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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-23-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-23-01
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	)	ELIZABETH M. ANDREWS
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

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I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as Senior Manager of Revenue Requirements in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I am a 1990 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. That same year, I passed the November Certified Public Accountant exam, earning my CPA License in August 1991.[1] I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in August 1993. I served in various positions within the sections of the Finance Department, including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I was hired into the State and Federal Regulation Department, now Regulatory Affairs, as a Regulatory Analyst until my promotion to Manager of Revenue Requirements in early 2007, and later promotion to Senior Manager of Revenue Requirements. I have also attended several utility accounting, ratemaking and leadership courses.

Q. As Senior Manager of Revenue Requirements, what are your responsibilities?

A. Aside from special projects, I am responsible for the preparation or support of normalized revenue requirement and ratemaking studies for the various jurisdictions in

[1] Currently, I keep a CPA-Inactive status with regards to my CPA license.

which the Company provides utility services. Since 2000, I have led, or assisted in, the Company's electric and/or natural gas general rate filings in Idaho, Washington, and Oregon.

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

A. My testimony and exhibits in this proceeding will support various adjustments in which I sponsor, that are included by Company Witness Ms. Schultz within her overall electric and natural gas revenue requirement studies prepared for the Company's proposed Two-Year Rate Plan effective September 1, 2023, through August 31, 2025. These adjustments include the following: 1) Pro Forma Wildfire Plan Expenses, 2) Pro Forma Insurance Expense, 3) Pro Forma EDIT (RSGM)[2], 4) Pro Forma Miscellaneous Operations and Maintenance (O&M) Expense, and 5) Pro Forma Colstrip Capital Additions & Amortization Expense.

In addition to the various accounting adjustments I sponsor, I will discuss the Company's requests to update its Wildfire Balancing Account baseline to match pro formed wildfire plan expenses, as well as discuss the Company's proposal to establish an Insurance Expense Balancing Account and baseline to reflect the significant increase and volatility associated with insurance expenses.

Finally, I will discuss, the accounting methodology change related to the Company's Excess Deferred Income Taxes (EDIT) expense that has occurred since the Company's prior general rate case, as well as provide an update on the Company's electric and natural gas deferred federal tax credit balances.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

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[2] Reverse South Georgia Method

A. Yes. I am sponsoring Exhibit No. 5, Schedules 1 and 2C. Schedule 1 is an internal Company memo discussing the EDIT accounting method change in effect as of January 1, 2022, and Confidential Schedule 2C provides charts and detail by line of insurance for the period 2009 through 2022 (actual) and 2023 through 2024 (confidential expected).

Q. Would you please summarize your direct testimony?

A. Yes. Below is a summary of the principal topics discussed in my direct testimony:

- I sponsor specific Idaho electric and natural gas Pro Forma Adjustments associated with: 1) Pro Forma Wildfire Plan expenses reflecting $4.6 million of annual O&M electric expenses; 2) Pro Forma Insurance Expense, reflecting annual electric and natural gas insurance expense of approximately $4.3 million and $714,000, respectively; 3) Pro Forma Excess Deferred Income Tax (EDIT) expense, reflecting the Reverse South Georgia Method (RSGM), resulting in a decrease to test period deferred income tax expense for electric of $200,000 and natural gas of $43,000; 4) Pro Forma Miscellaneous O&M Expense, reflecting an increase above test period levels for a limited sub-set of O&M expenses for electric and natural gas of $4.2 million and $0.8 million, respectively in Rate Year 1 ("RY1"), and $2.0 million and $0.4 million, respectively in Rate Year 2 ("RY2"); and 5) Pro Forma Colstrip Capital Additions and Amortization, reflecting a decrease in regulatory amortization expense of $155,000, and an increase in Colstrip net plant of $2.5 million.

- The Company is proposing to increase its electric Wildfire Expense Balancing Account baseline from $1,836,000 to $4,637,000 over the Two-Year Rate Plan, mainly as a result of significant increases in enhanced vegetation management efforts and risk-tree identification and removal. As sponsored by Ms. Schultz, the Company is also proposing a two-year amortization of its total Deferred Wildfire Expenses, deferred July 1, 2020 through September 30, 2022, of $8.2 million (or $4.1 million annually) over the Two-Year Rate Plan. Including capital additions, sponsored by Company witness Mr. Howell, pro formed from July 1, 2022 through August 31, 2025, total O&M expense, deferred wildfire expense amortization, and pro formed return of and on capital investment - results in an overall increase to the Idaho electric revenue requirement included in this case (above existing authorized levels), totaling approximately $8.8 million in RY1 and $1.1 million in RY2.

- The Company is proposing a two-way Insurance Expense Balancing Account, similar to the Wildfire Expense Balancing Account, that would track the significant increase and variability in insurance expenses, with an established Insurance Expense baseline of approximately $4,306,000 for Idaho electric and $714,000 for Idaho natural gas.

- The Company has reflected a change in accounting method for EDIT expense from the Average Rate Assumption Method (ARAM) to the Reverse South Georgia Method (RSGM). This accounting change results in a minimal reduction to Idaho electric and natural gas EDIT expenses.

- The Company does not propose a change at this time in its current amortization of its electric and natural gas customer tax credits owed to customers, from that approved in Case Nos. AVU-E-21-01 and AVU-G-21-01.

II. SPONSORED PRO FORMA ADJUSTMENTS

Q. Would you please describe each of the pro forma adjustments which you are sponsoring in this proceeding?

A. Yes. Below is a summary of each adjustment that I am sponsoring in this proceeding. Further discussion on certain adjustments are also provided in more detail later in my testimony, and or within my workpapers provided with the Company's filed case.

Pro Forma Wildfire Plan Expense (electric only)

Q. Please describe the Pro Forma Wildfire Plan Expenses adjustment.

A. Electric Pro Forma Wildfire Plan Expenses, Adjustment (3.16), is pro formed in RY1, beginning September 1, 2023, reflecting the net increase in expenses associated with the Company's Wildfire Resiliency Plan ("Wildfire Plan"), as supported by Mr. Howell.[3]

[3] Wildfire Plan capital additions, together with associated accumulated depreciation (A/D), accumulated deferred federal income taxes (ADFIT), and depreciation expense, from July 1, 2022 through August 31, 2025 over the Two-Year Rate Plan are included in Pro Forma Capital Additions Adjustments 3.08 through 3.11 in RY1, and Pro Forma Capital Additions Adjustments 24.01 and 24.02 in RY2, sponsored by Ms. Benjamin. Mr. Howell discusses the need for these additions in his direct testimony.

Specifically, this pro forma adjustment reduces June 30, 2022, twelve-months-ended test period distribution and transmission operating expenses by $1,858,000 to reflect Idaho's share of annual wildfire operating expenses expected during the Two-Year Rate Plan of $4,637,000.[4] This adjustment also removes non-recurring test period deferred regulatory credit expense from the test period (removes FERC Account 407 balances), related to deferring wildfire expenses during the period July 1, 2021 through June 30, 2022, increasing administrative and general (A&G) Regulatory Amortization expense by $5,272,000. The net of this adjustment increases related wildfire expense by $3,414,000 above test period levels, prior to the impact of the amortization of the Deferred Wildfire balances, or depreciation expense related to pro formed Wildfire Plan capital additions.[5] The effect of this adjustment (PF 3.16) decreases Idaho electric net operating income ("NOI") by $2,697,000.

Section III. "Wildfire Expense Balancing Account and Cost Recovery" below, provides additional information supporting the pro forma expenses and capital investment included in this case, the deferral of and proposed amortization of Wildfire Plan deferred expenses, as well as, the proposal to update the Wildfire Balancing Account baseline to track expenses beginning September 1, 2023.

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[4] After completion of the preparation of the Company's revenue requirement in this proceeding, and completion of calendar year 2022 Wildfire Plan efforts, the Wildfire Plan capital additions and O&M expenses for 2023 – 2029 were revised to reflect lessons learned in 2022. Specifically, Wildfire capital additions and O&M expenses were revised upward, impacting the Two-Year Rate Plan. The Company will update its requested level in RY1 for wildfire capital additions, expenses and its proposed baseline during the pendency of this general rate case to reflect the January 2023 Wildfire Plan, capital additions and revised Wildfire expense levels as discussed by Mr. Howell.

