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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	CASE NO. AVU-E-17-01 CASE NO. AVU-G-17-01

DIRECT TESTIMONY
OF
SCOTT L. MORRIS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

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

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

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

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

I am a member of the Edison Electric Institute board of directors, a member of the American Gas Association board of directors, a member of the Washington Roundtable, and I also serve on the board of trustees of Greater Spokane Incorporated. I am also on the board of directors of the Federal Reserve Bank of San Francisco, Seattle Branch, and Gonzaga University board of trustees and I currently serve as Chair for both organizations.

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

A. I will summarize the Company's proposal in this filing for a Two-Year Rate Plan, and general rate case "stay-out" period. I will explain why there is a continuing need for retail rate increases, not just for Avista, but for the electric and natural gas utility industry in general. I will address our continuing capital investments, and how they are designed to accomplish, and balance, three primary objectives: 1) provide safe, reliable service; 2) achieve high customer satisfaction; and 3) maintain a reasonable cost to customers. I will also briefly explain the Company's customer support programs in place to assist our customers. Finally, I will introduce each of the other witnesses providing testimony on the Company's behalf.

A table of contents for my testimony is as follows:

Q. Are you sponsoring an Exhibit in this proceeding?

A. Yes. I am sponsoring Exhibit No. 1 which is comprised of four schedules. Schedule 1 includes a summary of witnesses representing Avista in this proceeding, Schedule 2 is Avista Utilities' "Infrastructure Investment Plan," Schedule 3 includes an overview of Avista and its utility and subsidiary operations, as well as a diagram of Avista's corporate structure, and finally, Schedule 4 includes a map showing Avista's electric and natural gas service areas.

II. SUMMARY OF RATE REQUESTS

Q. Would you please summarize the Company's proposal for a Two-Year Rate Plan included in this electric and natural gas general rate case filing?

A. Yes. In this filing, the Company is proposing a Two-Year Rate Plan, which would begin with new rates effective January 1, 2018 and January 1, 2019. The Company is proposing a Two-Year Rate Plan, to once again, avoid annual rate cases in its Idaho jurisdiction, providing benefits to all stakeholders.

A Two-Year Rate Plan, with increases in 2018 and 2019, would provide benefits to its customers by providing some level of rate certainty over this two-year period; relief to all stakeholders – customers, the Commission and its Staff, intervenors, and the Company - from the administrative burdens and costs of litigation of annual general rate cases; and to Avista by providing a two-year window to manage its business in order to achieve a fair rate of return within known price changes.[1]

Q. What are the primary factors driving the Company's need for its requested electric and natural gas increases in 2018 and 2019?

[1] The Two-Year Rate Plan would not preclude tariff filings authorized by or contemplated by the terms of the Power Cost Adjustment (PCA), Purchased Gas Adjustment (PGA), Public Purpose Rider Adjustment (DSM) or similar adjustments. The Company is proposing that the Two-Year Rate Plan also not preclude the Company from filing for rate relief or accounting treatment for major changes in costs not reflected in this filing, such as the potential costs associated with participation in the Energy Imbalance Market, or new safety or reliability requirements imposed by regulatory agencies. Following a filing by the Company, all interested parties would have an opportunity to respond to the Company's filing and make recommendations to the Commission, with the Commission ultimately deciding the outcome of the filing.

A. The primary factor driving the Company's electric and natural gas revenue increase requests in 2018 and 2019 is an increase in net plant investment from currently authorized. For 2018, there is also a net increase in power supply expenses. A reduction in usage for two electric rate groups has also contributed to the need for a revenue increase.

There is a slight decrease in distribution, operation and maintenance (O&M), and administrative and general (A&G) expenses for both electric and natural gas operations, compared to current authorized levels.

Q. Please provide an overview of Avista's 2018 and 2019 electric rate requests in this filing.

A. For 2018, Avista is proposing an overall increase in electric base revenues of $18.6 million or 7.5%. On an overall billed basis, the increase is 7.9%. For 2019, Avista is proposing an overall increase in electric base revenue of $9.9 million or 3.7%. On an overall billed basis, the increase is 4.2%.

Through rate Schedule 97, customers are receiving a rebate of approximately $2.7 million, which expires on

December 31, 2017.[2] Avista deferred approximately $1.5 million under the electric earnings sharing for calendar-year 2015. The Company is proposing in this case to rebate the $1.5 million deferral balance to customers beginning January 1, 2018. The net effect for 2018 of the expiring rebate, and the new rebate, is an increase in billed revenues (i.e., less of a rebate) of approximately $1.2 million. The new rebate would expire on December 31, 2018.[3]

The Company's electric and natural gas requests are based on a proposed rate of return of 7.81%, with a common equity ratio of 50% and a 9.9% return on equity (ROE).

