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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	)	CASE NO. AVU-E-15-05 CASE NO. AVU-G-15-01 DIRECT TESTIMONY OF ELIZABETH M. ANDREWS IN SUPPORT OF THE STIPULATION AND SETTLEMENT

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews and I am employed by Avista Corporation ("Company" or "Avista") as Manager of Revenue Requirements in the State and Federal Regulation Department, at 1411 East Mission Avenue, Spokane, Washington.

Q. Have you previously provided direct testimony in this Case?

A. Yes. My previous direct testimony in this proceeding covered accounting and financial data in support of the Company's need for the proposed increase in rates. I explained pro formed operating results including expense and rate base adjustments made to actual operating results and rate base.

Q. What is the scope of this pre-filed testimony?

A. The purpose of my testimony is to explain why the Stipulation is in the public interest, as well as describe and support the electric and natural gas revenue requirement elements of the Stipulation and Settlement ("Stipulation"), filed on October 16, 2015 between the Staff of the Idaho Public Utilities Commission ("Staff'), Clearwater Paper Corporation ("Clearwater"), Idaho Forest

Group, LLC ("Idaho Forest"), the Community Action Partnership Association of Idaho ("CAPAI"), the Idaho Conservation League ("Conservation League"), the Snake River Alliance ("Snake River") and the Company, which, if approved by the Commission, would resolve all of the issues in the Company's filing. These entities are collectively referred to as the "Parties," and represent all parties in the above-referenced cases.

Company witness Mr. Ehrbar discusses the non-revenue related elements of the Stipulation agreed to by the Parties, such as Rate Spread and Rate Design, the Fixed Cost Adjustment (FCA) Mechanism, as well as other Stipulation components related to the Power Cost Adjustment (PCA) authorized level of expenses and customer service-related initiatives and programs.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. 1, which is a copy of the Stipulation and Settlement filed on October 16, 2015, with the Commission.

Q. Please explain how the Parties arrived at the Stipulation in this proceeding.

A. The Stipulation is the product of settlement discussions held in the Commission offices on September

18, 2015.[1] It represents a compromise among differing points of view, with concessions made by all Parties, to reach a balancing of interests. As will be explained in the Company's testimony, the Stipulation represents a fair, just and reasonable compromise of the issues and is in the public interest. In addition, the Stipulation is the end result of extensive audit work conducted through the discovery process[2], including various on-site audit visits by Commission Staff, and hard bargaining by all Parties in this proceeding.

As discussed in my testimony, the Stipulation between the Parties resolved all issues associated with the calculation of the Company's requested cost of capital, including capital structure and cost components, and resolved all revenue requirement issues. As discussed by Mr. Ehrbar, the Stipulation also addresses agreement regarding rate spread and rate design and the proposed FCA Mechanism.

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[1] ICL was unable to attend the Settlement Conference; however, they did provide a "Position Statement" on September 17, 2015 providing their views on issues related to the proposed Fixed Cost Adjustment mechanisms and rate design.

[2] For its part, Avista responded to over 176 production requests (including sub-parts) from IPUC Staff and other intervening parties.

Q. Why is the Stipulation in the public interest?

A. The Stipulation is in the "public interest" for several reasons. The Stipulation was the product of the give-and-take of negotiation that produced an "end result" that is just and reasonable. In addition, it is supported by the evidence, demonstrating the need for rate adjustments to provide recovery of necessary expenditures and investment, the costs of which are not offset by a growth in sales margins. The Settlement enjoys broad-based support from a variety of constituencies, including CAPAI, Clearwater, Idaho Forest, the Conservation League, and the Snake River Alliance, serving to address their specific needs, and the Staff of the Commission, representing all customers.