[5] Ms. Schultz sponsors the two-year amortization of deferred Regulatory Assets and Liabilities (PF Adjustment 3.14), including the amortization of Wildfire-related deferred Regulatory Assets: 1) "Regulatory Credit - Wild Fire Resiliency" balance of $2.54 million, resulting from wildfire expenses deferred from July 1, 2021 – August 31, 2021, and 2) "Regulatory Credit - Wildfire Balancing Account O&M" balance of $5.67 million, resulting from wildfire expenses deferred from September 1, 2021 – September 30, 2022. The annual amortization of these two balances over the Two-Year Rate Plan total $4.12 million. Additional deferral amounts will continue to be recorded monthly to the "Regulatory Credit - Wildfire Balancing Account O&M" beyond the balance requested for recovery in this proceeding.

<u>Pro Forma Insurance Expense (electric and natural gas)</u>

Q. Please describe the Pro Forma Insurance Expense adjustment.

A. <u>Electric Adjustment (3.06) and Natural Gas Adjustment (3.06), Pro Forma Insurance Expense</u>**,** is pro formed in RY1 beginning September 1, 2023, reflecting increases above the twelve-months-ended June 30, 2022 (12ME June 30, 2022) test period insurance expense for general liability, directors and officers ("D&O") liability, property insurance, and other insurance expense, as discussed further below. Idaho electric and natural gas pro forma insurance expense is adjusted to the level of insurance expense the Company is expecting during the Two-Year Rate Plan. Expected invoices for December 2022 for the Company's general and property insurance premiums, and estimated March 2023 for D&O and other insurance premiums were used to further estimate the planned insurance expense levels over the Two-Year Rate Plan. The Company will update any 2022/2023 estimated amounts, as well as updated insurance expense levels expected over the Two-Year Rate Plan included in this case, as soon as any actual invoices in 2022/2023 are available. The effect of the electric and natural gas insurance adjustments (PF 3.06) increases insurance expense by $1.23 million for electric and $172,000 for natural gas, above test period levels. This results in pro formed electric and natural gas insurance expense levels of approximately $4,306,000 and $714,000, respectively. As discussed in Section IV. "Insurance Expense Balancing Account," these pro formed levels also represent the Company's proposed Insurance Expense Balancing Account <u>baseline</u> levels over the Two-Year Rate Plan.

Section IV. "Insurance Expense Balancing Account" below, provides additional information supporting the pro forma expenses included in this case, as well as support for the proposed Insurance Expense Balancing Account baseline to track insurance expenses beginning September 1, 2023. The effect of this adjustment decreases electric NOI by $972,000 for electric and $112,000 for natural gas.

Pro Forma EDIT (RSGM) Expense (electric and natural gas)

Q. Please describe the Pro Forma EDIT (RSGM) expense adjustment.

A. Electric Adjustment (3.07) and Natural Gas Adjustment (3.07), Pro Forma EDIT (RSGM) Expense**,** beginning RY1 effective September 1, 2023**,** adjusts the electric and natural gas 12ME June 30, 2022 test period EDIT expense to reflect the Reverse South Georgia Method ("RSGM") EDIT amortization expense over the Two-Year Rate Plan.

As a result of the December 31, 2017, Tax Cuts and Jobs Act (TCJA), Avista had an electric plant excess ADFIT balance (Regulatory Liability) (system) as of December 2017, to return to customers. In accordance with the TCJA's Average Rate Assumption Method (ARAM), the Company was required to reverse (i.e. normalize) these "protected" balances over the depreciable lives of the capital assets that created the ADFIT. The Company originally began including the impact of the long-term tax benefit through the inclusion of the annual ARAM amortization expense over a period of approximately 32 years beginning December 1, 2019 for Idaho electric base rates (per Case No. AVU-E-19-04), and September 1, 2021 (per Case No. AVU-G-21-01) for Idaho natural gas base rates.

As discussed further below in Section V. "Changes in Accounting Methods", the Company is required to change its method of accounting for its long-term tax benefit from the ARAM amortization method to the RSGM method of accounting effective January 1, 2022 as required by the IRS. (This will be explained later in my testimony.) The Company has pro formed the straight-line RSGM amortization expense for Idaho electric and natural gas beginning September 1, 2023, and through the Two-Year Rate Plan. The effect of this adjustment decreases electric and natural gas deferred tax expense and NOI by $200,000 and $43,000, respectively.

Pro Forma Miscellaneous O&M Expense (electric and natural gas)

Q. Please describe the Pro Forma Miscellaneous O&M Expense adjustment.

A. Electric Adjustment (3.15) and Natural Gas Adjustment (3.15), Pro Forma Miscellaneous O&M Expense, reflects escalated increases in certain Company O&M and A&G expenses, from the 12ME June 30, 2022 test year through RY1, effective September 1, 2023, through August 31, 2024, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies (sponsored by Ms. Schultz). An annual escalation rate of 7.22% for electric and natural gas operations was applied by FERC account to certain O&M and A&G annual test period balances as of June 30, 2022, through August 31, 2024 (or 2.17 years). All 12ME June 30, 2022 test period expenses restated or pro formed within the electric or natural gas Pro Forma Studies, are excluded prior to the use of the escalation, including the following expenses: 1) all labor and benefits, including, salaries, incentives, pension and medical costs; 2) insurance expenses and amortizations; 3) IS/IT expenses; 4) power supply costs; 5) Montana riverbed lease expenses; 6) Colstrip and CS2 major maintenance expenses; 7) wildfire related expenses; 8) administrative expenses (office space charges); and 9) other expenses removed through restating adjustments (i.e., miscellaneous restating, eliminate adder schedule balances, gas supply costs, and revenue-related expenses). This adjustment decreases RY1 Idaho NOI by $3,353,000 for electric and $672,000 for natural gas.

Electric Adjustment (24.07) and Natural Gas Adjustment (24.07), Pro Forma Miscellaneous O&M Expense reflects escalated increases in certain Company O&M and

A&G expenses, to reflect incremental expenses in RY2, beyond RY1 levels, effective September 1, 2024, through August 31, 2025, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies (sponsored by Ms. Schultz). The same escalation growth rate of 7.22% for electric and natural gas operations used in RY1, applied by FERC account to certain O&M and A&G annual balances as of RY1, is used to escalate RY2 above RY1 levels. This adjustment decreases RY2 Idaho NOI by $1,545,000 for electric and $310,000 for natural gas.

Q. Why did the Company use an escalation rate on the miscellaneous O&M and A&G accounts, not otherwise pro formed elsewhere, of 7.22% for electric natural gas operations?

A. The Company based its increase in miscellaneous O&M and A&G expenses on the three-year average of Avista Utility electric and natural gas actual operating expenses above 2019 to 2022. In the past few years, Avista has seen more significant increases in O&M across its service territories than in previous years, including 8.0% above 2019 levels in 2020, an incremental 4.9% in 2021 above 2020 levels, and an incremental 7.4% in 2022 above 2021 levels, resulting in a three-year average of 7.22% for Idaho electric and natural gas operations.

As discussed by Company witness Dr. Forsyth in his direct testimony, starting at page 2, because of the supply chain disruptions caused by the COVID pandemic, and more recently the effects of the war in the Ukraine, markets are experiencing escalating inflation rates at both the consumer and producer (business-to-business) level. Escalating inflation impacts the cost of the goods and services purchased by the Company. As noted by Dr. Forsyth, discussing inflation "spells," historically, the length of time (often called a "spell") that inflation remains above the long-run average is strongly correlated with the size of the inflation spike the market may experience. Through his analysis of historical "spells" and year-over-year, same month growth for the All Commodity Producer Price Index (PPIACO) calculated by the Bureau of Labor Statistics for the period 2020 and 2022, a new above-average inflation spell started in February 2021. By November 2021, the year-over-year, same month growth rate exceeded 20% and peaked around 23%. The size of the current spike suggests that the current inflation spell could be prolonged.

Dr. Forsyth also looked at year-over-year, same month growth for the Consumer Price Index for urban consumers (CPI-U); the Personal Consumption Expenditures Index (PCEI), the Federal Reserve's preferred measure of consumer inflation; the Producer Price Index for Final Demand Finished Goods (PPIFFG); and Final Demand Services (PPIFDS)[6]. The consumer price indices are measuring prices paid by households and the producer price indexes are measuring prices received by producers, which are frequently not direct sales to household consumers. All four index examples show inflation pressures building simultaneously going through November 2021, with the PPIFFG inflation rate at approximately twice the rate of consumer (CPI-U and PCEI) and PPIFDS inflation.[7]

Based on the Company's historical increased expenses in recent years, as well as that described by Dr. Forsyth of inflationary impacts on the market place in which Avista's utility business operates, impacting the cost of the goods and services purchased by the Company, the Company believes the escalation percentage of 7.22% for electric and natural gas, used for the limited miscellaneous O&M and A&G expenses included in electric and

[6] The base index data used for Dr. Forsyth's Figure 3 is provided in his Footnote 3.
[7] The BLS provides an overview of the CPI at https://www.bls.gov/cpi/overview.htm.

natural gas Pro Forma Adjustments 3.15 (RY1) and 24.07 (RY2), to be conservative.

