DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851
DAVID.MEYER@AVISTACORP.COM

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-15-05
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-15-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC	)	DIRECT TESTIMONY
AND NATURAL GAS CUSTOMERS IN THE	)	OF
STATE OF IDAHO	)	SCOTT L. MORRIS
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

A. My name is Scott L. Morris and I am employed as the Chairman of the Board, President and Chief Executive Officer of Avista Corporation (Company or Avista), at 1411 East Mission Avenue, Spokane, Washington.

Q. Would you please briefly describe your educational background and professional experience?

A. Yes. I am a graduate of Gonzaga University with a Bachelors degree and a Masters degree in organizational leadership. I have also attended the Kidder Peabody School of Financial Management.

I joined the Company in 1981 and have served in a number of roles including customer service manager. In 1991, I was appointed general manager for Avista Utilities' Oregon and California natural gas utility business. I was appointed President and General Manager of Avista Utilities, an operating division of Avista Corporation, in August 2000. In February 2003, I was appointed Senior Vice-President of Avista Corporation, and in May 2006, I was appointed as President and Chief Operating Officer. Effective January 1, 2008, I assumed the position of Chairman of the Board, President, and Chief Executive Officer.

I am a member of the Gonzaga University board of trustees, a member of Edison Electric Institute board of directors, a member of the American Gas Association, and immediate past chair of the Washington Roundtable. On January 1, 2011, I was appointed to the Federal Reserve Bank of San Francisco, Seattle Branch board of directors and currently serve as chair. I also serve on the board of trustees of Greater Spokane Incorporated.

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

A. I will summarize the Company’s rate request in this filing, and provide some context for why there is a continuing need for retail rate increases, not just for Avista, but for the electric and natural gas utility industry in general. I will provide an overview of our cost management initiatives, our communications initiatives to help customers better understand the changes in costs that are causing rates to increase, and briefly explain the Company's customer support programs in place to assist our customers. Finally, I will introduce each of the other witnesses providing testimony on the Company’s behalf.

A table of contents for my testimony is as follows:

Q. Are you sponsoring an Exhibit in this proceeding?

A. Yes. I am sponsoring Exhibit No. 1 which is comprised of three schedules. Schedule 1 includes an overview of Avista and its utility and subsidiary operations, as well as a diagram of Avista's corporate structure. Schedule 2 includes a map showing Avista's electric and natural gas service areas. Schedule 3 includes line graphs showing, among other things, the changes in Avista's electric retail rates from 1889 to 2014, which help provide context for the revenue increases proposed in this filing.

II. SUMMARY OF RATE REQUESTS

Q. Please provide an overview of Avista's two-year rate plan proposed in this case.

A. The Company is proposing a two-year rate plan for calendar years 2016 and 2017, with proposed increases effective January 1 of each year. The Company is proposing a two-year rate plan, to once again, avoid annual rate cases in its Idaho jurisdiction[1], providing benefits to all stakeholders.

A two-year rate plan, with increases in 2016 and 2017, would provide benefits to Avista's customers by providing rate certainty over this two-year period; to Avista by providing a two-year window to manage its business in order to achieve a fair rate of return within known price changes; and relief to all stakeholders – customers, the Commission and its Staff, intervenors, and the Company, from the administrative burdens and costs of litigation of annual general rate cases.

Q. What are the primary factors driving the Company's need for its requested electric and natural gas increases in 2016 and 2017?

[1] Avista's last general rate case filing was in 2012 (Case Nos. AVU-E-12-08 and AVU-G-12-07) in which a two-year rate plan was approved for 2013-2014. The Commission later approved a proposal by the parties to extend the rate plan, with no base rate increase, until January 1, 2016 in Case Nos. AVU-E-14-05 and AVU-G-14-01.

A. The primary factor driving the Company's proposed electric and natural gas revenue increases in 2016 and 2017 is an increase in net plant investment. Specific capital investments over the period 2015-2017 discussed by other Company witnesses include, among other things, replacement of the Company's Customer Information System (Project Compass) described by Mr. Kensok, and upgrades to certain major generating facilities, such as the Nine Mile Rehabilitation project discussed by Mr. Kinney. In 2016, these increased costs for investments for electric operations are offset in part by a reduction in net power supply and transmission expenditures.

However, for 2017 net power supply expenses contribute significantly to the proposed incremental revenue increase requested for 2017. Approximately 40% of the 2017 proposed revenue increase is related to the expiration of a capacity sales agreement with Portland General Electric on December 31, 2016, increasing overall net power supply costs.

Q. Please provide an overview of Avista's 2016 and 2017 electric rate requests in this filing.

A. For 2016, Avista is proposing an overall increase in electric base revenues of $13.230 million or 5.4%. On an overall billed basis, the increase is 5.2%.

For 2017, Avista is proposing an overall increase in electric base revenue of $13.713 million or 5.3%. On an overall billed basis, the increase is 5.1%.

In addition, the Company is proposing that the current refund rate (electric tariff Schedule 97) of approximately $2.8 million (1.1%) that customers are receiving in 2015, and which would otherwise expire on December 31, 2015, be extended for 2016 and 2017 in order to mitigate the overall rate increases. The rebate would be extended through the use of the 2014 electric earnings sharing deferral balance.[2]

The Company's request is based on a proposed rate of return of 7.62% with a common equity ratio of 50% and a 9.9% return on equity. Details of the changes in costs related to the proposed revenue increase are summarized by Company witness Ms. Andrews, and Mr. Ehrbar will provide details of the proposed rate spread for each electric rate schedule. A summary of the proposed increase by rate schedule is shown in Table No. 1 for 2016, and in Table No. 2 for 2017.

