues;
- 14 5. Replace infrastructure at the end of its useful life based on asset condition; and
- 15 6. Replace equipment that is damaged or fails, and support field operations.

16 An explanation of each of these drivers, as well as examples of specific capital projects under  
17 these drivers, is provided in the Infrastructure Investment Plan. Mr. Thies provides further  
18 details on our capital planning process, which is used to identify and prioritize capital  
19 investment, in the appropriate time frame, in a manner that best meets the future needs and  
20 expectations of our customers. Company witnesses Mr. Thackston, Ms. Rosentrater, and Mr.  
21 Kensok provide details of our completed capital projects, as well as the "major" projects

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<sup>19</sup> Where appropriate, the cost reductions in 2018 noted above have been reflected in the Company's costs in this case.

1 included in Ms. Schuh's pro forma capital adjustment. Those witnesses address why they  
2 need to be done in the planned time frame, and what the risks and consequences are of not  
3 completing the projects in that time frame.

4

5 **VI. COST MANAGEMENT AND EFFICIENCIES**

6 **Q. Is Avista continuing to pay particular attention to controlling its costs in**  
7 **order to mitigate the level of price increases to its customers?**

8 A. Yes. We recognized that increases in costs will result in bills that will be more  
9 difficult for some of our customers to pay. I can assure you that we are not just sitting on the  
10 sidelines as our costs go up.

11 We continue to aggressively manage costs to achieve the appropriate balance in  
12 providing safe and reliable service at cost-effective rates, and a high level of customer  
13 satisfaction, while preserving the financial health of the utility. We are focused on long-term  
14 sustainable savings to continuously improve our service to customers and manage costs into  
15 the future. Some of the measures from the last couple of years that we are continuing, are  
16 briefly explained below, as well as a number of more recent initiatives.

17 First, the Company continues to operate under a hiring restriction which requires  
18 approval by the Chairman/CEO, President, the CFO, and the Sr. VP for Human Resources for  
19 all replacement or new hire positions.

20 In an effort to keep medical office visits down, we offer access to phone or web-based  
21 24/7 telemedicine and we have an on-site medical clinic. Beginning in 2017, Avista offered  
22 a self-insured High Deductible Health Plan ("HDHP") in addition to the current self-insured  
23 plan. The HDHP requires plan participants to pay all costs of medical care up to defined

1 deductible limits. Over time we expect this plan to result in lower overall medical costs to the  
2 Company.

3 To mitigate operating expense increases in IS/IT, Avista works to automate our  
4 systems through technology where reasonable and prudent to do so, and we work to negotiate  
5 discounted multi-year contracts with vendors that result in discounted maintenance and  
6 support rates. As an example, in 2016 we introduced a cloud-based business performance  
7 monitoring tool that automates a portion of the labor performed by our IS teams. This  
8 subscription-based license model resulted in a significant reduction of internal labor costs over  
9 a three year period, allowing us to redeploy our IS operations team labor resources and  
10 providing immediate cost savings.

11 The Company's "Work Digitization Effort" prioritized opportunities that have a cost  
12 savings potential by digitizing the remaining back office, work processes, inventory or other  
13 areas where we might be able to achieve efficiencies. This presented a chance to think about  
14 how we might continue to streamline our processes using technology and ultimately create an  
15 inventory of opportunities. Avista assembled a team of 40 individuals from across the  
16 organization and requested they poll their respective business units for possible ideas to  
17 achieve efficiencies and find cost savings. The team collected the ideas and brought them in  
18 for review and analysis to determine if they were being addressed in another forum, or if they  
19 had merit for futures sequencing, planning and implementation efforts. This activity allowed  
20 our project planning team an opportunity to ensure that efforts known to create efficiencies  
21 were being appropriately sequenced for action. We are continuing to sequence these efforts  
22 for planning and implementation as we have funding to do so, and as they make prudent sense  
23 to complete.

1 Another example where the Company has successfully managed its expenses, is  
2 related to our Fleet Asset Management Program which includes optimizing our maintenance  
3 schedule to reduce repairs and ensure peak performance, idle-reduction programs to reduce  
4 fuel consumption, “right-sizing” engines to maximize fuel efficiency, and using recycled  
5 motor oil.

6 The Company’s Investment Recovery Department receives materials from the field  
7 and inspects these materials for reassignment, reuse, recycling or scrapping. Avista inspected  
8 1.7 million pounds of scrap in 2017 for a total savings of \$690,000. Both of these examples  
9 are continuous improvement practices to manage expenses over time.