Pro Forma Colstrip Capital Additions and Amortization (electric only)

Q. Please describe the Pro Forma Colstrip Capital Additions and Amortization adjustment.

A. Electric Adjustment (3.17) Pro Forma Colstrip Capital Additions and Amortization, reflects the approved treatment by the IPUC to recover Avista's investment in the Colstrip Units 3 and 4 generating facilities after reflecting an accelerated depreciation rate of 2027.[8] This adjustment also reflects the Company's proposal to include the pro forma Colstrip capital additions between July 1, 2022 and December 31, 2022, above test period Colstrip capital investment at June 30, 2022, and include this investment in the Colstrip Regulatory Asset for recovery over its authorized amortization period.

Company witness Mr. Kinney sponsors the Colstrip capital additions testimony, describing the capital that has been included in this general rate case, including capital additions between July 1, 2022, and December 31, 2022, for prudency review in this proceeding. The effect of this adjustment decreases Idaho regulatory amortization expense by $155,000, increases Colstrip net plant by $2,450,000 and increases electric NOI by $135,000.

Q. Please provide a brief summary of the accounting treatment approved by the IPUC for Colstrip Units 3 and 4 in Order 34276 of Case No. AVU-E-18-03.

A. On March 19, 2019, per Order 34276 in Case No. AVU-E-18-03, the IPUC approved the Settlement Stipulation proposed by the Settling Parties, regarding Avista's

[8] Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 and 4, which have a combined capacity of about 1,480 MW. These two facilities were placed in service in 1984 and 1986.

recovery of Colstrip Units 3 and 4's undepreciated investment in Colstrip Units 3 and 4 and its asset retirement obligations (ARO) for Colstrip, assuming a remaining "useful life" of those units through December 31, 2027.[9] The IPUC approved the recovery of the undepreciated balance as follows:

- Maintain the current level of Idaho's share of depreciation expense of $2.475 million annually currently being recovered from customers through December 31, 2027.

- Use of $6.41 million (ID share) of "temporary" tax credits associated with Non-plant Excess ADFIT[10] to offset the total balance associated with the acceleration of depreciation/ARO costs on the current Colstrip Unit 3 and 4 assets.

- The remaining balance not recovered through depreciation will be recovered through the amortization of a Regulatory Asset (FERC Account No. 183.327 - Colstrip Regulatory Asset) and amortized over 34.75 years (beginning April 1, 2019) through 2053. The Regulatory Asset, net of accumulated deferred federal income taxes, will be included in rate base and will earn Avista's rate of return.[11]

- Prudency of any capital additions not yet in current rates are subject to review in future rate proceedings.

Q. Were any modifications made to the accounting for Colstrip after the accounting treatment described above was implemented?

A. Yes. The Company originally included the transmission assets in its proposal to accelerate depreciation to 2027 and defer the excess amount of depreciation not included in customers' rates for recovery over 34 years. The Company determined that the

[9] Prior to the "useful life" of 2027 for depreciation purposes approved in Case No. AVU-E-18-03, these units had been on a depreciation schedule of 2034 and 2036, respectively. No closure date was established for Colstrip Units 3 and 4 as a part of the Settlement agreement.

[10] The tax credits were made available by the provision of the Tax Cuts and Jobs Act (TCJA) that reduced the federal corporate tax rate from 35% to 21%.

[11] The Colstrip related accounts included as rate base include the following: FERC Account No. 101.0 – Plant Cost, FERC Account No. 108.0 – Accumulated Depreciation, FERC Account No. 108027 – Colstrip Plant Adjustment, FERC Account No. 182.327 – Regulatory Asset Colstrip, FERC Account No. 230.027 – Colstrip ARO Liability, FERC Account No. 254.027 – Regulatory Liability Colstrip, FERC Account No. 242.0 – Colstrip Accounts Payable, and associated Accumulated Deferred Federal Income Taxes.

transmission assets will be functional if and when the Colstrip generating units are no longer functional. Therefore, on September 1, 2021, per Order 35156 in Case No. AVU-E-21-01, the IPUC approved the Settlement Stipulation proposed by the Settling Parties to remove the transmission assets from the Colstrip accounting that has been approved by the Commission.

Q. How is the amortization expense of the Colstrip Regulatory Asset impacted by the Company's proposal in this case?

A. As shown in Table No. 1, the annual amortization expense decreased $201,000 from the annual amount approved in the last general rate case. The amortization was updated for the following:

- The amount of capital pro formed in the last general rate case was estimated to be approximately $81,000 more than capitalized. This reduced the annual amortization approximately $3,000.

- As described above, the Company removed the transmission assets from the deferral accounting treatment that had been authorized. In the last general rate case, the Company inadvertently did not remove the ARO costs associated with the transmission assets. Removing the transmission ARO costs of approximately $2.5 million, reduces the annual amortization costs by $84,000.

- As described above, the Company was authorized to begin recovery of the ARO costs that will be incurred for future closure of the facility. In the 2021 general rate case, Idaho's share of these costs was estimated to be approximately $18 million, which excludes the ARO associated with the transmission assets. Annually, the Company evaluates this estimate and updates the costs. The most current estimate of ARO costs is $14.3 million, estimated as of December 31, 2021, that will be recovered from customers. Of the $14.3 million currently estimated ARO costs, the Company has incurred approximately $1.6 million through December 31, 2021. Updating the generation ARO costs reduces the annual amortization costs by $114,000.

Table No. 1 – Idaho Colstrip Amortization Expense

Idaho Colstrip Amortization Expense ($000s)	
Amortization Expense Approved AVU-E-21-01	$ 928
Updates to Amortization Expense Filed in Case:	
True-up Capital Pro-formed in AVU-E-21-01	(3)
Remove Transmission ARO Costs	(84)
Update ARO Costs on Generating Assets	(114)
Rate Year 1 - Capital Additions (1)	-
Net Updates	(201)
Total Amortization Expense Proposed - Rate Year 1	$ 728

(1) The Company inadvertently did not add the pro forma capital additions into the amortization. This understated the amortization expense by $80,770. This will be adjusted during the process of the case.

Q. Mr. Kinney discusses the Company recently entered into an agreement related to Colstrip Units 3 and 4 with NorthWestern Energy of Montana in which the Company would abandon its 15 percent ownership in Colstrip Units 3 and 4, and NorthWestern would acquire ownership, with a closing date of December 31, 2025. Has that agreement been reflected in any way within the Colstrip Adjustment included in this case?

A. No, it has not. As discussed above, included in this case is the approved treatment of accelerating unrecovered plant balances per Case No. AVU-E-18-03, by reflecting an annual Idaho depreciation expense of $2.475 million annually through December 31, 2027, with the remaining balance (not recovered through depreciation) to be recovered through the amortization of the Colstrip Regulatory Asset through 2053.

The conclusion of this Two-Year Rate Plan, effective September 1, 2023 through August 31, 2025, ends prior to the effective date of this agreement (December 31, 2025). The impact of this agreement and the treatment of Colstrip costs could be reflected in the Company's next general rate case. For example, the Company could propose to simply adjust the Colstrip Regulatory Asset amortization to reflect any undepreciated balance as of December 31, 2025 over the remaining life of the Colstrip Regulatory Asset. The Company estimates, under this proposal, the increment amortization would be an increase of approximately $180,000 annually, effective January 1, 2026. The Company, however, is not opposed to discussing a revision to the Colstrip accounting currently approved in this proceeding, and look forward to those discussions with Staff and other interested parties to this proceeding.

III. WILDIRE EXPENSE BALANCING ACCOUNT AND COST RECOVERY

Q. Please explain what was approved with regards to the Wildfire Expense Balancing Account in the Company's last general rate case.