[2] Further information related to the proposed rebate extension is provided in Company witness Mr. Ehrbar's direct testimony.

Table No. 1 - Proposed % Electric Increase by Schedule - 2016

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	7.0%	6.9%
General Service Schedules 11/12	3.7%	3.5%
Large General Service Schedules 21/22	4.7%	4.5%
Extra Large General Service Schedule 25	4.8%	4.5%
Clearwater Paper Schedule 25P	2.8%	2.6%
Pumping Service Schedules 31/32	5.5%	5.2%
Street & Area Lights Schedules 41-48	6.3%	6.1%
Overall	**5.4%**	**5.2%**

Table No. 2 - Proposed % Electric Increase by Schedule - 2017

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	6.8%	6.7%
General Service Schedules 11/12	3.7%	3.5%
Large General Service Schedules 21/22	4.7%	4.5%
Extra Large General Service Schedule 25	4.7%	4.5%
Clearwater Paper Schedule 25P	2.8%	2.7%
Pumping Service Schedules 31/32	5.4%	5.1%
Street & Area Lights Schedules 41-48	6.1%	5.9%
Overall	**5.3%**	**5.1%**

Q. What is Avista's 2016 and 2017 natural gas rate requests in this filing?

A. With regard to natural gas, the Company is requesting an overall revenue increase in 2016 of $3.205 million, or 4.5% of total billed revenue.[3] The Company is currently providing to customers a refund rate (natural

[3] Total billed revenue includes base margin revenue (the revenue associated with the Company's ownership and operation of its natural gas distribution operations), as well as the cost of natural gas, upstream third-party owned transportation, and the effect of other rate tariffs. The proposed increase in base margin is 8.8%.

gas tariff Schedule 197) of approximately $1.2 million (1.6%) in 2015. This rebate will expire on December 31, 2015. The Company is proposing to use the 2014 natural gas earnings sharing deferral balance of $0.2 million to partially offset the expiration of the existing rebate rate.[4] As a result, the proposed increase over present billing rates, including the net effect of the new and expiring natural gas rebates under Schedule 197, is 5.8%.

For 2017, the Company is requesting an overall increase of $1.665 million, or 2.2% of total billed revenue.[5] The proposed increase over billing rates, including the expiration of the Schedule 197 rebate that would expire December 31, 2016, is 2.5%.

As with the electric increase, the Company's request is based on a proposed rate of return of 7.62% with a common equity ratio of 50% and a 9.9% return on equity. The proposed rate spread for each natural gas customer class is shown in Table No. 3 for 2016, and in Table No. 4 for 2017:[6]

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[4] Further information related to the proposed rebate extension is provided in Mr. Ehrbar's direct testimony.
[5] The proposed increase in base margin is 4.2%.
[6] The proposed billed percentage increase for Transportation Schedule 146 is not comparable to the proposed increases for the other (sales) service schedules, as Schedule 146 revenue does not include an amount for the cost of natural gas or upstream pipeline transportation. Including an estimate of 45.0 cents per therm for the cost of natural gas and pipeline transportation, the proposed increase to Schedule 146

Table No. 3 - Proposed % Natural Gas Increase by Schedule - 2016

Rate Schedule	**Increase in Billing Rates**	**Billing Increase Net of New & Expiring Rebate**
General Service Schedule 101	5.3%	6.5%
Large General Service Schedules 111/112	1.9%	3.5%
Interrupt. Sales Service Schedules 131/132	3.4%	5.5%
Transportation Service Schedule 146	6.6%	4.5%
Overall	**4.5%**	**5.8%**

Table No. 4 - Proposed % Natural Gas Increase by Schedule - 2017

Rate Schedule	**Increase in Billing Rates**	**Billing Increase Net of Expiring Rebate**
General Service Schedule 101	2.6%	2.9%
Large General Service Schedules 111/112	0.9%	1.3%
Interrupt. Sales Service Schedules 131/132	1.5%	2.0%
Transportation Service Schedule 146	3.4%	5.4%
Overall	**2.2%**	**2.5%**

Q. Is the Company proposing any changes to the cost of natural gas for its retail natural gas customers in this case?

A. No, Avista is not proposing changes in this filing related to the commodity cost of natural gas or upstream pipeline transportation costs. Changes in the commodity cost of natural gas and transportation costs included in customers' rates are addressed in the Company's annual Purchased Gas Cost Adjustment (PGA) filing. As of May 2015, the Company estimates that, barring a major change in

rates represents an average increase of 1.0% in 2016, and 1.2% in 2017, in those customers' total natural gas bill.

commodity prices, the proposed PGA adjustment will be an approximate 10% reduction effective November 1, 2015.

Q. Please summarize the Company's proposal in this filing for electric and natural gas Fixed Cost Adjustment mechanisms.

A. As discussed by Mr. Ehrbar, Avista is proposing electric and natural gas Fixed Cost Adjustment (FCA) mechanisms. The proposed mechanisms would break the link between kilowatt-hour and therm sales and revenues. The mechanisms remove the disincentive to promote energy efficiency as well as the incentive for the Company to increase earnings by promoting energy usage. The FCA mechanisms would also allow Avista to partner with customers and other stakeholders to support new distributed generation (DG) resources, without the additional DG resources having a negative impact on the recovery of utility fixed costs. The Company is proposing that these mechanisms become effective January 1, 2016.

III. CONTEXT FOR RETAIL RATE CHANGES – 1889 to 2014

Q. Is the 125 year history of Avista's retail rates informative in relation to Avista's proposed revenue increases in this filing?