Q. Would you briefly summarize the Stipulation?

A. Yes. Under the terms of the Stipulation, as discussed further by Mr. Ehrbar, Avista would implement revised tariff schedules designed to recover additional annual electric and natural gas revenue effective January 1, 2016. These rate changes are designed to provide retail revenues necessary to allow the Company the opportunity to earn the return agreed to in the Stipulation for the 2016 rate period.[3]

For electric operations, the Parties agree to an overall base rate increase of 0.7% (0.7% on a billed basis) or $1.7 million in electric annual base tariff revenues. In addition, the Parties have agreed to the proposed extension of Schedule 97 extending the electric rebate extension in full ($2.8 million annually) for two years through December 2017. Therefore, a residential customer using an average of 929 kilowatt hours per month would see a $0.75, or 0.9%, increase per month for a revised monthly bill of $85.74. (See Exhibit No. 1, Paragraph 18, for the January 1, 2016 percentage change in rates by rate schedule.)

For natural gas, Avista would implement revised tariff schedules designed to recover $2.5 million in additional annual natural gas revenue, representing an overall 3.5% (4.8% on a billed basis) increase. In addition, the Parties have agreed to the proposed extension of Schedule 197, extending the natural gas rebate extension in part ($0.2 million of the current

[3] There was no agreement by the Parties regarding the 2017 rate relief originally requested by the Company, nor is Avista precluded from filing for general rate relief for 2017 after the conclusion of this proceeding.

$1.2 million) through December 2016. Therefore, a residential customer using an average of 61 therms per month would see a $3.19, or 5.4%, increase per month for a revised monthly bill of $62.41. (See Exhibit No. 1, Paragraph 19, for the January 1, 2016 percentage change in rates by rate schedule.)

In determining these revenue increases, the Parties have agreed to various adjustments to the Company's original filing, which are summarized in the Stipulation, and described further in my testimony below.

The Stipulation calls for an overall rate of return of 7.42%, determined using a capital structure consisting of 50% common stock equity and 50% debt, an authorized return on equity of 9.5% and cost of debt of 5.34%.

Lastly, the Parties agree that Avista will implement electric and natural gas Fixed Cost Adjustment mechanisms ("FCA"), which will commence concurrently with the natural gas and electric rate changes January 1, 2016. The key components of the electric and natural gas FCA Mechanisms are described by Mr. Ehrbar in more detail, and are illustrated in Appendices B and C of the Stipulation attached as Exhibit No. 1.

II. HISTORY OF FILING

Q. Please describe the Company's general rate case request, as filed.

A. On June 1, 2015, Avista filed an Application with the Commission for authority to increase revenue effective January 1, 2016 for electric and natural gas service in Idaho by 5.2% and 4.5%, respectively. If approved, the Company's 2016 revenues for electric base retail rates would have increased by $13.2 million annually, and Company revenues for natural gas service would have increased by $3.2 million annually. The Company also requested an increase to electric base retail revenue of $13.7 million (5.1%), and an increase in natural gas base retail revenue of $1.7 (2.2%), effective January 1, 2017. By Order No. 33324, dated June 15, 2015, the Commission suspended the proposed schedules of rates and charges for electric and natural gas service.

The Company proposed utilizing the results of its electric and natural gas service studies, sponsored by Company witnesses Ms. Knox and Mr. Miller, respectively, as a guide to spread the overall requested electric and natural gas revenue increases by rate schedule on a basis which: 1) moved the rates for nearly all the schedules closer to the cost of providing service, and 2) resulted in a reasonable range in the (net) proposed percentage increase across the schedules. The spread of the proposed electric and natural gas increases generally resulted in the rates of return for the various service schedules moving approximately 25% closer to the overall rate of return (unity) for electric, and approximately 33% closer to the overall rate of return for natural gas.

The Company also requested electric or natural gas residential basic charge increases from $5.25 to $8.50 for electric, and from $4.25 to $8.00 for natural gas.

Q. What are the primary factors driving the Company's need for electric and natural gas increases?

A. The primary factor driving the Company's proposed electric and natural gas revenue increases in 2016 and 2017, as discussed in the Company's direct filing, 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 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.

III. REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

Q. Please explain the derivation of the Electric and Natural Gas Revenue Requirements outlined in the Stipulation.

A. The Parties agreed that Avista would implement revised tariff schedules designed to recover additional annual electric and natural gas revenue, effective January 1, 2016. These increases are designed to provide sufficient retail revenues for the 2016 rate period, which would provide the Company with the opportunity to earn the return agreed to in the Stipulation.

While Avista's filing requested 2016 and 2017 electric revenue requirement increases of $13.2 million and $13.7 million, respectively, effective January 1 of each year, the Parties only agreed to a 2016 increase effective January 1, 2016. Agreed-upon adjustments, including the agreed-upon rate of return, result in a recommended electric revenue requirement increase of $1.7 million effective January 1, 2016.

Similarly, while the Company requested 2016 and 2017 natural gas revenue requirement increases of $3.2 million and $1.7 million, respectively, effective January 1 of each year, the Parties only agreed to a 2016 increase effective January 1, 2016. Agreed-upon adjustments, including the agreed-upon rate of return, result in a recommended natural gas revenue requirement increase of $2.5 million effective January 1, 2016.

No agreement was made by the Parties regarding the 2017 electric and natural gas proposed increases by Avista, and Avista is not precluded from filing for 2017 general rate relief after the conclusion of this proceeding.

Q. Please explain the Parties' agreement with regard to an Authorized Rate of Return, including the Return on Equity.

A. The Parties have agreed to an overall rate of return of 7.42%, based on a return on equity of 9.5%, an equity component at 50% and cost of debt of 5.34%. By comparison, the Company's original filing requested an overall rate of return of 7.62%, a return on equity of 9.9%, an equity component of 50% and cost of debt of 5.34%.

Q. Please provide an overview of the revenue requirement adjustments agreed to by the Parties resulting in the overall electric and natural gas revenue requirements.

A. A number of the adjustments, agreed to by the Parties, resulted in removing 2016 increased costs for recovery to be determined in a future rate period, as well as reducing certain expenditures to the agreed-upon levels by the Parties. The Parties agreed to revenue requirements that reflect the adjustments shown below in the excerpted tables from the Stipulation:

Table 1: Electric Revenue Requirement

SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT
EFFECTIVE JANUARY 1, 2016
(000s of Dollars)

		Revenue Requirement	Rate Base
	Amount as Filed:	**$ 13,230**	**$ 749,225**
	Adjustments:		
a.)	Cost of Capital	$ (2,438)	
b.)	Revise 2015 Capital Additions	$ (3,345)	$ (16,125)
c.)	Remove 2016 Capital Additions	$ (548)	$ 1,789
d.)	Revise Deferred Debits and Credits to Reflect 2015 Balances	$ 52	$ 131
e.)	Remove 2016 Expenses		
i.	Insurance Expense	$ (62)	
ii.	Information Services & Technology	$ (521)	
iii.	Non-Executive Labor	$ (385)	
iv.	O&M Offsets	$ 212	
f.)	Update 2015 Employee Benefit Costs	$ 481	
g.)	Adjust Injuries and Damages Expense	$ (8)	
h.)	Remove Officer Incentives and Restate Non-Officer Incentives	$ (100)	
i.)	Include Four-Year Amortization of 2015 Project Compass Deferral	$ (669)	
j.)	Include Four-Year Amortization of Lake Spokane Deferral	$ (119)	
k.)	Include Palouse Wind in PCA	$ (3,500)	
l.)	Miscellaneous A&G Adjustments: Director & Officer Insurance, Board of Director Expenses, Reallocation of Legal Expenses, Removal of Environmental Cleanup Costs, and Removal of Miscellaneous Agreed-To Expenses	$ (580)	
	Adjusted Amounts Effective January 1, 2016	**$ 1,700**	**$ 735,020**

Table 2: Natural Gas Revenue Requirement

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT
EFFECTIVE JANUARY 1, 2016
(000s of Dollars)