A. In the Company's prior general rate case, Case No. AVU-E-21-01, Order 35156, the Commission approved a two-way Wildfire Expense Balancing Account to defer the difference in actual O&M Wildfire expenses, up or down, over the 10-Year Wildfire Resiliency Plan. The authorized "base" level approved in RY1, effective September 1, 2021, was $1.471 million, and $1.836 million for RY2, effective September 1, 2022. The balance in the deferral over time was to be included for review and recovery in future general rate cases.[12] In the Wildfire Expense Balancing Account approved by the Commission, Avista is to record the deferral balances (expense levels higher or lower than the general rate case established base) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit), interest is not accrued on the balance as it is being deferred.

Q. Is the Company recommending a change in the Wildfire Expense Balancing Account baseline in this general rate case?

A. Yes, it is. Wildfire expenses used in the prior baselines were expected levels based on the original 2020 Wildfire Plan and amounts expected over the period 2020 - 2022. As explained by Mr. Howell within his direct testimony, annual Wildfire expense is expected to be $17.7 million in 2023 and $16.5 million in 2024, on a system basis.[13] The majority of these costs relate to distribution "Risk Tree."

Idaho's share of incremental wildfire expenses, and the proposed Wildfire expense baseline was included in this case at approximately <u>$4,637,000 annually</u>, or approximately <u>$2.8 million higher than the current baseline</u> in effect as of September 1, 2022. Idaho's share (expense and baseline), was determined based on incremental direct and allocated wildfire <u>non-labor</u> expense, prorated for the period September 1, 2023 – August 31, 2024 (RY1), based on preliminary estimates provided in <u>November 2022</u>. The reduction in expected Wildfire expense for RY2 (prorated, Idaho share) was not material to RY1,

[12] Order 35156, at 17-18.

[13] After completion of the Company's revenue requirement in this proceeding, and completion of calendar year 2022 Wildfire Plan efforts, the Wildfire Plan capital additions and O&M expense for 2023 – 2029 were revised to reflect lessons learned in 2022. Specifically, Wildfire O&M expenses were revised to $17.7 million, $16.5 million and $15.3 million respectively, for the periods 2023, 2024 and 2025. Capital additions planned between 2022-2025 were also adjusted.

therefore the Company is proposing the balancing account baseline approved effective September 1, 2023, remain in effect until revised in the next general rate case. However, given the update to Wildfire capital additions and expense after completion of the Company's revenue requirement in this case as a result of completion of the 2022 wildfire efforts (discussed by Mr. Howell), the Company will update its requested level in RY1 for wildfire capital additions, expenses and its proposed baseline during the pendency of this general rate case to reflect the January 2023 revised Wildfire Plan, capital additions and expense levels.

As noted above, the Company has included Pro Forma Wildfire Expense, Adjustment (3.16), which reduces the 12ME June 30, 2022, test period distribution and transmission operating expenses by $1,858,000 to reflect Idaho's share of annual wildfire operating expenses expected during the Two-Year Rate Plan of approximately $4.6 million. This adjustment also removes the non-recurring test period deferred regulatory credit expense from the test period (removes FERC Account 407 balances), related to deferring wildfire expenses during the period July 1, 2021 through June 30, 2022, increasing A&G Regulatory Amortization expense by $5,272,000. The net of this adjustment increases related wildfire expense by $3,414,000 above test period levels, prior to the impact of the amortization of the Deferred Wildfire balances[14], or depreciation expense related to pro

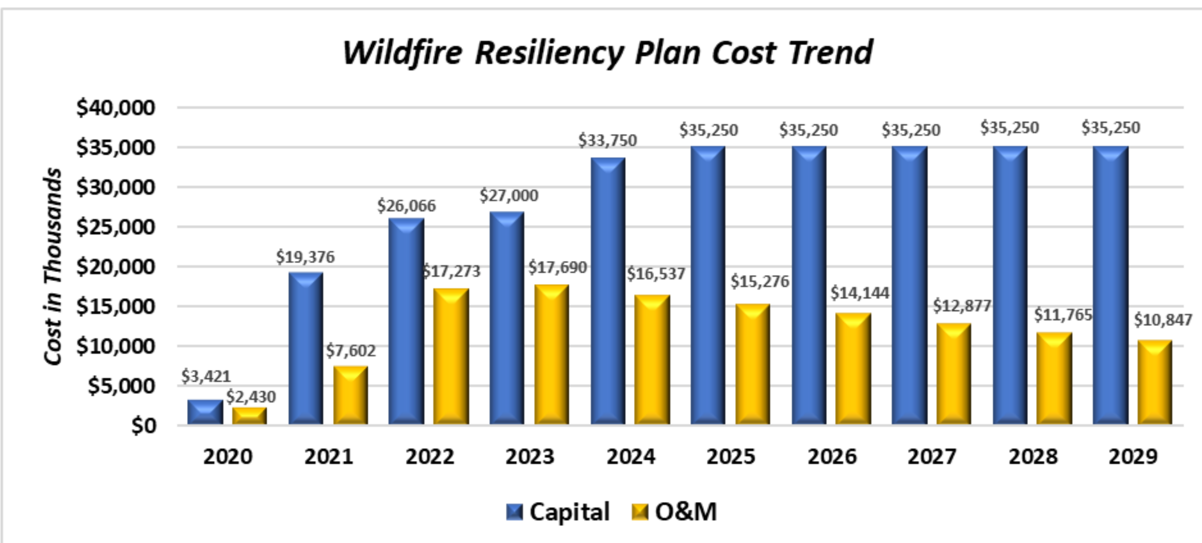
[14] As noted above, Ms. Schultz sponsors the two-year amortization of the deferred balances "Regulatory Asset - Wild Fire Resiliency" balance of $2.54 million (deferred from July 1, 2021 – August 31, 2021) and "Regulatory Asset - Wildfire Balancing Account O&M" balance of $5.67 million (deferred from September 1, 2021 – September 30, 2022), resulting in an annual amortization expense of $4.12 million over the Two-Year Rate Plan.

formed Wildfire Plan capital additions.[15]

Q. What has caused the Company to increase its planned wildfire O&M expense over its 10-year plan?

A. As discussed by Mr. Howell, while capital levels are expected to levelize by 2025 and remain so during the balance of the ten-year period, operating expense levels are expected to peak in 2022 and 2023 and then gradually decline as subsequent year inspections reveal fewer risk/hazard trees.[16] The annual level of capital and operating expense levels on a system basis over the Ten-Year Wildfire Plan, as discussed by Mr. Howell, are shown in Illustration No. 1 of Mr. Howell's testimony and recreated below.

<u>Illustration No. 1 – Annual Wildfire Resiliency Plan Costs (System)</u>



[15] As discussed by Mr. Howell, the Company has not included offsets to operating expenses in this case associated with wildfire. The goal of 10-Year Wildfire Plan (2020-2029) is to reduce the overall risk associated with wildfires. In short, the benefits of the Wildfire Plan are largely measured in terms of risk reduction for all parties involved. The Company, however, recognizes a potential for costs savings and cost shifts from operating and maintenance expense towards capital investment. The overall impact of cost savings and cost shifts will not be well understood until the Wildfire Plan is operational and performance data can be obtained and analyzed. However, one of the objectives of the Wildfire Plan is to reduce the number of equipment failures and tree-related outages and by doing so, avoid emergency response.

[16] It is noteworthy, that while capital plan elements are projected to decline significantly after the Wildfire Plan 10-year program, the majority of operating expense items are on-going and are generally related to risk-based vegetation management.

As explained by Mr. Howell, a major O&M category in the Wildfire plan is related to the Enhanced Risk-Based Vegetation Management Program. Although Avista has had a robust vegetation management program in place for many years, the existing program consists of routine maintenance cycle-trimming and risk-tree inspection and mitigation. In the past, these were focused on approximately 1,500 miles (20% of the system) annually. In 2020, this existing program was separated into two programs based on the new Wildfire Resiliency Plan: 1) Routine Maintenance and 2) Risk-Tree Identification and Mitigation ("Risk-Tree").[17] Each of these programs have different scopes and budgets in order to continue our routine cycle trimming and to give additional focus to "risk-trees" under the Wildfire Plan.

The Risk-Tree program has enhanced the existing tree trimming program with additional measures - 100% risk-tree identification on an annual basis versus a five-year cycle, as well as transmission LiDAR and distribution satellite data collection in order to identify risk-trees and existing or potential vegetation issues. As discussed by Mr. Howell, during the 2022 Wildfire Plan efforts, some of the biggest challenges in 2022 were completing 100% of the inspection of risk trees, with the number of risk trees identified resulting in a much bigger and more expensive proposition than originally anticipated – with risk tree identification results nearly double earlier estimates. This is only part of the increase in cost issues raised by Mr. Howell.