A. Yes. During 2014 Avista celebrated its 125th year anniversary, following its founding in Spokane in 1889. A review of historical data over this 125 year period is very instructive regarding the retail price changes Avista is seeking right now. The illustrations below will show the changes over time from 1889 to 2014 for the following sets of data related to Avista's electric utility operations:

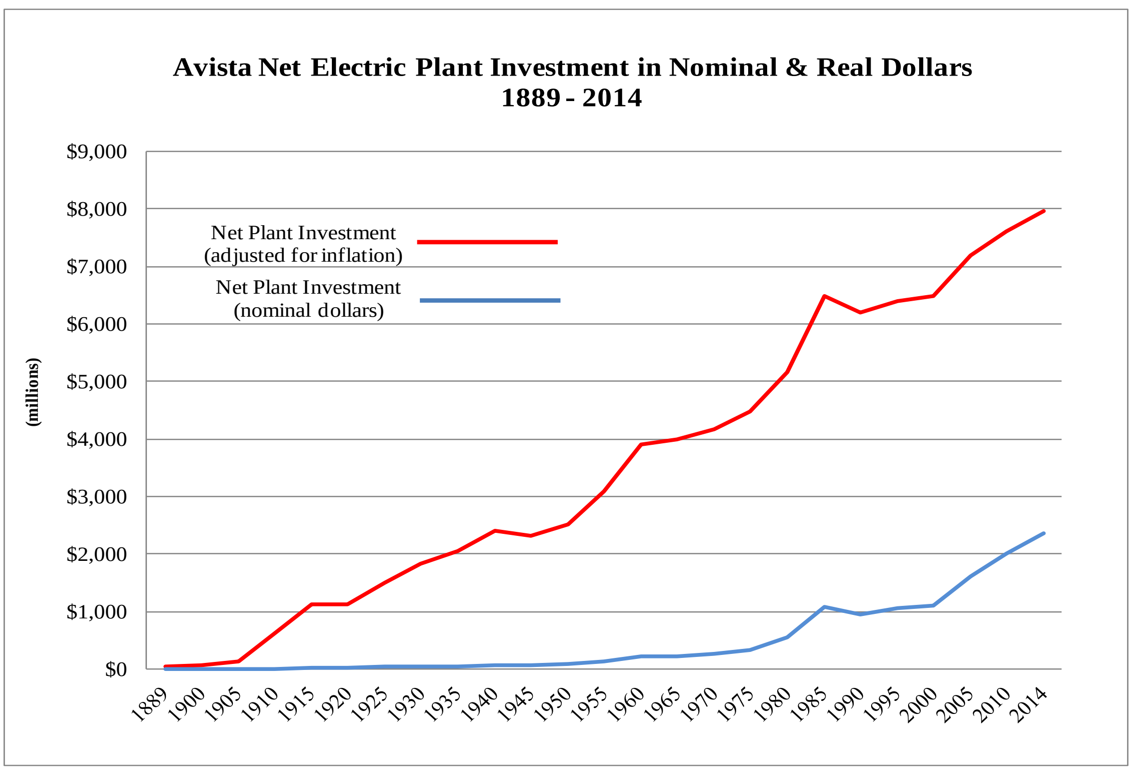
a. Net plant investment
b. Number of residential customers
c. Residential use-per-customer
d. Residential retail rate per kilowatt-hour (kWh)

The level of retail rates is influenced heavily by changes in net plant investment over time, growth in the number of customers, and changes in the use-per-customer. These data, as presented in the line graphs below, illustrate visually why Avista, as well as other utilities, are now seeking retail rate increases on a more frequent basis. These line graphs are also provided, and are easier to view, in Exhibit No. 3.

Q. How has Avista's net plant investment for its electric operations changed from 1889 to 2014?

A. The line graph in Illustration No. 1 below shows the growth in Avista's net plant investment for its electric operations from 1889 to 2014. The data have been presented in five-year increments for ease of viewing. The blue line represents the growth in net plant investment in nominal dollars, i.e., the true dollars that were spent in the years they were spent. The red line represents growth in net plant investment with the dollars adjusted for inflation, i.e., the dollars each year were adjusted to reflect the cost in today's dollars ("real" dollars) for the same plant and equipment. The nominal dollars were adjusted to real dollars in order to see, and better illustrate, the growth over time in net plant investment, using comparable dollars.