10 In 2016, Customer Service partnered with Supply Chain to review the existing  
11 contracts with each of our three collection agencies. At the same time, Avista participated in  
12 a benchmark study that revealed opportunities for lowering the fees we were paying to our  
13 collection agencies and implement new processes of working together to increase the recovery  
14 percentage on the dollars we assign to the collection agencies. Later that same year, Customer  
15 Service adopted a scorecard process utilized by Supply Chain as a tool for performance  
16 management. The collection agency scorecard provides a baseline against which future  
17 results are compared (trend analysis).

18 Shortly after the initial presentation of the new scorecards, three new contracts were  
19 fully executed, based on the results of these scorecards, and each included reduced fee  
20 rates. The efforts put forth in building strong partnerships, mutual accountability and  
21 communication have proven to be highly successful. In comparison to the baseline  
22 performance established in 2016, the collection agency recoveries have increased by 50%

1 while our fee rates paid have been reduced by 12%. The estimated value for 2018 compared  
2 to the 2016 baseline performance is approximately \$511,000.

3 **Q. Are these the only measures the Company has taken recently to mitigate**  
4 **increased costs?**

5 A. No. Avista is constantly looking for improvements in the way it provides  
6 services to its customers, as well as ways to reduce the costs of those services. Ideas are  
7 generated through Business Process Improvement (BPI). BPI integrates the expertise of  
8 people, streamlines processes, and appropriately applies technology to collectively optimize  
9 business processes and create sustainable results. For instance, between 2016 and 2018,  
10 twenty-two projects provided approximately \$8 million in savings, efficiencies, and/or  
11 avoided costs. Most of the savings/efficiencies referenced above are a direct result of this  
12 process as well.<sup>20</sup>

## 13 **VII. COMMUNICATIONS WITH CUSTOMERS**

14 **Q. How is Avista communicating with its customers to explain what is driving**  
15 **increased costs for the Company?**

16 A. The Company proactively communicates with its customers about a range of  
17 subjects through a variety of channels: Avista's website [www.myavista.com](http://www.myavista.com), electronic and  
18 print newsletters, Avista Connect [www.myavista.com/Connect](http://www.myavista.com/Connect), social media, customer  
19 forums, one-on-one customer interactions through field personnel and account  
20 representatives, bill inserts, direct email, media contacts, group presentations, through our  
21 employees' involvement in community, business and civic organizations, and more. We  
22 believe our communications help our customers and the communities we serve to better

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<sup>20</sup> Any actual cost savings are embedded in the Company's 2018 historical test year.

1 understand the utility business as well as issues faced by the Company that contribute to their  
2 energy rates, such as increased and ongoing infrastructure investment and improvement,  
3 environmental mitigation and security.

4 Our employees provide excellent customer service, and this focus on communicating  
5 with our customers includes providing our employees messaging and new tools and training  
6 to make it easier to communicate with friends, family and customers. We are finding that  
7 once a customer talks with our employees, and voices their concerns and receives answers to  
8 their questions, their satisfaction level increases.

9 We are also continuing our focus on informing customers of the many programs we  
10 offer to provide assistance in managing their energy bills, and ensuring that our employees  
11 are equipped to engage in these conversations.

12

13

#### **VIII. CUSTOMER SATISFACTION**

14 **Q. What kind of feedback are you receiving from customers related to**  
15 **customer satisfaction?**

16 A. Our customer service surveys indicate that customer satisfaction remains high.  
17 Our overall customer satisfaction from our voice-of-the-customer (VOC) surveys for 2018  
18 was 97% in our Oregon, Washington, and Idaho operating divisions, the highest ever ratings  
19 since the Company began tracking VOC over twenty years ago. The purpose of the VOC  
20 Survey is to measure and track customer satisfaction for Avista Utilities' "contact" customers  
21 – i.e., customers who have contact with Avista through the Contact Center and/or work  
22 performed through an Avista construction office. This rating reflects a positive experience

1 for customers who have contacted Avista related to the customer service or field service they  
 2 received. These results can be achieved only with very committed and competent employees.

3  
 4 **IX. CUSTOMER SUPPORT PROGRAMS**

5 **Q. Please summarize briefly the customer support programs that Avista**  
 6 **provides for its customers in Washington.**

7 A. Avista Utilities offers a number of programs for its Washington customers,  
 8 such as energy efficiency programs, the Low Income Rate Assistance Program (LIRAP),  
 9 Project Share for emergency assistance to customers, the Customer Assistance Referral and  
 10 Evaluation Service (CARES) program, level pay plans, and payment arrangements. Some of  
 11 these programs will serve to mitigate the impact on customers of the proposed rate increase.