		Revenue Requirement	Rate Base
	Amount as Filed:	**$ 3,205**	**$ 127,498**
	Adjustments:		
a.)	Cost of Capital	$ (415)	
b.)	Revise 2015 Capital Additions	$ 440	$ 3,758
c.)	Remove 2016 Capital Additions	$ (76)	$ 669
d.)	Revise Deferred Debits and Credits to Reflect 2015 Balances	$ (3)	
e.)	Remove 2016 Expenses		
i.	Insurance Expense	$ (16)	
ii.	Information Services & Technology	$ (132)	
iii.	Non-Executive Labor	$ (185)	
f.)	Update 2015 Employee Benefit Costs	$ 129	
g.)	Adjust Injuries and Damages Expense	$ (126)	
h.)	Remove Officer Incentives and Restate Non-Officer Incentives	$ (25)	
i.)	Include Four-Year Amortization of 2015 Project Compass Deferral	$ (168)	
j.)	Miscellaneous A&G Adjustments: Director & Officer Insurance, Board of Director Expenses, Reallocation of Legal Expenses, and Removal of Miscellaneous Agreed-To Expenses	$ (128)	
	Adjusted Amounts Effective January 1, 2016	**$ 2,500**	**$ 131,925**

As can be seen by a review of the individual line descriptions provided within the summary tables excerpted from the Stipulation, the adjustments accepted for settlement purposes cover a broad range of revenue and cost categories, including the authorized rate of return. The individual adjustments should not be viewed in isolation; rather, they should be viewed in total as part of the entire Stipulation, and are the result of hard bargaining and compromise.

Q. Would you please elaborate on the individual line items contained within the excerpted tables?

A. Yes. A description of these adjustments for electric and natural gas, resulting in the revenue requirements effective January 1, 2016 follows.

Cost of Capital - (Table 1 and Table 2, line a.) The overall revenue requirement reduction of the change in cost of capital, reduces the overall revenue requirement for electric by $2.438 million and for natural gas by $415,000.

Revise 2015 Capital Additions - (Table 1 and Table 2, line b.) The 2015 electric and natural gas capital additions were updated by Avista to reflect adjustments for updated information, including, for example, the delay in completion of the Nine Mile Hydroelectric

Capital Project from 2015 to 2016 and the impact on depreciation expense, as well as accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT).

For electric, this adjustment to update capital investment reduces the overall revenue requirement by $3.345 million and reduces rate base by $16.125 million. For natural gas, this adjustment increases the overall revenue requirement by $440,000 and increases rate base by $3.758 million.

Remove 2016 Capital additions - (Table 1 and Table 2, line c.) The 2016 electric and natural gas capital additions adjustments, as proposed by the Company in its original filings, were removed, delaying recovery by Avista of the associated revenue requirement until future rate case proceedings. Total depreciation expenses and rate base, net of accumulated depreciation and accumulated deferred income tax, reflect balances as of year-end December 31, 2015. For electric, this adjustment reduces the overall revenue requirement by $548,000 and increases rate base by $1.789 million. For natural gas, this adjustment decreases the overall revenue requirement by $76,000 and increases rate base by $669,000.[4]

Revise Deferred Debits and Credits to reflect 2015 Balances - (Table 1 and Table 2, line d.) Deferred debits and credits regulatory balances and amortizations were adjusted to reflect 2015 amortization expense and regulatory balances as of December 31, 2015, rather than the 2016 expense and regulatory balances as proposed by the Company. For electric, this adjustment increases the overall revenue requirement by $52,000 and increases rate base by $131,000. For natural gas, this adjustment decreases the overall revenue requirement by $3,000.

Remove 2016 Expenses - (Table 1 and Table 2, line e.) The following adjustments remove 2016 expenses pro formed in the Company's original filing, delaying recovery of those expenditures until future rate case proceedings:

Insurance Expense - (Table 1 and Table 2, line e., i.) 2016 incremental insurance expenses related to general liability, directors and officers ("D&O") liability, and property insurance were

[4] Removing the impact of 2016 capital additions, as well as removing the impact on accumulated depreciation and accumulated deferred federal income taxes on total net plant during 2016, has the result of increasing overall net rate base, but reducing overall revenue requirement, due primarily to reduced depreciation expense.

removed. This adjustment reduced the electric revenue requirement by $62,000 and reduced the natural gas revenue requirement by $16,000.