Illustration No. 1

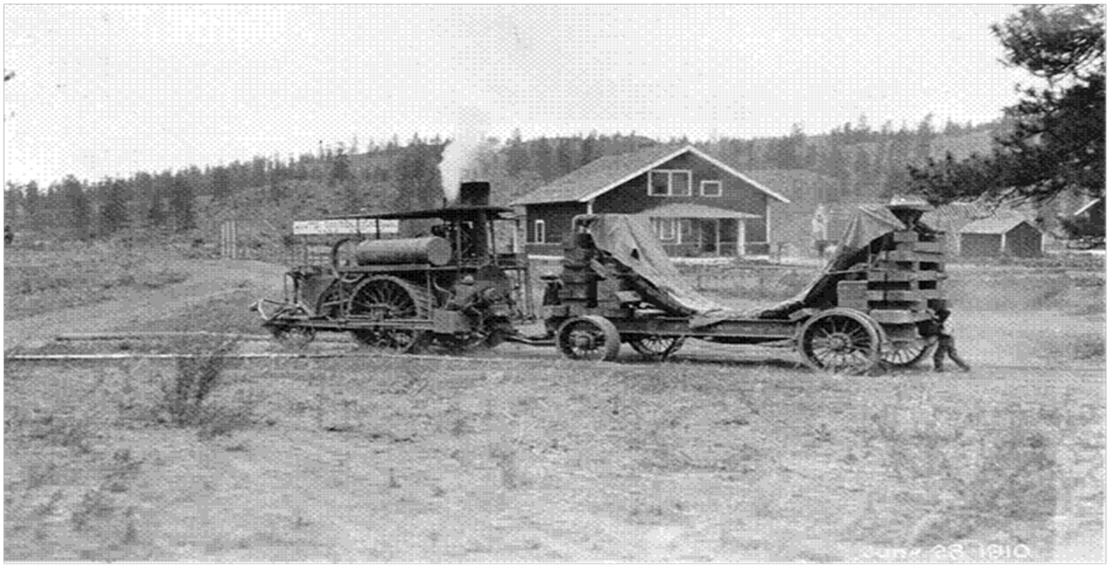


The red line on the graph illustrates, among other things, the rapid expansion of net plant investment during the 1950s and early 1960s following World War II, where net plant investment nearly doubled in a relative short period of time. The red line also shows that net plant investment in recent years has grown at a relatively rapid pace. Part of Avista’s recent new plant investment is related to replacing some of the plant and equipment from the 1950s and 1960s, which is now 50 to 60 years old, and the cost to replace those facilities is substantially higher than the original cost of installation.

Recently, the Company replaced one of its generators at the Little Falls Hydro plant. This generator has provided power to Avista’s customers for over 100 years. The first photograph in Illustration No. 2 below shows half of the generator stator being delivered to the hydro facility in June 1910. The second photo is of one of the very same pieces of equipment being removed from the plant in July 2014.

Illustration No. 2

1910



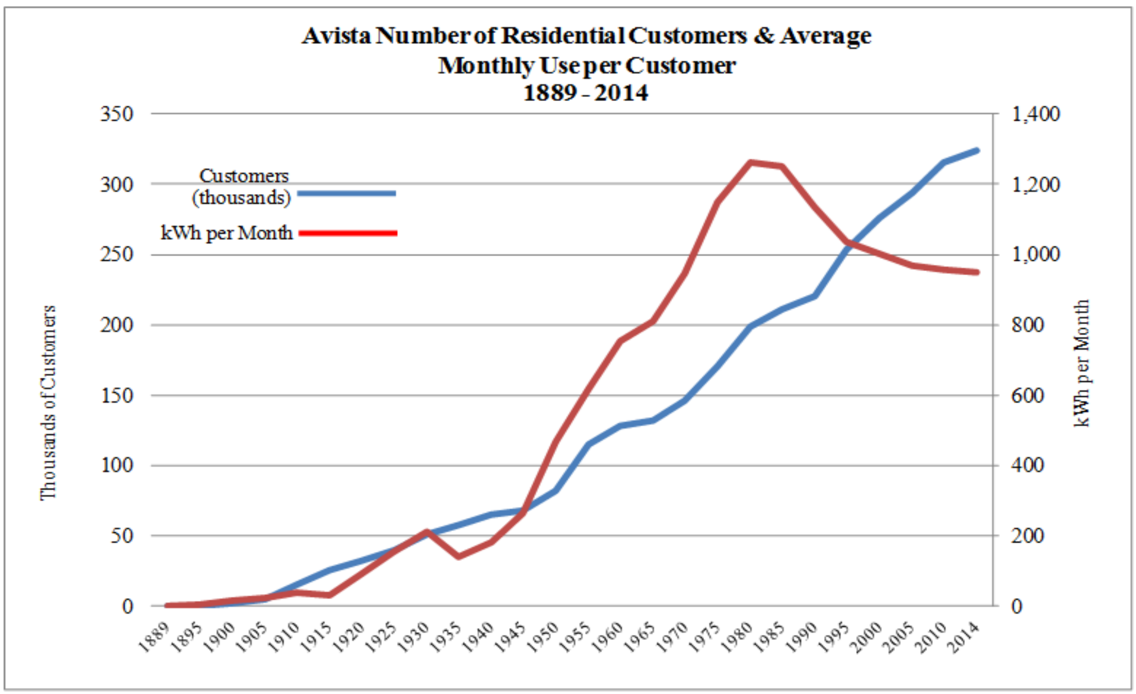
2014

This is but one illustration of Avista's aging infrastructure. Company witness Mr. Thies and other witnesses provide details related to current and planned capital expenditures.

Q. How has Avista's number of customers and use-per-customer changed from 1889 to 2014?

A. The line graph in Illustration No. 3 below shows the change over time in both the number of residential customers (blue line) and the residential use-per-customer (red line) for the period 1889 to 2014. The data, again, are presented in five-year increments for ease of viewing.