Although the Ten-Year Wildfire Plan includes expected annual wildfire expense

[17] Routine electric distribution and transmission maintenance is budgeted annually at approximately $8.9 million system. This routine expense is <u>separately</u> tracked and accounted for from all Wildfire-related expenses. Any deferral of wildfire expense is tracked incrementally to the Wildfire Expense Balancing Account baseline and will also ensure it is incremental to the routine maintenance expense included in base rates.

amounts, the Wildfire Expense Balancing Account provides the added protection (for customers and Avista) that allows the Company to defer any balances above or below the established baseline (including any off-setting direct O&M savings that may occur).[18]

Q. What amount of deferred expense has the Company included for incremental Wildfire expenses in this case, and how does the Company propose to recover these deferred balances?

A. The incremental Wildfire expense deferred as of September 30, 2022, as discussed in this case, includes both the deferred expense approved by the Commission for the Company's deferred incremental wildfire expenses from July 1, 2020 – August 31, 2021, of $2.5 million,[19] as well as deferred amounts for the Wildfire Expense Balancing Account effective September 1, 2021. The amount deferred for the Wildfire Expense Balancing Account through September 30, 2022, is $5.7 million, for a total of $8.2 million.[20] Therefore, beyond the annual O&M Wildfire Expense included in this case, as discussed by Ms. Schultz, the Company is also seeking to amortize the existing net deferred balance of $8.2 million over a two-year period, or $4.1 million annually over the Two-Year Rate Plan.

Q. What capital additions has the Company pro formed into this general rate case?

A. As discussed by Mr. Howell, and shown in Illustration No. 1 above, the

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[18]Although the Company is unaware of direct O&M savings at this time, through the operation of the balancing account, O&M costs will be tracked net of cost savings, thereby effectively capturing over time any embedded cost savings.

[19] Case No. AVU-E-20-05, Order 34883, related to Avista's "Application for an Order Authorizing Accounting and Ratemaking Treatment of Costs Associated with the Company's Wildfire Resiliency Plan" (Wildfire Deferred Accounting Petition). The Commission approved the Company's Wildfire Deferred Accounting Petition, allowing Avista to defer all incremental O&M expenses and monthly depreciation expense as a result of the Company's Wildfire Plan beginning in 2020 through August 31, 2021.

[20] Additional Wildfire Expense Balancing Account deferrals (up or down), beyond that recorded and included in this proceeding as of September 30, 2022, will be included in future general rate case proceedings.

Company has included in Avista's Two-Year Rate Plan (and reflected in the Company's electric Pro Forma Study RY1 and RY2 results), Wildfire Plan capital additions for the period July 1, 2022, through August 31, 2025. These Wildfire capital additions reflect system (WA/ID) transfers-to-plant amounts of $26.1 million in 2022 (6 months), $27.0 million in 2023, $33.8 million in 2024, and $35.3 million (8 months) of 2025.

Specifically, Wildfire Plan capital costs included in the Company's case, reflect capital additions, together with associated A/D, ADFIT, and depreciation expense, and are included in Pro Forma Capital Additions Adjustments (3.08) through (3.11) in RY1, and Adjustments (24.01) and (24.02) in RY2, sponsored by Ms. Benjamin. The overall increase in Idaho electric rate base (net of A/D and ADFIT) as a result of these additions, reflect an increase of $15.8 million in RY1 and $9.2 million for RY2, or $24.9 million over the Two-Year Rate Plan.

Q. What is the total overall incremental electric revenue requirement included in the Two-Year Rate Plan with regards to the Company's Wildfire Plan?

A. Reflecting each of these pro formed wildfire costs: O&M expense, deferred wildfire expense amortization, and pro formed return of and on capital investment - results in an overall increase to the Idaho electric revenue requirement included in this case (above existing authorized levels), totaling approximately $8.8 million in RY1 and $1.1 million in RY2. This incremental amount above existing authorized levels is shown in Table No. 2:

Table No. 2 – Total Incremental Wildfire Costs – Idaho Share Revenue Requirement

Total Incremental Wildfire Costs Idaho Share - Revenue Requirement (000s)		
	Rate Year 1	Rate Year 2
O&M Wildfire Expense[1]	$ 2,811	$ -
Wildfire Deferral Amortization	$ 4,124	$ -
Pro Forma Wildfire Capital Additions[2]	$ 1,840	$ 1,085
Total Incremental ID Wildfire Costs - Revenue Requirement	$ 8,775	$ 1,085

[1]Wildfire expense included annually over the Two-Year Rate Plan is $4.6 million. Annual expense included above is incremental revenue requirement above existing base rates, or approximately $2.8 million above current authorized levels.

[2] Includes return on net rate base, depreciation expense, net of taxes and tax benefit of interest.

Approval of these proposed incremental costs is an important element of the Company's Wildfire program and helps support the level of wildfire mitigation efforts proposed in the Company's Wildfire Plan.

IV. INSURANCE EXPENSE BALANCING ACCOUNT

Q. Please briefly discuss the Company's proposal for an Insurance Expense Balancing Account.

A. The Company proposes, similar to the Wildfire Expense Balancing Account, the Commission approve a two-way Insurance Expense Balancing Account, that would track the significant increase and variability in insurance expenses. Similar to the accounting treatment of the Wildfire Expense Balancing Account, Avista would record any deferral balances (expense levels higher or lower than the general rate case established base) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). Interest would not accrue on the balance as it is being deferred.

Q. What pro forma insurance expense has the Company pro formed into this case for use as a "base" over the Two-Year Rate Plan?

A. As discussed above, the Company has included incremental expected insurance expense in electric and natural gas Pro Forma Insurance Expense Adjustments (3.06) for RY1, related to general liability, D&O liability, property and other (Cyber, Colstrip and Worker's Comp) insurance. For RY1, the Company has included the substantial incremental increase above the 12ME June 30, 2022, test period level of insurance expense ($12.2 million system), to the level of insurance expense the Company expects beginning September 1, 2023 ($16.9 million system). By way of comparison, the amount of insurance included in current rates is approximately $8.8 million system. Table No. 3 provides the year-over-year increase from calendar 2020 levels, included in authorized rates as approved in Case No. AVU-E-21-01 (2021 levels), as of the 12ME June 30, 2022 test period levels, calendar 2022 levels, and expected amounts beginning September 1, 2023 (RY1). Expected RY2 levels beginning September 1, 2024, are included in Table No. 3 for information purposes only, as the expected increase (3.3%) is not included in pro formed RY2 results; the proposed Insurance Expense Balancing Account, therefore, would reflect any changes up or down from RY1 (baseline) approved levels.

<u>Table No. 3 – Insurance Expense 12/2020 through 12/2024[21]</u>

Insurance Expense (000s)						
	Total 2020 Levels 12.31.2020	Authorized Level 12.31.2021	Test Period Level 06.30.2022	Total 2022 Levels 12.31.2022	PF RY1 Expected Prorated Levels 09.01.2023	PF RY2 Expected Prorated Levels 09.01.2024
System Expense	**$ 6,744**	**$ 10,132**	**$ 12,225**	$ 13,877	**$ 16,930**	$ 17,495
Growth in Expense			**20.7%**	**13.5%**	**22.0%**	3.3%
Percent Increase in Insurance 2022 versus 2020				**105.8%**		
Percent Increase in Insurance 2022 versus Authorized				**37.0%**		
Percent Increase in Insurance 2023 Expected versus Authorized					**67.1%**	
Unrecovered Expense in 2022 (System)				$ 3,746		
Idaho Share of Unrecovered Insurance in 2022[1]				**$ 1,083**		

[1]Idaho share of system expense at 12.31.2021 (authorized) is $2.475 million. Idaho share of 12.31.2022 actual insurance expense is $3.958 million, for a net unrecovered insurance expense in Idaho of $1.083 million.

As can be seen in Table No. 3 above, <u>actual insurance expense</u> increased 20.7% between insurance levels at <u>12ME June 30, 2022</u> test period versus that currently <u>authorized (2021 levels)</u>, or an incremental 37.0% for calendar 2022 versus current authorized, with additional increases expected of approximately 22.0% and 3.3%, as of September 1, 2023 (RY1) and September 1, 2024 (RY2), respectively, over the Two-Year Rate Plan. It is noteworthy, as also shown in Table No. 3 above, that total insurance expense has increase 105.8% between 2020 and 2022.