<u>Information Services & Technology</u> - (Table 1 and Table 2, line e., ii.) 2016 incremental information service and technology expenses, related to the Company's replacement of the Company's Customer Service Information System, and increased costs to support various business processes, application support, additional security requirements, annual contractual agreements and maintenance and license fees were removed. This adjustment reduced the electric revenue requirement by $521,000 and reduced the natural gas revenue requirement by $132,000.

<u>Non-Executive Labor</u> - (Table 1 and Table 2, line e., iii.) 2016 incremental non-executive labor increases related to increases approved by the Board of Directors for 2016 for its non-union, non-executive employees, as well as the 2016 union contract increases for union employees was removed. This adjustment reduced the electric revenue requirement by $385,000 and reduced the natural gas revenue requirement by $185,000.

O&M Offsets - (Table 1, line e., iv.) In the Company's direct filing, 2016 capital additions were reviewed for any net O&M offsets, both increases in expenses and savings that are expected in the 2016 rate period. Specific expenses and savings for 2016 identified and included in the Company's direct filing were removed, consistent with the removal of 2016 capital additions noted above. This adjustment increased the electric revenue requirement by $212,000.

Update 2015 Employee Benefit Costs - (Table 1 and Table 2, line f.) Employee benefit costs include costs associated with pension and medical insurance and post-retirement expenses included in the Company's direct filing. Pension expense was determined in accordance with Accounting Standard Codification 715 (ASC-715) by an independent actuarial firm, Towers Watson, which is reviewed by the Company's outside accounting firm annually for reasonableness and comparability to other companies.[5] Medical insurance and post-retirement expense includes costs associated with the employee and

[5] In October 2013, the Company revised its defined benefit pension plan such that, as of January 1, 2014, the plan is no longer offered to its non-union employees hired or rehired by Avista on or after January 1, 2014. A defined contribution 401(k) plan replaced the defined benefit pension plan for all non-union employees hired or rehired on or after January 1, 2014.

retiree medical plans and the FAS 106 expense, which records the costs associated with post retirement medical.[6] This adjustment reflects updated information, and reflects employee benefits at a 2015 expense level. This adjustment increased the electric revenue requirement by $481,000 and increased the natural gas revenue requirement by $129,000.

Adjust Injuries and Damages Expense - (Table 1 and Table 2, line g.) Injuries and damages expense is a restating adjustment that replaces the accrual recorded in the test period with the six-year rolling average of actual injuries and damages payments not covered by insurance. This adjustment revises the six-year rolling average as proposed by Staff. This adjustment reduced the electric revenue requirement by $8,000 and reduced the natural gas revenue requirement by $126,000.

Remove Officer Incentives and Restate Non-Officer Incentives - (Table 1 and Table 2, line h.) This adjustment removes the officer portion of the employee

[6] In October 2013 the Company revised its health care benefit plan for non-union employees hired or rehired on or after January 1, 2014. Upon retirement the Company will no longer provide a contribution towards his or her medical premiums. The Company will provide access to the retiree medical plan, but the non-union employees hired or rehired on or after January 1, 2014, will pay the full cost of premiums upon retirement. In addition, beginning January 1, 2020, the method for calculating health insurance premiums for non-union retirees under age 65 and active Company employees will be revised. The revision will result in separate health insurance premiums for each group.

incentive expense included in the Company's original filing. This adjustment also adjusts the Company's proposed non-officer six-year average incentive payout percentage of 102% to 100%, as proposed by Staff. This adjustment reduced the electric revenue requirement by $100,000 and reduced the natural gas revenue requirement by $25,000.