<u>Illustration No. 3</u>

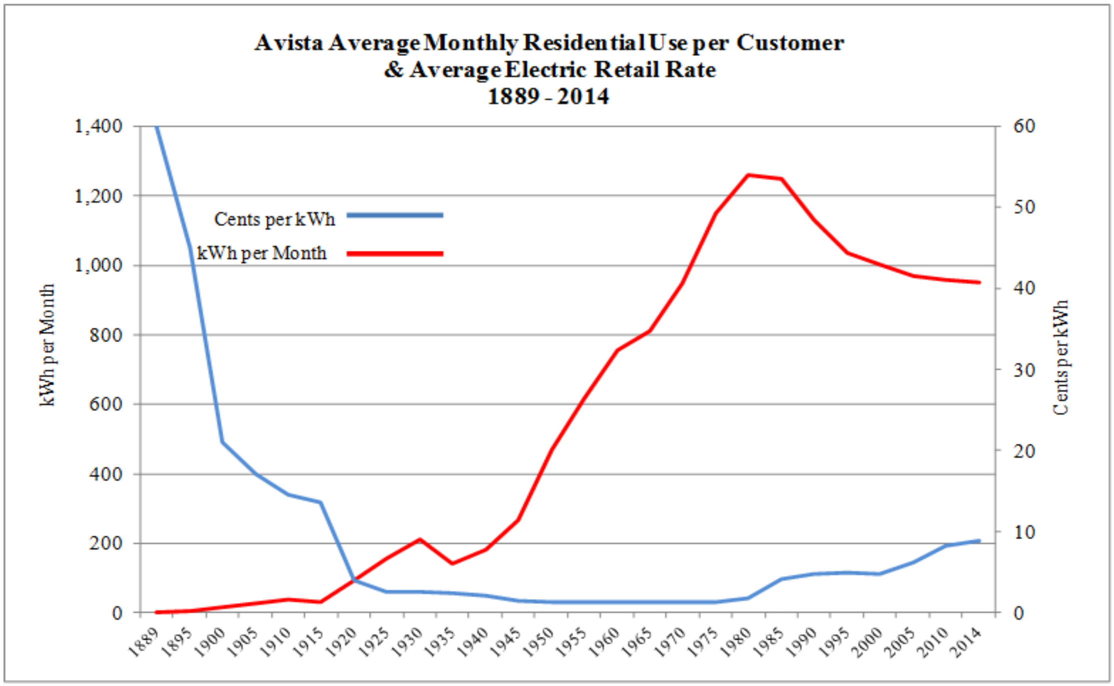


Among the observations from the line graph, two are very significant and quite relevant to retail price changes during the 125 year period. First, from the 1950s through roughly 1980, there was steady growth in the number of customers (blue line), which was also combined with <u>rapid growth</u> in use-per-customer (red line). Second, beginning around 1980, the use-per-customer began to decline dramatically. The decline in use-per-customer was due in part to Avista's energy efficiency programs that began in 1978, as well as the regional and national efforts generally to encourage consumers to use energy more efficiently. The change from rapid growth in use-per-customer to a significant reduction in use-per-customer, beginning around 1980, had a direct impact on Avista's retail rates.

Q. What were Avista's retail rates from 1889 to 2014, and how were they affected by the growth in net plant investment, number of customers and use-per-customer?

A. The line graph in Illustration No. 4 below shows Avista's retail rate per kWh for its residential customers (blue line) for the period 1889 to 2014. The red line on the graph is the same use-per-customer line on the graph in Illustration No. 3 above. The graph shows that Avista's retail rates were flat to declining for approximately 50-60 years, up until about 1980 when they began to rise.

Illustration No. 4



The three graphs above, taken together, illustrate the significance of the relationship over time of the rate of growth in net plant investment, number of customers, and use-per-customer. During the 1950s, for example, there was rapid growth in net plant investment, but it was accompanied by rapid growth in use-per-customer, combined with steady growth in the number of customers. The net result was retail prices that were either flat or declining, due in large part to the annual growth in revenues being sufficient to cover the annual growth in costs. During the 1950s, Avista added new major baseload generating resources (Cabinet Gorge in 1952, and Noxon Rapids in 1959), and yet retail prices continued to be flat or declining, due primarily to the strong growth in kWh sales.

In contrast, retail prices began to increase in 1980 due, at least in part, to the significant decline in use per customer, which resulted in lower annual sales growth.

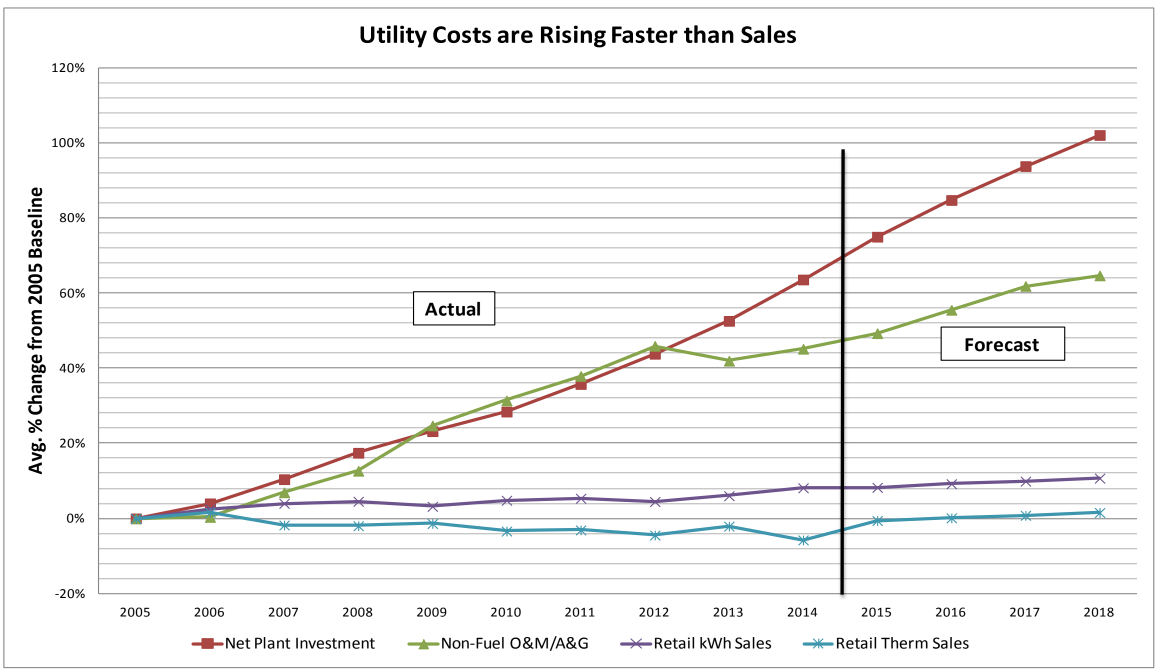
Avista’s annual customer growth, and total sales growth, is currently approximately 1%, and it is expected to continue at or near this level for the foreseeable future. Net plant investment and operating expenses, however, are growing at a faster pace. Avista’s obligation to serve all customers with safe, reliable service, and maintain a high level of customer satisfaction, demands continued investment in facilities, as well as utility operating expenses necessary to accomplish these objectives.

