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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-G-23-01 DIRECT TESTIMONY OF JOEL C. ANDERSON

FOR AVISTA CORPORATION

(NATURAL GAS ONLY)

I. INTRODUCTION

Q. Please state your name, business address and present position with Avista Corporation.

A. My name is Joel C. Anderson. My business address is 1411 East Mission Avenue, Spokane, Washington. I am employed as a Regulatory Analyst in the Regulatory Affairs Department.

Q. Please describe your educational background and professional experience.

A. I am a 2005 graduate of Eastern Washington University with a bachelor's degree in Business Administration, majoring in Finance. In 2012, I became a Certified Public Accountant in the State of Washington. I joined the Company in January 2013, after spending seven years working in various accounting positions in the banking industry. I started with Avista as an Internal Auditor. In January 2016, I joined the Regulatory Affairs Department. In my current role as a Regulatory Analyst, I am responsible for the Company's natural gas cost of service studies in all jurisdictions, among other things.

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

A. My testimony and exhibits will cover the Company's natural gas revenue normalization adjustment and cost of service study performed for this proceeding. A table of contents for my testimony is as follows:

Q. Are you sponsoring any Exhibits in this case?

A. Yes. I am sponsoring Exhibit No. 17, Schedule 1 which includes a narrative of the natural gas cost of service study process, and Schedule 2, the natural gas cost of service study summary results.

Q. Were these Exhibits prepared by you or under your direction?

A. Yes, they were.

II. NATURAL GAS REVENUE NORMALIZATION

Q. Would you please describe the natural gas revenue adjustment included in Company witness Ms. Schultz pro forma results of operations?

A. Yes. Similar to the electric revenue normalization adjustment sponsored by Company witness Mr. Garbarino, the natural gas revenue normalization adjustment represents the difference between the Company's actual recorded retail revenues during the 12-months ended June 2022 test period, and retail revenues on a normalized (pro forma) basis. The adjustment includes the re-pricing of pro forma sales and transportation volumes at present rates using pro forma sales volumes that have been adjusted for unbilled sales, abnormal weather, eliminating the deferred revenue associated with the 12 months ended June 2022 Fixed Cost Adjustment (FCA) mechanism, and any material customer load or schedule changes. The rates used exclude: 1) Purchase Gas Cost Adjustment Schedule 150, which reflects the costs related to purchasing and transporting natural gas approved in the Company's last PGA filing, 2) Temporary Gas Rate Adjustment Schedule 155, which reflects the approved amortization rate for prior deferred natural gas costs approved in the Company's last PGA filing, 3) Fixed Cost Adjustment Schedule 175, 4) Tax Customer

Credit Schedule 176, 5) Deferred Balances Credit Schedule 178, and 6) Demand Side Management Rate Adjustment Schedule 191.[1]

Q. Does the Revenue Normalization Adjustment contain a component reflecting normalized natural gas costs?

A. No, natural gas commodity costs have been removed from the Company's filing.

Q. Have you determined the impact of each of the components of this adjustment?

A. Yes. The net operating income impact for each of the components is as follows:

1. Re-pricing of base distribution revenue, increased net operating income by $937,000.
2. Re-pricing base distribution unbilled revenue decreased net operating income by $9,000.
3. The weather normalization adjustment at present base rates decreased net operating come by $237,000.
4. The elimination of the deferred FCA revenue increased net operating income by $533,000.

The total net amount of the natural gas revenue normalization adjustment is an increase to net operating income of $1,226,000, as shown in adjustment column 2.07, on page 7 of Company witness Ms. Schultz's Exhibit No. 4, Schedule 2.

Q. Would you please briefly discuss natural gas weather normalization?

A. Yes. The natural gas weather normalization adjustment is developed from an analysis of ten years (January 2012 through December 2021) of calendarized usage per

[1] Documentation related to this adjustment is detailed in my workpapers accompanying this case.

customer and calendar period heating degree-day data. The resulting monthly weather sensitivity factors (use-per-customer sensitivity to heating-degree days) are applied to the difference between normal monthly heating degree-days and monthly observed heating degree-days to calculate the difference needed to adjust usage to a normal weather level. In other words, this calculation produces the change in therm usage required to adjust actual usage to the amount expected if weather had been normal.

Q. Is this proposed weather adjustment methodology consistent with the methodology utilized in the Company's last general rate case in Idaho?

A. The Company is proposing two changes to the weather normalization methodology. First, the Company proposes to change the definition of "normal" from a 30-year to a 20-year rolling average. Second, the Company proposes to adjust its non-degree day seasonal regression factors from seasonal factors to monthly factors. These two changes are discussed in detail in Company witness Dr. Forsyth's testimony.

Q. What data did you use to determine "normal" heating degree days?

A. Normal heating degree-days are based on a rolling 20-year average of heating degree-days reported for each month by the National Weather Service for the Spokane Airport weather station. Each year the normal values are adjusted to capture the most recent year with the oldest year dropping off, thereby reflecting the most recent information available at the end of each calendar year. The calculation includes the 20-year period from 2002 through 2021.

