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FILED ELECTRONICALLY AND VIA OVERNIGHT MAIL

October 31, 2019

Commission Secretary
Idaho Public Utilities Commission
11331 W. Chinden Blvd
Building 8, Suite 201-A
Boise, ID 83714

Re: Case No. AVU-E-19-04
Testimony in Support of Stipulation and Settlement

Enclosed for filing with the Commission in the above-referenced docket are the original and nine copies of the Company's direct Testimony in Support of Stipulation and Settlement of witnesses Ms. Andrews and Mr. Miller. Please direct any questions related to this filing to Liz Andrews at 509.495.8601.

Sincerely,

David J. Meyer
Vice President, Chief Counsel for Regulatory
& Governmental Affairs

Enclosures

cc: Service List

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 31th day of October, 2019, served the Direct Testimony in Support of the Settlement and Stipulation in Case No. AVU-E-19-04, by electronic transmission to the email address(es) or by mailing a true and correct copy, postage prepaid, to each party or party representative listed below.

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION | ) | CASE NO. AVU-E-19-04 |
| OF AVISTA CORPORATION FOR THE | ) | |
| AUTHORITY TO INCREASE ITS RATES | ) | DIRECT TESTIMONY |
| AND CHARGES FOR ELECTRIC SERVICE | ) | OF ELIZABETH M ANDREWS |
| TO ELECTRIC CUSTOMERS IN THE | ) | IN SUPPORT OF |
| STATE OF IDAHO | ) | STIPULATION |

FOR AVISTA CORPORATION

(ELECTRIC)

## 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 Senior 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 electric increase effective January 1, 2020. I explained pro formed operating results including expense and rate base adjustments made to actual operating results and rate base for the 2020 rate period.

**Q. What is the scope of this testimony?**

A. The purpose of this testimony is to describe and support the electric revenue requirement elements of the Stipulation and Settlement ("Stipulation") filed on October 11, 2019, as well as explain why the Stipulation is in the public interest. The parties to the Stipulation include 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, Inc. ("CAPAI"), the Idaho Conservation League ("ICL"), and Walmart, Inc. ("Walmart"). These entities are collectively referred to as the "Parties" and singularly as a "Party", and represent all who have appeared in these proceedings. All Parties to this case are in support of this Settlement.

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

**Q. Are you sponsoring any exhibits?**

A. Yes. I am sponsoring Exhibit No. 13, which is a copy of the Stipulation and Settlement filed on October 11, 2019, with the Commission.

**Q. Did the Company submit a corrected page to the Stipulation?**

A. Yes, on October 25, 2019, the Company filed a revised page 9 to the Stipulation that removed an inadvertent reference to "natural gas" at paragraph 11. At the same time, it filed certain appendices that were previously agreed-upon by the Parties and referenced in the Stipulation, but never actually filed. No party to the Stipulation objected to the filing of this revision or the provision of missing appendices. The error was on the part of the Company, and we apologize. Exhibit No. 13 includes the revised page 9 to the Stipulation, as well as the required appendices (Appendices A - C).

## II. SUMMARY OF ORIGINAL FILING

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

A. On June 10, 2019, Avista filed an Application with the Commission for authority to increase revenue effective January 1, 2020, for electric service in Idaho. The Company proposed an increase in electric base revenue of $5.255 million or 2.1% for 2020. By Order No. 34368, dated July 1, 2019, the Commission suspended the proposed schedules of rates and charges for electric service. By Order No. 34368, dated July 1, 2019, the Commission suspended the proposed schedules of rates and charges for electric service.

The Company used the results of the electric cost of service study (sponsored by Ms. Knox) as a guide to spread the general increase. The spread of the proposed increase generally resulted in the rates of return for the various electric service schedules moving closer to the overall rate of return (unity). While we believe it is reasonable and appropriate to use the cost of service study results as the basis for rate spread, we tempered the amount of movement toward unity proposed in this case due primarily to the impact such movement would have between the rate schedules.

**Q. What are the primary factors driving the Company's need for an electric change in rates?**

A. The primary factor driving the Company's electric revenue requirements proposed change in 2020 is an increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest) from that currently authorized. In addition, net power supply expense is reduced from that currently authorized level, offsetting the Company's overall increase as originally requested.

Electric specific capital investments for the 2019 period include, among other things, upgrades to certain major generating facilities, such as the Little Falls Powerhouse Redevelopment, Noxon Rapids HED Spillgate Refurbishment, as well as capital investment associated with the Clark Fork and Spokane River License agreements, discussed by Company witness Mr. Thackston.