12 In the 2017/2018 heating season, nearly 33,000 Washington customers received  
 13 approximately \$10 million in various forms of energy assistance (Federal LIHEAP program,  
 14 LIRAP, Project Share, and local community funds). Some of the key programs that we offer  
 15 or support are as follows:

- 16  
 17 1. **Low-Income Rate Assistance Program (LIRAP).** Avista's Low Income Rate  
 18 Assistance Program in Washington collects approximately \$8.6 million per year  
 19 through electric and natural gas tariff surcharges. The Company, with the  
 20 assistance of community action agencies, directs these funds to customers least  
 21 able to pay for electric and natural gas service. The purpose of the LIRAP program  
 22 is to reduce the energy cost burden among those customers least able to pay energy  
 23 bills through energy assistance grants or discounted rates. In the 2017/2018  
 24 heating period, for example, the LIRAP funds supplied 17,621 grants to Avista  
 25 customers.  
 26  
 27 2. **Project Share.** Project Share is a community fuel fund that is supported by a  
 28 partnership of utilities and community action agencies; it provides "emergency"  
 29 energy assistance to qualified households that have exhausted all other energy  
 30 assistance resources. Avista employees and customers voluntarily donate to

1 Project Share; in 2018 this group donated \$149,033 to the program. Additionally,  
2 during the same year the Company contributed \$137,360 to Project Share to help  
3 individuals stay connected to essential services. In 2018, 569 Avista customers  
4 were assisted by Project Share.

- 5  
6 **3. Customer Assistance Referral Evaluation Services (CARES) Program.**  
7 Avista's CARES Department works with customers experiencing circumstances  
8 such as medical crisis, unemployment, family hardships, or other special  
9 conditions that may impact the customer's ability to pay their utility bill. CARES  
10 works with the customer to connect them with energy assistance, provide  
11 specialized payment arrangements, and often delays disconnect to accommodate  
12 this process.  
13
- 14 **4. Comfort Level Billing.** The Company offers the option for residential customers  
15 to pay the same bill amount each month of the year by averaging their annual  
16 usage. Under this program customers can avoid unpredictable winter heating bills.  
17
- 18 **5. Multiple Payment Methods.** The Company offers a number of no-cost  
19 payment methods for customers. In addition to making a payment at pay stations,  
20 drop boxes, or paying by cash at pay stations or the Company's office, Avista also  
21 offers customers online payment through the Company's website whether  
22 it is ACH, credit/debit card and pay-by-telephone payment options which  
23 provide almost immediate account updating and the customer can make these  
24 payments without leaving their home.  
25
- 26 **6. Energy Efficiency.** Avista began offering energy efficiency programs to its  
27 customers in 1978. These programs pursue all cost-effective energy efficiency and  
28 operate within the prevailing market and economic conditions. Recent programs  
29 with the highest impacts on energy savings include residential and non-residential  
30 prescriptive lighting, residential fuel efficiency, site-specific lighting, and small  
31 business projects. Avista energy efficiency programs provide conservation and  
32 education options to the residential, low income, commercial, and industrial  
33 customer segments. Program delivery includes prescriptive, site-specific, regional,  
34 upstream, behavioral, market transformation, and third-party direct install options.  
35 Prescriptive programs, or standard offerings, provide cash incentives for  
36 standardized products such as the installation of qualifying high-efficiency heating  
37 equipment. Prescriptive programs work in situations where uniform products or  
38 offerings are applicable for large groups of homogeneous customers and primarily  
39 occur in programs for residential and small commercial customers.  
40

41 These programs and the partnerships we have formed with community action agencies  
42 have been invaluable to customers who often have nowhere else to go for help.



1           Mr. Adrien McKenzie, as President of Financial Concepts and Applications  
2 (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of  
3 common equity. He concludes that:

- 4           • In order to reflect the risks and prospects associated with Avista's jurisdictional  
5 utility operations, his analyses focused on a proxy group of 21 other utilities with  
6 comparable investment risks.
- 7           • Because investors' required return on equity is unobservable and no single method  
8 should be viewed in isolation, he applied the DCF, CAPM, ECAPM, and risk  
9 premium methods to estimate a fair ROE for Avista, as well as referencing the  
10 expected earnings approach.
- 11          • Based on the results of these analyses, and giving less weight to extremes at the  
12 high and low ends of the range, he concluded that the cost of equity for the proxy  
13 group of utilities is in the 9.8 percent to 10.8 percent range, or 9.9 percent to 10.9  
14 percent after incorporating an adjustment to account for the impact of common  
15 equity flotation costs.
- 16          • As reflected in the testimony of Mark T. Thies, Avista is requesting a fair ROE of  
17 9.9 percent, which is well below the 10.4 percent midpoint of his recommended  
18 range. Considering capital market expectations, the exposures faced by Avista,  
19 and the economic requirements necessary to maintain financial integrity and  
20 support additional capital investment even under adverse circumstances, it is his  
21 opinion that 9.9 percent represents a conservatively low ROE for Avista.