Q. What was the change in therms resulting from weather normalization for the twelve-months-ended June 2022 test year?

A. During the test year, weather was near normal during the winter. Weather

normalization required a reduction to usage as a result of more heating degree days during the test year compared to normal. The annual total adjustment to Idaho natural gas sales volumes was a reduction of 756,715 therms, which is approximately 0.5% of billed usage.

III. NATURAL GAS COST OF SERVICE

Q. Please describe the natural gas cost of service study and its purpose.

A. A natural gas cost of service study is an engineering-economic study which separates the revenue, expenses, and rate base associated with providing natural gas service to designated groups of customers. The groups are made up of customers with similar usage characteristics and facility requirements. Costs are assigned in relation to each group's test year load and facilities requirements, resulting in an evaluation of the cost of the service provided to each group. The rate of return by customer group indicates whether the revenue provided by the customers in each group recovers the cost to serve those customers. The study results are used as a guide in determining the appropriate rate spread among the groups of customers. Exhibit No. 17, Schedule 1 explains the basic concepts involved in performing a natural gas cost of service study. It also details the specific methodology and assumptions utilized in the Company's Base Case cost of service study.

Q. What is the basis for the natural gas cost of service study provided in this case?

A. The cost of service study provided by the Company as Exhibit No. 17, Schedule 2 is based on the 12-months ended June 2022 test year pro forma results of operations presented by Ms. Schultz in Exhibit No. 4, Schedule 2.

Q. What are the key elements that define the cost of service methodology?

A. Underground storage costs are allocated by normalized winter throughput. Natural gas main investment has been segregated into large and small mains. System facilities that serve all customers are classified by the peak and average ratio that reflects the system load factor, then allocated by coincident peak demand and throughput, respectively. Meter installation and services investment is allocated by number of customers weighted by the relative current cost of those items. General plant is allocated based on the Company's blended four-part factor allocator (four-factor). Administrative & general expenses are segregated into labor-related, plant-related, revenue-related, and "other". The costs are then allocated by factors associated with labor, plant in service, or revenue, respectively. The "other" A&G amounts are allocated based on the Company's four-factor. A detailed description of the methodology is included in Exhibit No. 17, Schedule 1.

Q. Would you please explain the natural gas cost of service study presented in Schedule 2?

A. Yes. Exhibit No. 17, Schedule 2 is composed of a series of summaries of the cost of service study results. Page 1 shows the results of the study by FERC account category. The rate of return and the ratio of each schedule's return to the overall return are shown on lines 35 and 36. This summary is provided to Company witness Mr. Miller for his consideration regarding rate spread and rate design. The results will be presented later in my testimony. Additional summaries show the costs organized by functional category (page 2) and classification (page 3), including margin and unit cost analysis at current and proposed rates. Finally, page 4 is a summary identifying specific customer-related costs embedded in the study.

The Excel model used to calculate the natural gas cost of service and supporting

schedules has been included in its entirety electronically in the natural gas workpapers accompanying this case.

Q. Does the Natural Gas Base Case cost of service study utilize the same methodology as the Company's last natural gas case in Idaho?

A. The Base Case cost of service study was prepared using the same methodology applied to the study presented in Case No. AVU-G-21-01, with one exception.

Q. What changed in the Natural Gas Base Case cost of service study since the last natural gas case?

A. A portion of the small mains coincident peak costs have been allocated to Schedule 146. Previously, no costs for mains smaller than 4 inches were allocated to Schedule 146.

Q. What is the reason for this change?

A. The natural gas distribution network provides an integrated system which benefits all customers, regardless of the customer's location on the system and regardless of which specific diameter of pipe they are served from on a peak day. The Company believes that larger customers do benefit, at some level, from the 2 and 3 inch main on the natural gas distribution network. Large customers benefit because the Company has small main throughout its distribution system which is interconnected with large main. This interconnectedness helps to minimize pressure drop on a peak day and keeps reliability up. While large customers may not benefit from all the small main, we believe it is not reasonable to assert that small main provides no benefit to large customers. Therefore, small main coincident peak cost has been allocated 33 percent to Schedule 146 based on weather

normalized throughput. This change resulted in $23,000 of net operating income shifting from Schedule 146 to Schedules 101 and 111.

IV. RESULTS

Q. What are the results of the Company's natural gas cost of service study?

A. The Base Case cost of service study presented in this filing we believe provides a fair representation of the costs to serve each customer group. The study indicates that the General Service Schedule 101 (serving most residential customers) is providing less than the overall rate of return (unity), and Large General, and Transportation service schedules (111/112 and 146) are providing more than unity. Table No. 1 shows the rate of return and the relative return ratio at present rates for each rate schedule:

Table No.1: Base Case Results

Customer Class	Rate of Return	Return Ratio
General Service Schedule 101	5.96%	0.91
Large General Service Schedule 111/112	9.20%	1.41
Transportation Schedule 146	11.71%	1.79
Total Idaho Natural Gas System	**6.54%**	**1.00**

The summary results of this study were provided to Mr. Miller for consideration in the development of the proposed rates.

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

A. Yes.