Because annual costs are growing at a faster pace than revenues, it is necessary to increase retail rates each year so that total revenues are equal to total costs. These are the circumstances facing not just Avista, but many investor-owned and consumer-owned utilities across the country, and it is the primary reason Avista has requested electric and natural gas revenue increases through this filing.

Q. How does Avista's growth in net plant investment and operating expenses compare with the growth in sales, both for the recent historical period as well as expectations for future years?

A. The graph in Illustration No. 5 below shows actual information for the period 2005 to 2014, and forecast information for 2015 to 2018.

<u>Illustration No. 5</u>



The red line on the graph shows the actual growth in net utility plant investment (electric and natural gas combined) through 2014, and the expected growth for 2015 through 2018. The purple and blue lines on the graph show the changes in retail kilowatt-hour (kWh) sales and retail therm sales, respectively, for the same time period. The graph clearly shows that net plant investment is growing at a much faster pace than sales. The green line on the graph also shows that non-fuel operations and maintenance (O&M) expenses and administrative and general (A&G) expenses are growing at a faster pace than sales.

The graph shows this mismatch is forecast to continue to the future. Therefore, retail rates must be increased to cover this increase in net plant investment and operating expenses, since revenue growth is not sufficient to cover it.

IV. COST MANAGEMENT AND EFFICIENCIES

Q. Is Avista continuing to take steps to manage the growth in its costs?

A. Yes. The graph in Illustration No. 5 above shows the reduction in operating expenses in 2013 (green line) related primarily to Avista’s Voluntary Severance Incentive Plan (VSIP) executed in late 2012, which reduced employee complement and reduced overall operating expenses. The slope of the operating expense line for future years is also lower, which reflects additional measures taken by the Company to reduce the annual growth in expenses.

For example, we made changes to the retirement income (pension) and post-retirement medical plans offered to non-union employees, effective January 1, 2014. This reduced future utility operating costs associated with employee benefits. Changes to plans offered to the bargaining unit employees will be subject to future negotiations.

For non-union employees, Avista no longer offers a pension plan for new hires beginning January 1, 2014. Avista will make a contribution to a 401(K) fund established for the employee, but no longer offers a defined benefit pension plan that provides an annual annuity upon retirement.

Beginning January 1, 2014, Avista no longer provides funding for post-retirement medical for non-union new hires. In addition, for both existing and new hire non-union employees, when the retiree reaches age 65, Avista will no longer provide an Avista-sponsored medical plan. Through these changes Avista is transitioning out of funding medical coverage for retirees.

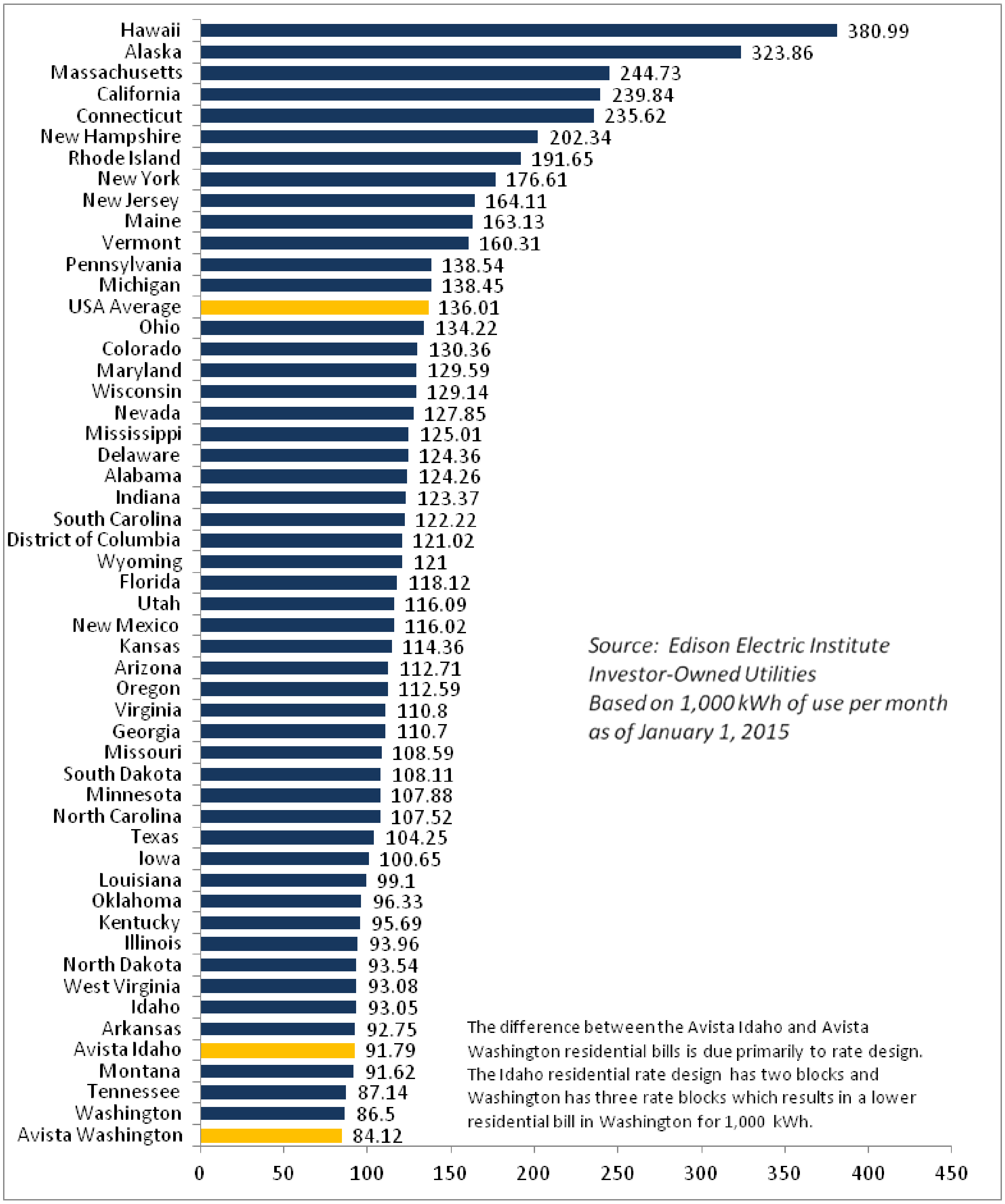
Avista also has ongoing measures to mitigate the annual growth in operating expenses, such as a hiring restriction. The hiring restriction requires approval by the Chairman/President/CEO, the President of the Utility, the Chief Financial Officer, and the Sr. VP for Human Resources for all replacement or new hire positions.