22  
23           Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, will generally  
24 cover accounting and financial data in support of the Company's need for the proposed electric  
25 and natural gas rate relief requested in the Company's filing. She will first summarize the  
26 Company's revenue increase requests for the proposed Two-Year Rate Plan for the period  
27 April 1, 2020 through March 31, 2022. Finally, she will address the Company's proposals  
28 regarding the treatment of Colstrip depreciation, as well as changes in FASB and FERC  
29 accounting methods since Avista's last general rate case filing in Washington.

30           Mr. Jason Thackston, Senior Vice President of Energy Resources, will provide an  
31 overview of Avista's recent announcement regarding "100% Clean Electricity by 2045 Goal"

1 as well as resource planning and power supply operations. This includes summaries of the  
2 Company's current and future resource plans, as well as an overview of the Company's  
3 Energy Resources Risk Policy, and an update on Avista's participation in the CAISO Western  
4 Energy Imbalance Market. He will address the major generation-related capital projects  
5 included in this case, as well as Colstrip Unit Nos. 3 and 4 capital projects for the periods  
6 2017-2019.

7 Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, provides  
8 an update on the progress of power supply modeling workshops being held at Commission  
9 direction. He states that, given the Commission made its findings in Order 07 in Avista's  
10 2017 general rate case just last April 2018, and given that there have not been any  
11 extraordinary circumstances since that time as it relates to our power supply portfolio and  
12 operations, the Company is not proposing to adjust its power supply base in this GRC.

13 Ms. Heather Rosentrater, Vice President of Energy Delivery, will provide an overview  
14 of the Company's electric and natural gas energy delivery facilities, discuss our electric  
15 reliability trends and areas of focus, and explain the factors driving our continuing investment  
16 in electric distribution infrastructure. She will explain how our efforts to maintain the asset  
17 health and performance of our electric transmission system, including compliance with  
18 mandatory federal standards for transmission planning and operations is driving a continuing  
19 demand for new investment. Further, she will describe why our investments in natural gas  
20 distribution are necessary in the time frames contemplated and why each capital investment  
21 in our facilities are needed to support the efficient delivery of service to our customers, today  
22 and into the future.

1           Ms. Jody Morehouse, Director of Gas Supply, will describe Avista’s natural gas  
2 procurement planning process and provide an overview of the Company’s 2018 Natural Gas  
3 Integrated Resource Plan.

4           Mr. James Kensok, Vice President Chief Information and Security Officer, provides  
5 an overview of, and discusses costs associated with, the Company’s Information  
6 Service/Information Technology (IS/IT) programs and projects. These costs are comprised of  
7 the capital investments for a range of IS/IT projects that support systems used by the  
8 Company, including security and technology refresh/expansion, customer facing technology  
9 such as myavista.com and our outage mobile application, among several other applications.  
10 He explains why our information technology investments are necessary in the time frames  
11 indicated and why investments in technology are necessary in order to perform in a safe,  
12 secure, reliable, and efficient manner.

13           Ms. Karen Schuh, Manager of Regulatory Affairs, will cover Avista’s capital  
14 investments in utility plant from December 31, 2018 through December 31, 2019, as well as  
15 the derivation of the level of “Major Projects” discussed by the capital witnesses (Mr.  
16 Thackston, Ms. Rosentrater, and Mr. Kensok), and the derivation of the level of pro forma  
17 adjustments included in the Company’s revenue requirement.

18           Ms. Tara Knox, Manager of Regulatory Accounting Initiatives, covers the Company’s  
19 electric cost-of-service study performed for this proceeding. Additionally, she is sponsoring  
20 the electric revenue normalization adjustments to the test year results of operations.

21           Mr. Joseph Miller, Manager of Pricing and Tariffs, discusses the spread of the  
22 proposed electric and natural gas increases among the Company’s general service schedules.  
23 His testimony will also describe the changes to the rates within the Company’s electric and

1 natural gas service schedules. In addition, Mr. Miller will cover the Company's natural gas  
2 revenue normalization adjustments and natural gas cost of service study performed for this  
3 proceeding.

4 Mr. Patrick Ehrbar, Director of Regulatory Affairs, will provide an overview of the  
5 Company's electric and natural gas Decoupling Mechanisms that were made effective on  
6 January 1, 2015, and which would expire at the end of this general rate case absent our request  
7 to extend the mechanisms in this proceeding through March 31, 2025.

8 **Q. Does this conclude your pre-filed direct testimony?**

9 A. Yes.