Furthermore, **<u>09.2023 (RY1) invoice levels</u>** (majority of 2023 invoiced for prepayment as of December 2022), reflect an increase **<u>above current authorized</u>** levels of

[21] Actual expenses as of 12ME 06.30.2022 noted above, reflect all insurance pro formed in this case including general liability, D&O Liability, property, and "other" insurance including, worker's comp, cyber and Colstrip related insurance. In past general rate cases, the Company has not pro formed the "other" insurance premiums because these types of insurance had not materially changed year over year, leaving test period amounts. That is no longer the case, especially with regards to cyber insurance, while currently is approximately $532,000 in the historical test period, Cyber insurance is expected to increase to approximately $947,000 in RY1, over 78% premium increase.

over $6.8 million (system), or an approximate **<u>increase of 67.1%.</u>**[22] Idaho's share of the increase in 2022 expense that will be absorbed by shareholders, because actual levels will be higher than authorized levels per Case No. AVU-E-21-01, total approximately $1.1 million of lost recovery of insurance expense for Idaho operations alone. This would not have happened with a balancing account.

As noted above, the effect of the electric and natural gas insurance adjustments (PF 3.06) increases insurance expense by $1.23 million for electric and $172,000 for natural gas, above test period levels. This results in pro formed electric and natural gas insurance expense levels, and Insurance Expense Balancing Account baselines, of approximately $4,306,000 and $714,000, respectively. These amounts included in the Company's case, will be adjusted once final invoices are received in March 2023. As discussed below, the majority of the increases in insurance year over year in recent years, is related to wildfire insurance premiums increasing between 2020 and 2022 by over 200%, alone, all of which is allocated to electric service (Idaho and Washington).

Q. Does this explain why the Company is proposing the Commission approve a balancing account at this time for insurance expense?

A. Yes, it does. It is evident from the unprecedented increases the Company has seen in recent years (201% in general liability alone from 2020 to 2022), that these increases are undoubtedly "<u>extraordinary</u>" and volatile from past years, are financially harmful to the Company as noted by the lost recovery of $1.1 million in expense for Idaho alone in 2022,

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[22] New invoicing was received in December 2022 for the Company's general and property insurance premiums for the period December 2022 through December 2023, after completion of the Company's final revenue requirement in this case. Additional invoices for D&O insurance premiums will be received in March 2023. The Company will update the estimated amounts included in its revenue requirement, for RY1 beginning September 1, 2023, as soon as the final actual invoices are available.

and are beyond the Company's control, notwithstanding our best efforts under the Wildfire Plan.

Q. If this Commission were to simply now approve the level of insurance expense as requested based on the updated RY1 levels shown in Table No. 3 above, would that make the need for an Insurance Expense Balancing Account unnecessary?

A. No, it would not. If this Commission approved the proposed RY1 level of insurance expense included by the Company, that might ensure the Company may recover its insurance expenses over the Two-Year Rate Plan, as expected today; if however, the recent levels have taught the Company anything, it is that future levels of insurance are unpredictable. The amounts included for the Two-Year Rate Plan are based on informed judgement of the Company today. However, an Insurance Expense Balancing Account is absolutely necessary to protect the Company from future losses over the Two-Year Rate Plan and beyond, similar to what it will experience in 2022, as insurance premiums continue to increase as is expected based on current discussions with insurance providers. Furthermore, an Insurance Expense Balancing Account <u>would also protect customers</u>, especially during a multi-year rate plan, if insurance premiums were ever to begin to decline back to levels seen in past years, or even any reduction at all over current or future levels approved by the Commission.

Q. Does the Company have an insurance balancing account in other jurisdictions?

A. Yes, the Company has a similar mechanism, as that proposed here, in the State of Washington. It was approved in December 2022 in Dockets UG-220053 et. al.

Q. Please summarize what generally causes variability in insurance expense

year over year.

A. Insurance premiums by line of coverage vary from year to year, with some rising in a particular year, while others may fall in the same year. Premium changes are affected by losses incurred by Avista, losses that occur in both the domestic and international marketplace, and changes in risk exposure across industries and Avista itself. Premiums, even during less tumultuous market periods, will tend to rise and fall from year to year as insurance companies make rate adjustments. At times, significant loss events happen in the marketplace or at Avista, that can significantly amplify these variations in premium changes from year to year. It is often difficult to forecast premium changes going forward, as the occurrence of significant unanticipated losses across the marketplace or by Avista can dramatically impact future premiums. The significant increases in premium increases in General Liability, Property, and Other Insurance from 2020 forward, are due in whole, or in part, to loss activity in the marketplace and Avista's claims and changes in risk exposure.

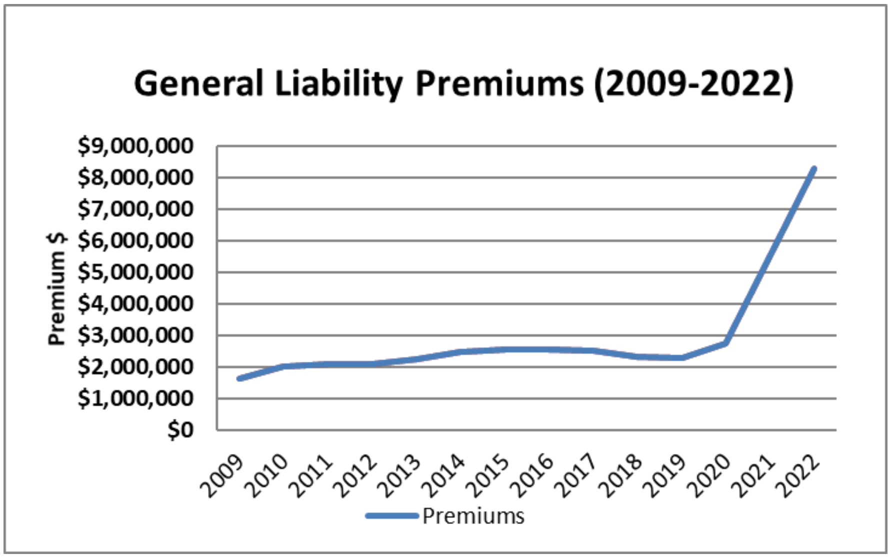
Q. Please provide the overall variability in the major lines of insurance expenses experienced by Avista over time.

A. Detail for each line of insurance is provided in Confidential Exhibit No. 5, Schedule 2C, pages 1-5, for the period 2009 through 2022 (actual) and expected 2023 through 2024 (confidential). Additional detail, by line of insurance, is also available within my confidential insurance expense related workpapers.

Q. Please discuss the variability in general liability premiums and the cause of increased insurance expense experienced by Avista in the last few years.

A. As shown in Chart No. 1 below, general liability premiums (that would address wildfire premiums) for Avista began to increase sharply beginning in 2020. (See also Confidential Exhibit No. 5, Schedule 2C, page 2, and Andrews confidential workpapers for 2023 and 2024 confidential data.)

Chart No. 1 – General Liability Insurance Premiums (2009 – 2022)



Premium increases have been largely related to wildfire exposure in the industry at large, and especially in the West. Up until the Labor Day fires that occurred in the Pacific Northwest in the fall of 2020, the insurance market's focus on wildfire exposure was largely on California and some of the other southwestern States due to extreme drought conditions. The occurrence of the Labor Day fires, in combination with severe to exceptional drought in our region, resulted in insurance companies classifying many utilities as high risk from a wildfire standpoint. This change in exposure translated to insurance companies requesting significant increases in premiums, or withdrawing from offering coverage for wildfire altogether.

Avista's general liability premiums increased 101% in 2021 primarily due to insurance companies considering Avista as a heightened wildfire risk following the 2020

Labor Day fires and an expectation that some of the fires will result in future claims. Premiums continued to increase at the December 31, 2021 (for 2022) renewal. For 2022 alone, general liability premiums increased 49% above 2021 levels. Premiums will remain highly volatile into the future and are not expected to trend downward going forward. Therefore, the level of general liability premium increases built into the Company's case over the Two-Year Rate Plan for insurance expense, should be considered conservative in all respects.