Q. How do Avista's retail rates compare to other utilities across the country?

A. Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 6 below provides a comparison of an Avista residential customer's monthly bill in Idaho and Washington with utility bills in other states. The chart shows that Avista's residential customers' rates are the lowest, or are among the lowest, in the Country.

Illustration No. 6 - **Average Residential Monthly Electric Bill**

January 1, 2015



Our relatively low retail rates are due in large part to a history of our Company aggressively pursuing the acquisition and preservation of a diversified portfolio of low cost resources for the benefit of our customers. This portfolio includes hydroelectric, wood-waste fired, gas-fired baseload, gas-fired peakers, and coal-fired generation, together with long-term purchases of power and an aggressive energy efficiency program. Our low rates are also a result of Avista's aggressive efforts to control its costs in order to keep retail rates as low as reasonably possible.

V. COMMUNICATIONS WITH CUSTOMERS

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

A. The Company proactively communicates with its customers in a number of ways: customer forums, one-on-one customer interactions through field personnel and account representatives, bill inserts, social media, media contacts, group presentations, and through our employees' involvement in community, business and civic organizations, to name a few. The information provided to customers through group presentations include, among other things, many of the line graphs, photos, and bar charts, shown in Illustrations 1 through 6 above.

We believe our communications are helping our customers and the communities we serve to better understand the issues faced by the Company, such as increased infrastructure investment, environmental mitigation, and security; all of which have led to higher costs for our customers.

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

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

VI. CUSTOMER SATISFACTION

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

A. While we continue to maintain tight controls on O&M/A&G budgets, our customer service surveys indicate that customer satisfaction remains high. Our overall customer satisfaction from our voice-of-the-customer (VOC) surveys in the fourth quarter of 2014 was 95% in our Idaho, Washington and Oregon operating divisions. The purpose of the VOC Survey is to measure and track customer satisfaction for Avista Utilities' "contact" customers – i.e., customers who have contact with Avista through the Contact Center and/or work performed through an Avista construction office. This rating reflects a positive experience for customers who have contacted Avista related to the customer service or field service they received. These results can be achieved only with very committed and competent employees.

VII. CUSTOMER SUPPORT PROGRAMS

Q. Please summarize briefly the customer support programs that Avista provides for its customers in Idaho.

A. Avista Utilities offers a number of programs for its Idaho customers, such as energy efficiency programs, Project Share for emergency assistance to customers, the Customer Assistance Referral and Evaluation Service (CARES) program, level pay plans, and payment arrangements. Some of these programs will serve to mitigate the impact on customers of the proposed rate increases.

In the 2013/2014 heating season, 11,331 Idaho customers received approximately $2,056,467 in various forms of energy assistance (Federal LIHEAP program, Project Share, and local community funds). Some of the key programs that we offer or support are as follows:

1. **Project Share.** Project Share is a voluntary program allowing customers to donate funds that are distributed through community action agencies to customers in need. In the 2013/2014 heating season, Avista Utilities' customers, employees and Avista Corp donated $494,313 on a system-wide basis, of which $76,441 was directed to Idaho Community Action Agencies.

2. **Comfort Level Billing.** The Company offers the option for all customers to pay the same bill amount each month of the year by averaging their annual usage. Under this program, customers can avoid unpredictable winter heating bills.

3. **CARES Program.** CARES provides assistance to special-needs customers through access to specially trained (CARES) representatives who provide referrals to area agencies and churches for help with, among other things, housing, utilities, and medical assistance.

These programs and the partnerships we have formed with community action agencies have been invaluable to customers who often have nowhere else to go for help. Company witness Mr. Kopczynski provides additional detail in his testimony related to these and other programs designed to assist customers.

VIII. OTHER COMPANY WITNESSES

Q. Would you please provide a brief summary of the testimony of the other witnesses representing Avista in this proceeding?

A. Yes. The following additional witnesses are presenting direct testimony on behalf of Avista:

Mr. Mark Thies, Senior Vice President and Chief Financial Officer, will provide a financial overview of the Company and will explain the proposed capital structure, overall rate of return, and Avista's credit ratings. He will also discuss, among other things, the Company's capital expenditures program. In brief, he will provide information that shows:

- Avista's plans call for making significant utility capital investments in our electric and natural gas systems to preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. Capital expenditures of $1.08 billion are planned for 2015-2017. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms, on a sustainable basis.