Include Four-Year Amortization of 2015 Project Compass Deferral - (Table 1 and Table 2, line i.) In Case Nos. AVU-E-14-05 and AVU-G-14-01, the Commission approved an all-party settlement, in which the Parties agreed that eighty-percent (80%) of the revenue requirement associated with Project Compass during 2015, beginning the month the Project goes into service, would be deferred, without a carrying charge, for recovery in a future proceeding. The 80% figure was arrived at through negotiation for calendar year 2015 only. The deferral was due, in part, to the uncertainty of the timing of the in-service date for the project. This project was moved into service on February 2, 2015.

In the Company's direct filed case the Company proposed a two-year amortization of the deferred electric and natural gas revenue requirement amounts associated with Project Compass for calendar year 2015. This adjustment revises the amortization of the Project Compass Deferral over a four-year period. This adjustment reduced the electric revenue requirement by $669,000 and reduced the natural gas revenue requirement by $168,000.

Include Four-Year Amortization of Lake Spokane Deferral - (Table 1, line j.) In Case No. AVU-E-13-05 (see Order No. 32917), the Company sought, and received approval of an Accounting Order to defer the costs related to the improvement of dissolved oxygen levels in Lake Spokane. Order No. 32917 authorized the Company to defer and transfer Idaho's share of these costs (approximately $473,000) to FERC account 182.3 (Other Regulatory Assets) for later recovery, with no carrying charge.

In the Company's direct filed case the Company proposed a two-year amortization of the Lake Spokane Deferral. This adjustment revises the amortization of the Lake Spokane Deferral over a four-year period. This adjustment reduced the electric revenue requirement by $119,000.

Include Palouse Wind in Power Cost Adjustment ("PCA") Mechanism - (Table 1, line k.) The Parties agree that, for purposes of this case, the recovery of costs related to the Palouse Wind Power Purchase Agreement ("PPA") will continue to be included in the PCA, subject to the current sharing (90% customer, 10% Company). This adjustment removes the Palouse Wind PPA expenses from the pro forma power supply adjustment included in the Company's original filing. This adjustment reduced the electric revenue requirement by $3.5 million.

Miscellaneous Adjustments - (Table 1, line l and Table 2, line j.) The Company adopted, for settlement purposes, Staff's proposal to adjust or remove various administrative and general (A&G) expenses including: 1) removing an additional 40% of Idaho electric Director and Officer insurance expense ($114,000 electric / $29,000 natural gas); 2) removing legal expenses allocated to Idaho in error ($5,000 electric / $1,000 natural gas); 3) removing two-thirds of environmental cleanup expenses incurred in 2014 ($322,000 electric); 4) removing miscellaneous expenses as agreed to ($65,000 electric / $79,000 natural gas); and removing additional Board of Director expenses included in 2014 ($74,000 electric / $19,000). This adjustment reduced the electric revenue requirement by $580,000 and reduced the natural gas revenue requirement by $128,000.

Q. Please summarize the impact of these adjustments on the electric and natural gas revenue requirements agreed to by the Parties.

A. The adjustments discussed above, and agreed to by the Parties, reduce Avista's electric revenue requirement request of $13.23 million to $1.7 million, and its natural gas revenue requirement request of $3.205 million to $2.5 million, resulting in a 0.7% electric and 3.5% natural gas base rate increase. Net rate base for electric and natural gas is $735.02 million and $131.925 million, respectively, effective January 1, 2016.

IV. CONCLUSION

Q. In conclusion, why is this Stipulation in the public interest?

A. This Stipulation strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As such, it represents a reasonable compromise among differing interests and points of view.

The terms of the Stipulation represent base rate increases designed to provide necessary retail revenues. The Parties have agreed that the Company has demonstrated the need for revenue requirement increases for both its electric and natural gas operations, thus providing recovery of its costs over the 2016 rate period.

In the final analysis, however, any settlement reflects a compromise in the give-and-take of negotiations. The Commission has before it a Stipulation that is supported by sound analysis and supporting evidence, the approval of which is in the public interest.

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

A. Yes, it does.