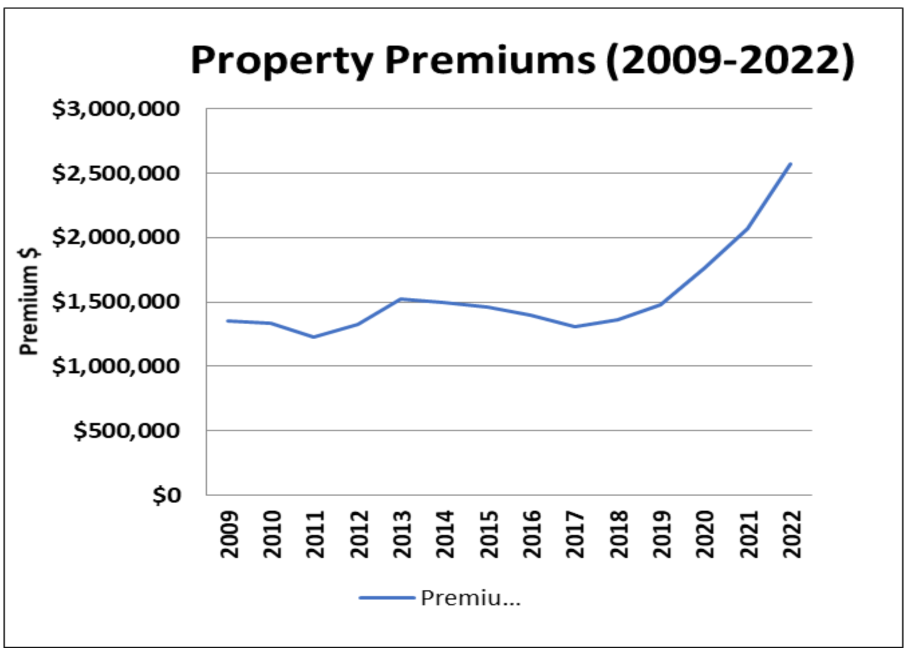
Q. What is Avista doing to control insurance costs related to wildfire insurance?

A. Over the course of the last several years, the availability of insurers willing to provide wildfire insurance has significantly declined. The limited capacity of wildfire coverage has resulted in not only a significant increase in premiums, but a reduction in the effectiveness of such tools as increasing retention levels (i.e. the "deductible"). In the past, the premium reduction using these strategies would have warranted assuming an increase in exposure for rate payers, however, in this tight market, the payback for accepting increased risk does not merit the small return in premium reduction. At this point in time, our ability to manage wildfire-related premium costs comes through optimizing total wildfire premiums by achieving the most efficient premium cost structure through the continuation of coverage. This analysis involves analyzing costs and assigning limits to carriers that result in the best overall premium outcomes. Avista's establishment of its Wildfire Plan has been instrumental in terms of securing wildfire insurance both in the near term, as well as going forward. However, the insurance market now views these plans as a <u>base requirement</u> to be considered for wildfire coverage, and do not assign any type of premium reduction for having such plans.

Q. Turning now to <u>property insurance</u> premiums, please discuss the variability and the cause of in increased insurance expense experienced by Avista.

A. As shown in Chart No. 2, property insurance premiums have followed a cyclical pattern since 2009, of up then down through time, with a more pronounced upswing in premiums beginning in 2019 due to industry losses resulting from hurricanes Harvey, Irma, and Maria in 2017. (See also Confidential Exhibit No. 5, Schedule 2C, page 3 and Andrews confidential workpapers.)

<u>Chart No. 2 – Property Insurance Premiums (2009 – 2022)</u>



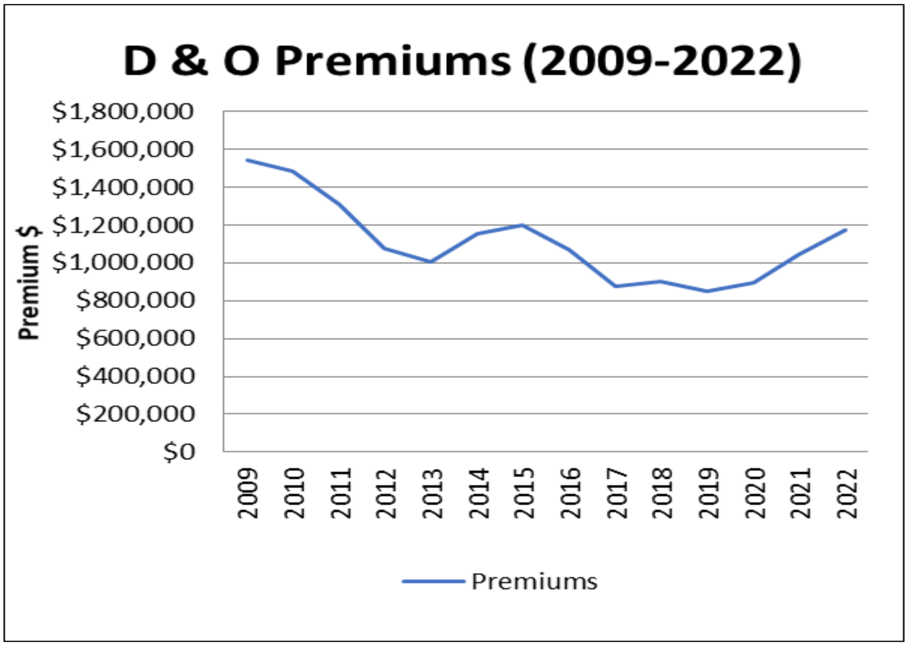
Most property insurers have returned to profitability in 2021, which resulted in the leveling of rate increases experienced in the 2019 – 2021 period. Barring any new large catastrophic property loss events, a mid, single digit increase is expected for 2023 followed by an approximate flat renewal in 2024.

Q. Please now summarize the remaining insurance premiums, for D&O and

other insurance, for worker's comp, cyber and Colstrip, and their impact on Avista.

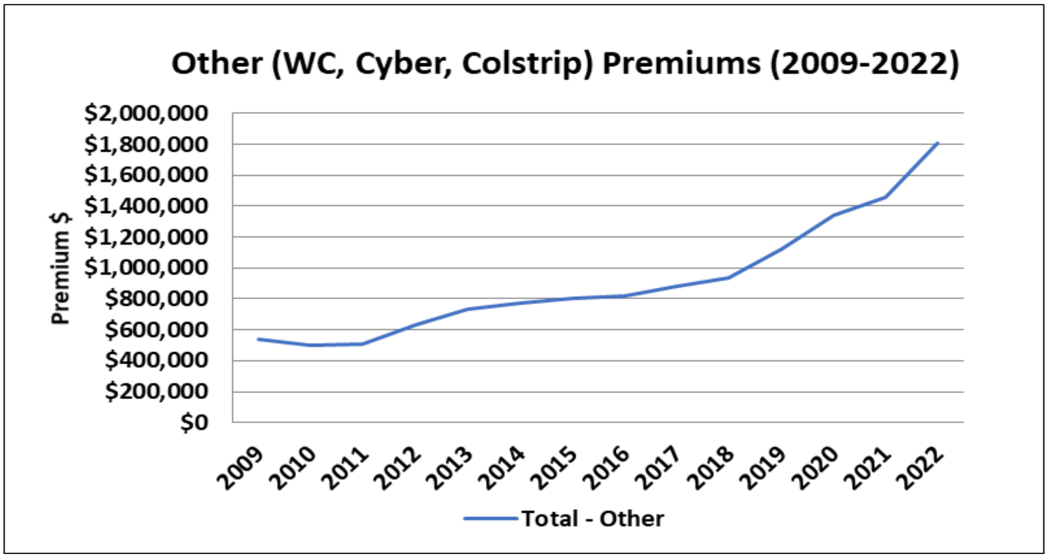
A. Chart Nos. 3 and 4 below, provides charts of "D&O" insurance premiums, and "Other" insurance premiums (reflecting worker's comp, cyber and Colstrip).

<u>Chart No. 3 – D&O Insurance Premiums (2009 – 2022)</u>



As shown in Chart No. 3, D&O premiums have followed a somewhat cyclical pattern since 2009. Premiums have been rising since 2019 due to an increase in the number and size of claims, primarily related to securities claims associated with merger and acquisition activity across numerous industries. Industry losses are beginning to moderate, which should translate to a slower rate of rate increases in the near term.