For power supply, as discussed by Company witness Mr. Kalich, the level of Idaho's share of power supply expense for rate year 2020 pro formed into this case has decreased by approximately \$3.8 million (\$11 million on a system basis), from the level currently included in base rates.

## III. SUMMARY OF SETTLEMENT STIPULATION

**Q. Would you briefly summarize the Stipulation?**

A. Yes. Under the terms of the Stipulation, as discussed further by Mr. Miller, Avista would implement revised tariff schedules designed to reduce annual electric revenues by \$7.188 million or 2.8% (billed basis is also a decrease of 2.8%), effective December 1, 2019. This rate changes is designed to provide retail revenues necessary to allow the Company the opportunity to earn the rate of return agreed to in the Stipulation for the 2020 rate period.

As noted by Mr. Miller, a residential customer using an average of 900 kilowatt hours per month would see a \$0.86, or 1.0%, decrease per month for a revised monthly bill of \$84.45. (See also Exhibit No. 13, Paragraph 14, for the December 1, 2019 electric percentage changes in rates by rate schedule.)

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

The Stipulation calls for an overall rate of return of 7.35%, 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 5.20%.

Lastly, the Parties agreed to certain rate spread and rate design changes as described by Mr. Miller in his supporting testimony as well as customer service-related initiatives and programs.

**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 October 1, 2019. It represents a compromise among differing points of view, with concessions made by the 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[1], including various on-site audit visits by Commission Staff, and hard bargaining by the Parties in this proceeding.

The Stipulation resolves all issues among the Parties associated with the calculation of the Company's requested cost of capital, including capital structure and cost components, and resolves all revenue requirement issues. As discussed by Mr. Miller, the Stipulation also includes agreement regarding certain rate spread and rate design as well as well as other Stipulation components related to the Power Cost

[1] Avista responded to over 194 production and audit requests (including sub-parts) from IPUC Staff and other intervening parties.

Adjustment (PCA) and Fixed Cost Adjustment Mechanism authorized levels and customer service-related initiatives and programs.

**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 Group, Walmart, Inc. and the Staff of the Commission.

In addition, the Settlement provides a base rate reduction by December 1, 2019, which would benefit all customers, as they plan and budget for their 2019-2020 winter heating season needs.

## III. ELECTRIC REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

**Q. Please explain the derivation of the Electric Revenue Requirement outlined in the Stipulation.**

A. The Parties agreed that an electric revenue decrease is necessary, effective December 1, 2019. While Avista's filing requested an electric revenue requirement increase of $5.3 million effective January 1, 2020, the Parties agreed-upon adjustments, including the agreed-upon rate of return, result in recommended electric revenue decrease of $7.2 million. This decrease is designed to provide sufficient retail revenues for the 2020 rate period, and would provide the Company with the opportunity to earn the return agreed to in the Stipulation.

**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 7.35%, based on a return on equity of 9.5%, an equity component at 50% and cost of debt of 5.20%. By comparison, the Company's original filing requested an overall rate of return of 7.55%, a return on equity of 9.9%, an equity component of 50% and cost of debt of 5.20%.

**Q. Please provide an overview of the electric revenue requirement adjustments agreed to by the Parties for rates effective December 1, 2019.**

A. The Parties agreed to an electric revenue requirement effective December 1, 2019, that reflects the adjustments shown below in the excerpted table from the Stipulation:

## Table No. 1: Electric Revenue Requirement

**SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT**
**EFFECTIVE DECEMBER 1, 2019**
**(000s of Dollars)**

| | | Revenue Requirement | Rate Base |
|---|---|---|---|
| | **Amount as Filed:** | **$ 5,255** | **$ 836,820** |
| | **Adjustments:** | | |
| **a.)** | Cost of Capital | $ (2,211) | |
| **b.)** | Company 2019 Net Rate Base Updates | $ (317) | $ (1,299) |
| **c.)** | Miscellaneous Company Updates: Reduce Property Taxes, Colstrip/CS2 Major Maintenance Expense, Colstrip Regulatory Amortization and remove non-recurring AFUDC DFIT Expense. | $ (990) | $ (58) |
| **d.)** | Remove Officer Incentives and Reduce Non-Officers Incentives | $ (438) | |
| **e.)** | Reduce Officer Labor Expenses | $ (32) | |
| **f.)** | Adjust Employee Benefits | $ 86 | |
| **g.)** | Remove Certain 2019 Capital Projects | $ (1,215) | $ (7,713) |
| **h.)** | Revise Fee Free Amortization and Annual Expense | $ (370) | |
| **i.)** | Restate Uncollectibles | $ (163) | |
| **j.)** | Weather Normalization Adjustment | $ (287) | |
| **k.)** | Update Net Pro Forma Power Supply Expense and Transmission Revenues | | |
| **i.)** | Update Pro Forma Gas Prices | $ (1,620) | |
| **ii.)** | Include Palouse and Rattlesnake Wind PPA Contracts in PCA | $ (4,288) | |
| **iii.)** | Revise Transmission Revenues | $ (520) | |
| **l.)** | Remove 2020 Expense | | |
| **i.)** | 2020 Non-Union Labor Increase | $ (274) | |
| **ii.)** | 2020 Remove IS/IT 2020 Expense | $ (255) | |
| **m.)** | Miscellaneous Adjustments: Reclassification of non-utility flights and fixed costs, as well as expired lease expense associated with the airplane; reclassification of other administrative and general expenses; adjust intervenor funding, and an agreed upon overall expense adjustment to reflect level of approved expenses | $ 451 | |
| | **Adjusted Amounts Effective December 1, 2019** | **$ (7,188)** | **$ 827,750** |

As can be seen by a review of the individual line descriptions provided within the summary table above, 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 Table No. 1?**

A. Yes. A description of the adjustments resulting in the electric revenue requirement, effective December 1, 2019, follows.

Cost of Capital – (line a.) The overall revenue requirement reduction related to the cost of capital reduces the overall revenue requirement for electric by $2.211 million. The agreed-upon cost of capital components are shown in the table below:

| Component | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Debt | 50.00% | 5.20% | 2.60% |
| Common Equity | 50.00% | 9.50% | 4.75% |
| Total | 100.00% | | 7.35% |

Company 2019 Net Rate Base Updates – (line b.) The 2019 filed electric capital additions were updated by Avista to reflect adjustments for updated information, including related depreciation expense, accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT) associated with these adjustments to reflect balances as of December 31, 2019. This adjustment resulted in an overall reduction to rate base of $1.299 million, and a decreased revenue requirement of $317,000.

Miscellaneous Company Updates – (line c.) This adjustment Reflects adjustments for updated information, including: removal of certain 2018 AFUDC DFIT[2] expense as non-recurring, major maintenance expense associated with the Company's Colstrip generation plant, property taxes, and correction of DFIT within

[2] Allowance for Funds Used Under Construction ("AFUDC"); Deferred Federal Income Taxes ("DFIT")

the Colstrip regulatory amortization adjustment[3]. This adjustment decreases the overall revenue requirement by $990,000 and reduces net rate base by $58,000.

Remove Officer Incentives and Reduce Non-Officer Incentives – (line d.) This adjustment reflects the removal of all officer incentives. This adjustment also reduces incentives for non-officers to 2018 target versus the Company's 6-year average. This adjustment decreases the overall revenue requirement by $438,000.

Reduce Officer Labor Expenses – (line e.) This adjustment reduces officer labor expenses to 2018 test period levels allocated 90% utility / 10% non-utility. This adjustment decreases the overall revenue requirement by $32,000.

Update Pension and Medical Expenses – (line f.) This adjustment Reflects updated information related to incremental pension and medical expenses in 2019, and includes 401K expense based on 2018 test period levels adjusted for 3% labor increases. This adjustment increases the overall revenue requirement by $86,000.

Remove 2019 Capital Additions – (line g.) This adjustment removes capital investments related to: 1) Digital Grid Network project; 2) Rattlesnake Flats Interconnection and Transmission/Substation projects; 3) Distribution asset project (Metro Line); 4) IS/IT Mobile Application and Customer Facing Technology projects; and 5) Transmission/Substation upgrade project, all originally planned for 2019.[4] The projects have been removed for review in the Company's next general

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[3] The Parties otherwise accept the Colstrip Regulatory Amortization adjustment as filed by the Company, including approval of the Colstrip capital additions included in the Regulatory Asset through 2019. The resulting regulatory amortization beginning December 1, 2019 totals $863,000 annually.

[4] Each of the identified projects were described in the direct testimonies of Company witnesses Ms. Rosentrater and Mr. Kensok.

rate case due to timing of completion of projects. This adjustment decreases the overall revenue requirement by $1,215,000 and reduces net rate base by $7,713,000.