Q. How is the Company proposing to spread the 2018 and 2019 electric increase to each of the customer rate schedules?

A. The proposed electric billed increase to each customer rate schedule effective January 1, 2018 and January 1, 2019 is shown in Illustration No. 1 below.[4]

[2] This rebate rate was approved in the Company's 2015 general rate case, Case No. AVU-E-15-05. The rebate was related to Avista's 2014 electric earnings sharing of approximately $5.6 million, of which approximately one-half was rebated to customers in 2016, and the remaining half rebated in 2017.

[3] Further information related to the expiration of the current rebate, and the proposed new rebate, is provided in Company witness Mr. Ehrbar's direct testimony.

[4] Company witness Ms. Andrews provides details of the proposed revenue increases, and Company witness Mr. Ehrbar provides details of the proposed spread of the increase to each customer class for each year of the Two-Year Rate Plan.

Illustration No. 1 – Proposed Electric Increase by Schedule

Rate Schedule	Description	2018 Billing Increase	2019 Billing Increase
Residential Service	Schedule 1	8.1%	4.3%
General Service	Schedules 11 & 12	7.5%	4.0%
Large General Service	Schedules 21 & 22	8.2%	4.4%
Extra Large General Service	Schedule 25	7.7%	4.3%
Extra Large General Service 25P	Schedule 25P	7.2%	4.1%
Pumping Service	Schedules 31 & 32	8.8%	4.6%
Street & Area Lights	Schedules 41 - 49	7.5%	3.8%
Total		**7.9%**	**4.2%**

Q. Please provide an overview of Avista's 2018 and 2019 natural gas rate requests in this filing.

A. The Company is requesting an overall natural gas increase in 2018 of $3.5 million, or 5.7% of total billed revenue.[5] For 2019, the Company is requesting an overall increase of $2.1 million, or 3.3% of total billed revenue.[6]

As with the electric increase, the Company's request is based on a proposed rate of return of 7.81% with a common equity ratio of 50% and a 9.9% return on equity. The

[5] Total billed revenue includes base margin revenue (the revenue associated with the Company's ownership and operation of its natural gas distribution operations), as well as the cost of natural gas, upstream third-party owned transportation, and the effect of other rate tariffs. The proposed increase in base margin is 8.8%.
[6] The proposed increase in base margin is 5.0%.

proposed rate spread for each natural gas customer class is shown in Illustration No. 2:[7]

Illustration No. 2 – Proposed Natural Gas Increase by Schedule

Rate Schedule	Description	2018 Billing Increase	2019 Billing Increase
General Service	Schedule 101	6.6%	3.8%
Large General Service	Schedules 111 & 112	2.2%	1.3%
Interruptible Service	Schedules 131 & 132	0.0%	0.0%
Transportation Service	Schedule 146*	9.2%	5.0%
Total		**5.7%**	**3.3%**
** excludes commodity and interstate pipeline transportation costs*			

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

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

[7] The proposed billed percentage increase for Transportation Schedule 146 is not comparable to the proposed increases for the other (sales) service schedules, as Schedule 146 revenue does not include an amount for the cost of natural gas or upstream pipeline transportation. Including an estimate of 35.0 cents per therm for the cost of natural gas and pipeline transportation, the proposed increase to Schedule 146 rates represents an average bill increase of 2.4% in 2018, and 1.4% in 2019.

III. WHY THE CONTINUING NEED FOR RETAIL RATE INCREASES

Q. Why is there a continuing need for annual retail rate increases?

A. A review of historical data goes to the "heart" of why there is a continuing need for annual rate increases. The illustrations below show the changes over time from 1889 to 2016 for the following sets of data related to Avista's electric utility operations:

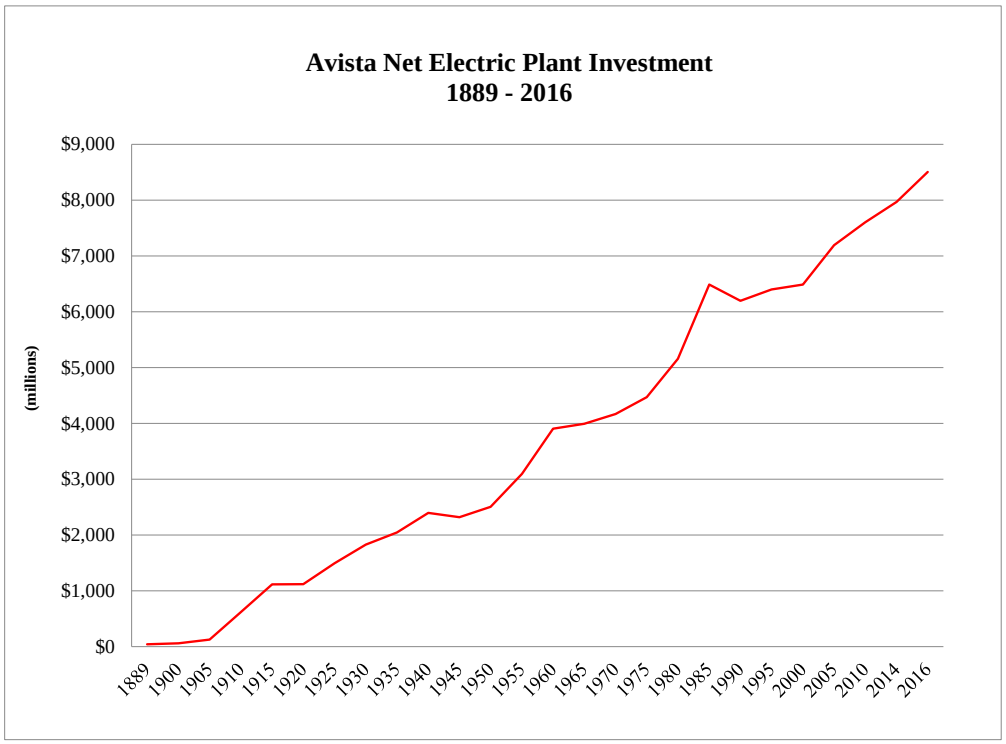
a. Net plant investment (essentially rate base);
b. Number of residential customers;
c. Residential use-per-customer; and
d. Residential retail rate per kilowatt-hour (kWh).

The level of retail rates is influenced heavily by changes in net plant investment over time, growth in the number of customers, and changes in the use-per-customer. The data presented in the line graphs below illustrate visually why Avista, as well as many other utilities, are seeking retail rate increases on a regular basis.

Q. How has Avista's net plant investment for its electric operations changed from 1889 to 2016?

A. The line graph in Illustration No. 3 below shows the cumulative growth in Avista's net plant investment for its electric operations from 1889 to 2016. The data have been presented in five-year increments for ease of viewing.