Chart No. 4 – Other Insurance Premiums (2009 – 2022)



For "Other" insurance (Workers' Comp, Cyber, Colstrip), as shown in Chart No. 4, this category has continually increased since 2009. Part of the increase was fueled by the addition of the cyber insurance coverage in October of 2013. Going forward, Cyber insurance will be the biggest driver of this category spend. Avista's Cyber premium increased 64% with the 2021 renewal, and an additional increase of approximately 42% with the 2022 renewal. These increases are being driven by the dramatic increase in "ransomware" events across numerous industries during the last couple of years. Premiums in this category will continue to trend up for the foreseeable future. (See also Confidential Exhibit No. 5, Schedule 2C, pages 4 and 5, and Andrews confidential workpapers.)

V. CHANGES IN ACCOUNTING METHODS

Q. Have there been any changes to accounting methods used by Avista since the last general rate case filing in Idaho that may impact the Two-Year Rate Plan results?

A. Yes. There was one area the Company changed related to accounting for federal income taxes. Exhibit No. 5, Schedule 1, is a memo from the Company's Director of Tax, Mr. Loutzenhiser, that describes in detail the change. In summary, the Company determined that cost of removal had not been property accounted for within its excess deferred income taxes (EDIT) as required by the IRS. To correct this inadvertent error, the Company switched its method of amortizing EDIT from the Average Rate Assumption Method (ARAM) to the Reverse South Georgia Method (RSGM). The change was recorded effective January 1, 2022. The Company's filed revenue requirement in this case utilizes this method for both rate years. As described in the Exhibit No. 5, Schedule 1, the amortization, or amount of EDIT returned to customers, was increased approximately $1.9 million on a <u>system basis</u> in 2024.

<u>VI. ELECTRIC AND NATURAL GAS TAX CREDIT UPDATE</u>

Q. Please summarize the creation of the deferred tax benefits for customers, and what those balances represent.

A. On October 30, 2020, the Company filed with the Commission its "Application for an Order Authorizing Approval to Change Its Accounting for Federal Income Tax Expense of Certain Plant Basis Adjustments and Deferral of Associated Changes in Tax Expense" (Tax Accounting Petition). This Tax Accounting Petition sought authorization to change its accounting for federal income tax expense from the normalization method to a flow-through method for certain "non-protected" plant basis adjustments,[23] including Industry Director Directive No. 5 (IDD #5) and meters[24], and authority to defer any tax benefit owed customers, as a result of the tax accounting change. As approval of this tax accounting change was required by <u>all three of Avista's jurisdictions</u> (Idaho, Washington and Oregon), a separate Tax Accounting Petition or Application was also filed in Avista's Washington and Oregon jurisdictions. Approvals from all three jurisdictions were received, first from this Commission in Order No. 34906 in Case Nos. AVU-E-20-12 and AVU-G-20-07. The Washington Utilities and Transportation Commission approved the Company's Tax Accounting Petition per Order 01 in Dockets UE-200895 and UG-200896, on March 11, 2021. Finally, the Public Utility Commission of Oregon approved the Company's Tax Accounting Application on May 4, 2021, per Order No. 21-131, in Docket No. UM 2124. This provided the final grant of authority required from each of Avista's jurisdictions to consistently change its accounting for federal income tax expense from a normalization method to a flow-through method across all three jurisdictions. This final authorization also allowed for the immediate benefits to customers to be deferred for later return to customers.[25] As noted within the Company's

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[23] As described in the direct testimony of Company witness Mr. Krasselt, Case Nos. AVU-E-21-01 and AVU-G-21-01, during 2020, Avista worked with consultants from the Deloitte accounting firm on a 2019 tax review project. The outcome of this project was to expand on the tax deduction for repairs expenses that the Company originally implemented in 2014. This change allowed the Company to deduct costs for tax purposes that previously were capitalized, thereby reducing current federal income taxes owed to the IRS. While the Company expanded its deduction for repairs expenses, the deferred taxes for this deduction will continue to be normalized and therefore, were not part of the deferral application or the credits available for the Tax Customer Credits.

[24] In addition to the repairs review, Avista filed two new accounting method changes with the IRS to modify its tax method for accounting for certain costs relating to IDD #5 and meters. IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than $200. These changes were included with the 2019 federal tax return that was filed in October 2020 and was the basis of the request for an accounting change in the Company's Tax Accounting Petition.

[25] A deferral to record the tax benefit by service and jurisdiction to a regulatory liability was recorded in May 2021, effective with the Company's April 2021 closing process.

Tax Accounting Petition, to reflect the tax accounting change for regulatory purposes and return the customer benefits in each State, any changes needed to be effective concurrent with each State's next general rate case.

As a result of the tax accounting change approved by all jurisdictions, the Company recorded a deferred system tax benefit of $150.8 million, including the tax benefit specifically owed to Idaho electric and natural gas customers of approximately $31.3 million and $12.1 million, respectively, through December 31, 2020. Additional, on-going tax credits continue to accrue annually and be deferred for customers in FERC Account No. 254.3 – Regulatory Liability (at a grossed-up amount). The net of these two accounts equals the amount that had been previously recorded in FERC Account. No. 282900 and continue to be included as an offset to rate base until all funds, past or future, are returned to customers. This allows customers to continue to receive the benefits of the "basis" adjustments, as a reduction to rate base, until such time all flow-through benefits are returned to customers and/or included in rates.

Q. How are the deferred tax benefits through December 31, 2020 currently being returned to customers?

A. In Case Nos. AVU-E-21-01 and AVU-G-21-01, the Commission approved the all-party Stipulation and Settlement, including the return of the electric and natural gas deferred tax credit balances recorded as of December 31, 2020, through separate Tariff Schedules 76 (electric) and 176 (natural gas).

For electric, the Parties agreed to return to customers the Tax Customer Credits available of approximately $31.3 million over the Two-Year Rate Plan beginning September 1, 2021 through August 31, 2023 through electric Tariff Schedule 76. For natural gas, the

Parties agreed to return to customers the Tax Customer Credits available of approximately $12.1 million over a ten-year period beginning September 1, 2021 through August 31, 2031 through natural gas Tariff Schedule 176. However, the Parties also agreed the amortization period of the remaining natural gas balance available at the time of the Company's next general rate case (this case) would be subject to review and possible change of the amortization period at that time.[26]

Q. After considering amounts already designated for return to customers as just described, what are the expected deferred tax credit benefits owed customers through August 31, 2023, prior to new rates going into effect from this case?

A. The expected remaining Tax Credit balances for Idaho electric and natural gas to return to customers as of August 31, 2023, prior to new rates going into effect from this case, is approximately $2.3 million for electric and $10.5 million for natural gas. These balances reflect the actual deferred tax credit balances as of December 31, 2020 for Idaho electric and natural gas operations, adjusted to <u>include</u> the annual estimated incremental tax credit deferrals from January 1, 2021 through August 31, 2023, and adjusted to <u>exclude</u> the estimated amortizations of the tax credit deferred balances per Case Nos. AVU-E-21-01/AVU-G-21-01 (amortized as of August 31, 2023). This is shown in Table No. 4 below:

<u>Table No. 4 – Idaho Tax Credit Balances Expected at August 31, 2023</u>

Idaho Electric and Natural Gas Tax Credit Balances		
	(Millions)	
	ID Electric	ID Natural Gas
Balance at 12/31/2020	$ (30.9)	$ (11.9)
Incremental Deferrals (2021 - 08/31/2023)	$ (3.1)	$ (1.2)
AVU-E-21-01/AVU-G-21-01 Two-Year Amortization (Tariff 76/176)	$ 31.7	$ 2.6
Estimated Remaining Tax credit Balance at 08/31/2023	$ (2.3)	$ (10.5)

[26] Stipulation and Settlement, Case. No. AVU-E-21-01/AVU-G-21-01, p. 4, para. 6, and p. 17, para. 16.

Q. Does the Company propose to change the current Customer Tax Credit amortizations being returned to customers?

A. No, not at this time. The Company believes the ten-year amortization of the natural gas deferred Customer Tax Credit balance through Tariff Schedule 176 is reasonable, and electric Tariff Schedule 76 will expire on August 31, 2023.

However, the Company is not opposed to shortening the natural gas amortization period (of the balance owed customers as of December 30, 2020) credited to customers through Tariff Schedule 176, to a period less than the remaining eight years as of August 31, 2023; or increasing the remaining amortization to include the balance expected as of August 31, 2023, beginning September 1, 2023. The Company is also not opposed to extending Tariff Schedule 76, which expires August 31, 2023, to credit electric customers over the Two-Year Rate Plan for any balance owed customers as of August 31, 2023.

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

A. Yes, it does.