- We are proposing an overall rate of return of 7.62 percent, which includes a 50.0 percent common equity ratio, a 9.9 percent return on equity, and a cost of debt of 5.34 percent. We believe our proposed overall rate of return of 7.62 percent and proposed capital structure provide a reasonable balance between safety and economy.

- Avista's corporate credit rating from Standard & Poor's is currently BBB and Baa1 from Moody's Investors Service. Avista must operate at a level that will support a solid investment grade corporate credit rating in order to access capital markets at reasonable rates. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

- Avista completed two significant business unit transactions in 2014: the sale of Ecova and the acquisition of Alaska Electric Light and Power utility operations. These transactions are supportive to our business profile and their financial impacts have positively complemented our ongoing financial structure and operations.

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

- In order to reflect the risks and prospects associated with Avista's jurisdictional utility operations, his analyses focused on a proxy group of 19 other utilities with comparable investment risks.

- Because investors' required return on equity is unobservable and no single method should be viewed in isolation, he applied the DCF, ECAPM, and risk premium methods to estimate a fair ROE for Avista;
- Based on the results of these analyses, and giving less weight to extremes at the high and low ends of the range, he concluded that the cost of equity for the proxy group of utilities is in the 9.4 percent to 10.8 percent range, or 9.5 percent to 10.9 percent after incorporating an adjustment to account for the impact of common equity flotation costs; and,
- As reflected in the testimony of Mark T. Thies, Avista is requesting a fair ROE of 9.9 percent, which falls below the 10.2 percent midpoint of his recommended range. Considering capital market expectations, the exposures faced by Avista, and the economic requirements necessary to maintain financial integrity and support additional capital investment even under adverse circumstances, it is his opinion that 9.9 percent represents a conservative ROE for Avista.

Mr. Scott Kinney, Director of Power Supply, will provide an overview of Avista's resource planning and power supply operations. This includes summaries of the Company's generation resources, the current and future load and resource position, and future resource plans. As part of an overview of the Company's risk management policy, he will provide an update on the Company's hedging practices. Mr. Kinney will address hydroelectric and thermal project upgrades, followed by an update on recent developments regarding hydro licensing.

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, will describe the Company's use of the AURORA$_{XMP}$ dispatch model, or "Dispatch Model." He will explain the key assumptions driving the Dispatch Model's market forecast of electricity prices. The discussion includes the variables of natural gas, Western Interconnect loads and resources, and hydroelectric conditions. Further, he will describe how the model dispatches its resources and contracts to maximize customer benefit and tracks their values for use in pro forma calculations. Finally, Mr. Kalich will present the modeling results provided to Company witness Mr. Johnson for his power supply pro forma adjustment calculations.

Mr. William Johnson, Wholesale Marketing Manager, will: 1) identify and explain the proposed normalizing and pro forma adjustments (2016 and 2017) to the January 2014 through December 2014 test period power supply revenues and expenses; and 2) describe the proposed level of expense and load change adjustment rate (LCAR) for Power Cost Adjustment (PCA) purposes, using the pro forma costs proposed by the Company in this filing.

Ms. Jody Morehouse, Director of Gas Supply, will describe Avista's natural gas resource planning process, provide an overview of the Jackson Prairie storage facility, and provide an update on the Company’s 2014 Natural Gas Integrated Resource Plan.

Mr. Don Kopczynski, Vice President of Energy Delivery, will provide an overview of the Company’s electric and natural gas energy delivery facilities, a summary of Avista’s customer support programs in Idaho and an update on our continuing Natural Gas Pipeline Replacement Program.

Mr. Bryan Cox, Director, Transmission Operations, describes Avista’s transmission revenues and expenses for the 2016 and 2017 two-year rate plan. Mr. Cox will also discuss Avista’s transmission and distribution capital expenditures, for the period January 2015 through the 2017 rate year.

Mr. Jim Kensok, Vice President and Chief Information and Security Officer, will describe the costs associated with Avista’s Information Service/Information Technology (IS/IT) programs and projects. These costs include the capital investments for a range of systems used by the Company, including the replacement of the Company’s legacy Customer Information and Work and Asset Management System (“Project Compass”), Avistautilities.com WEB replacement, and several more important applications. He will also describe the additional IS/IT expenses required to support a range of new and updated applications and systems for cyber security, the operation of the new Customer Information and Work and Asset Management Systems, the Asset Facilities Management application, etc.

Ms. Karen Schuh, Senior Regulatory Analyst, will cover Avista's planned capital investments in utility plant through December 31, 2017. Company witness Ms. Andrews, has included adjustments to reflect these investments in her electric and natural gas revenue requirements for the 2016 and 2017 two-year rate plan.

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will cover accounting and financial data in support of the Company's two-year rate plan and the need for the proposed increase in rates for both 2016 and 2017. She will explain pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base. In addition, Ms. Andrews incorporates the Idaho share of the proposed adjustments of other witnesses in this case.

Ms. Tara Knox, Senior Regulatory Analyst, will cover the Company's electric revenue normalization adjustment to the test year results of operations, the proposed Load Change Adjustment Rate to be used in the Power Cost

Adjustment mechanism, and the electric cost of service study performed for this proceeding.

Mr. Joseph Miller, Senior Regulatory Analyst, will cover the Company’s natural gas revenue normalization adjustments and cost of service study performed for this proceeding.

Mr. Patrick Ehrbar, Manager of Rates and Tariffs, discusses the spread of the proposed 2016 and 2017 electric and natural gas revenue increases among the Company’s electric and natural gas general service schedules. In addition, he will provide information related to the proposed increases to the residential basic charges, and provide an overview of the Company’s proposed electric and natural gas Fixed Cost Adjustment mechanisms.

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

A. Yes.