Revise Fee Free Amortization and Annual Expense – (line h.) This adjustment adjusts the annual Fee Free[5] expense to approximately $311,000 and Fee Free deferral balance to approximately $696,000, to reflect actual amounts through April 2019 and estimated balances for the remainder of the year. This adjustment also revises the amortization expense of the Fee Free deferral balance ($696,000) to reflect a three-year amortization beginning December 1, 2019 of $232,000. This adjustment decreases the overall revenue requirement by $370,000.[6]

Restate Uncollectibles – (line i.) This adjustment restates uncollectible expense based on the 12 month actual expense balance as of June of 2019. This adjustment decreases the overall revenue requirement by $163,000.

Weather Normalization Adjustment – (line j.) This adjustment reflects higher normalized load revenues net of power supply expense from that included in the Company's original filing. This adjustment decreases the overall revenue requirement by $287,000.

Power Supply and Transmission Related Net Expenses – Update Net Pro Forma Power Supply Expense and Transmission Revenues – (line k.)

- Update Pro Forma Gas Prices – (line i.) This adjustment restates pro forma power supply net expenses to reflect updated natural gas

[5] The Fee Free program allows customers to make payments by credit or debit card without paying a service fee. This program was approved in Commission Order No. 33494, case Nos. AVU-E-16-01 and AVU-G-16-01 and implemented in February 2017.

[6] The Company will update the deferral balance in its next general rate case to reflect actual expenses deferred through November 2019 and true-up any remaining amounts to amortize up or down for the remainder of the three-year amortization.

forward prices for January 2020 through December 2020 contract months based on the most recent one-month settlement period for the transactions. This adjustment decreases the overall revenue requirement by $1,620,000.

- Include Palouse Wind and Rattlesnake Flats Wind PPAs in PCA – (line ii.) This adjustment reflects the removal of the Palouse Wind and Rattlesnake Wind Power Purchase Agreements ("PPA") net expenses from base power supply expense. This adjustment decreases the overall revenue requirement by $4,288,000. See further discussion at Exhibit No. 13, Paragraphs 8 (Palouse) and 9 (Rattlesnake) for further information.
- Revise Transmission Revenues – (line iii.) This adjustment revises 2018 actual transmission revenues to reflect a three year prior average for each month of November and December, to normalize those months to remove the impact of the October 2018 Enbridge pipeline rupture on Company transmission revenues. This adjustment decreases the overall revenue requirement by $520,000. The resulting annual transmission revenues will also be reflected in the PCA authorized base effective December 1, 2019.

Remove 2020 Expense – (line l.)

- 2020 Labor Increase – (line i.) This adjustment removes the 2020 incremental non-executive, non-union labor increases. 2020 union labor increases, however were included based on union contract increases for 2020. This adjustment decreases the overall revenue requirement by $274,000.

- Reduce 2020 IS/IT Expenses – (line ii.) This adjustment reduces 2020 IS/IT expense included by the Company by 50%. Incremental IS/IT expense included for 2020 reflect actual contractual obligations. This adjustment decreases the overall revenue requirement by $255,000.

Miscellaneous Adjustments – (line m.) This adjustment reflects the net change in operating expenses related to: 1) reclassification of non-utility flights and fixed costs, as well as expired lease expense associated with the airplane ($93,000); 2) amortization of 2018 intervenor funding over two-year period ($20,000); 3) removal of miscellaneous A&G expenses (accounts 912, 921, and 923, totaling $36,000); and 4) an agreed upon increase to overall expense to reflect a level of approved expenses ($600,000). The net effect of this adjustment increases the overall revenue requirement by $451,000.

**Q. Please summarize the impact of these adjustments on the electric revenue requirement agreed to by the Parties effective December 1, 2019.**

A. The adjustments discussed above, and agreed to by the Parties, reduce Avista's proposed 2020 rate year electric revenue requirement increase of $5.255 million to an electric revenue requirement reduction of $7.188 million, resulting in a 2.84% electric base rate decrease (on a billed basis the decrease is 2.80%), effective December 1, 2019. The net rate base agreed to by the Parties for electric services is $827.8 million.

## V. 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 an electric base rate decrease, but will still provide necessary retail revenues for the rate-effective period beginning December 1, 2019. The Parties have agreed that the Company has demonstrated the need for the revenue decrease for its electric operations.

In the final analysis, 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 direct testimony?**

A. Yes, it does.