Illustration No. 3

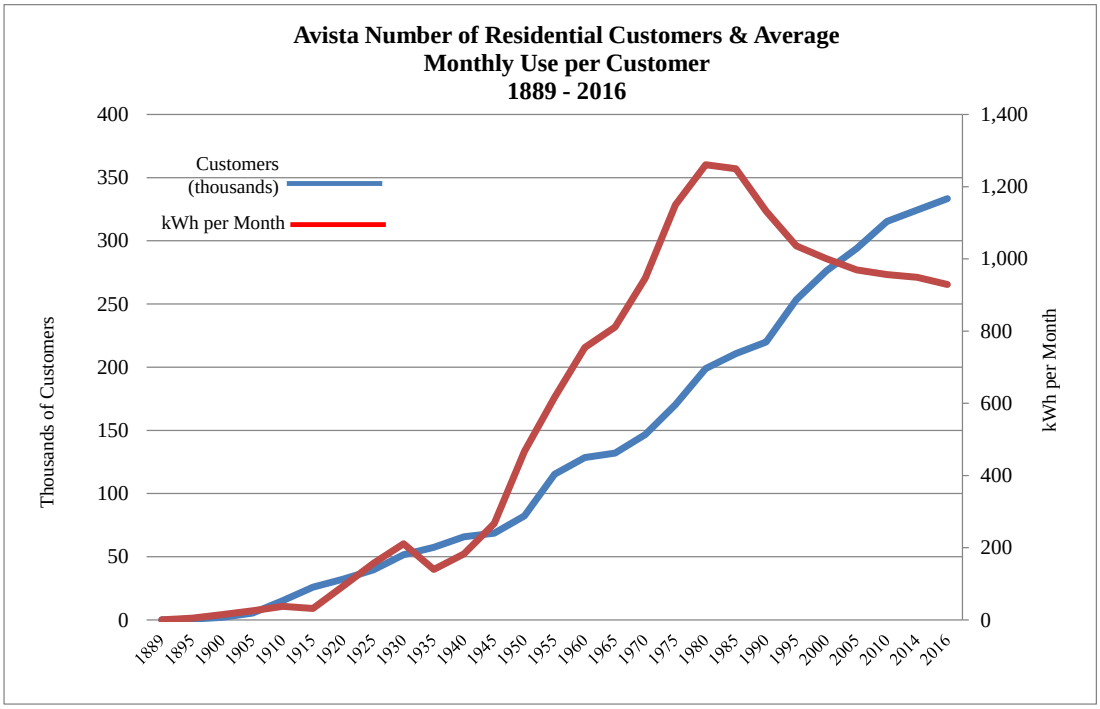


The line on the graph illustrates, among other things, the rapid expansion of net plant investment beginning in the 1950s following World War II, where net plant investment nearly doubled in a relative short period of time. The line also shows that net plant investment in recent years has continued to grow. Later in my testimony I will address how Avista identifies and prioritizes capital investment to ensure that the capital investments are necessary in the time frame in which they are completed.

Q. How have Avista's number of customers and use-per-customer changed from 1889 to 2016?

A. The line graph in Illustration No. 4 below shows the change over time in both the number of residential customers (blue line) and the residential use-per-customer (red line) for the period 1889 to 2016. The data, again, are presented in five-year increments for ease of viewing.

Illustration No. 4



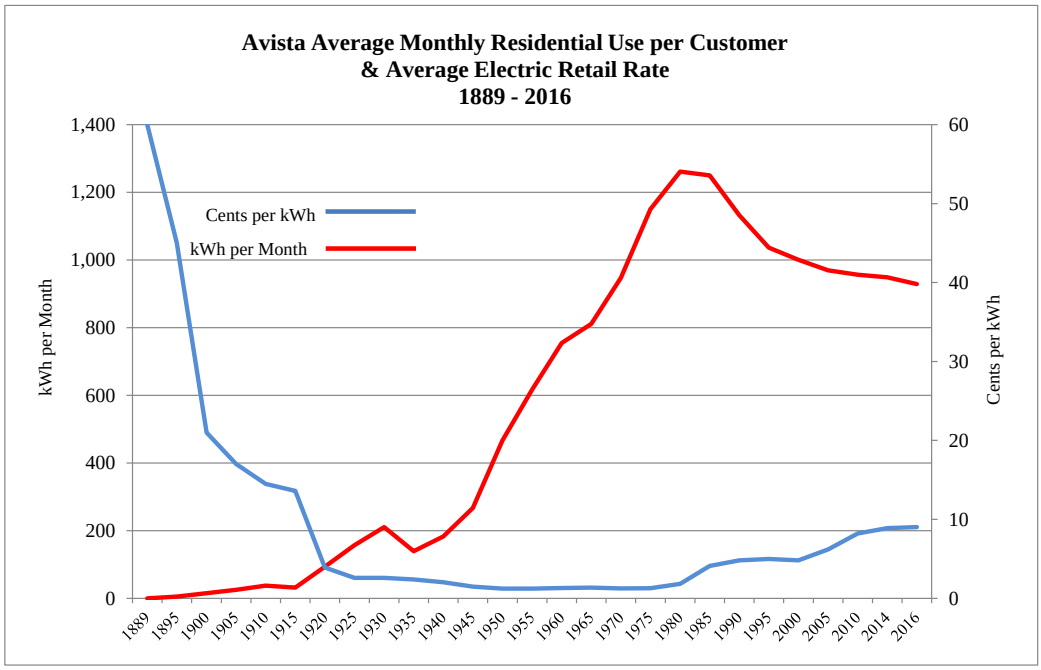
Among the observations from the line graph, two are very significant and quite relevant to retail rate adjustments during the 127 year period, as well as today. First, from the 1950s through roughly 1980, there was steady growth in the number of customers (blue line), which was also combined with rapid growth in use-per-customer (red line). Second, beginning around 1980, the use-per-customer

began to decline dramatically. The decline in use-per-customer was due in part to Avista's energy efficiency programs that began in 1978, as well as the regional and national efforts generally to encourage consumers to use energy more efficiently. The change from rapid growth in use-per-customer to a significant reduction in use-per-customer beginning around 1980 had a direct impact on Avista's retail rates.

Q. What were Avista's retail rates from 1889 to 2016, and how were they affected by the growth in net plant investment, number of customers and use-per-customer?

A. The line graph in Illustration No. 5 below shows Avista's retail rate per kWh for its residential customers (blue line) for the period 1889 to 2016. The red line on the graph is the same use-per-customer line from the graph in Illustration No. 4 above. The graph shows that Avista's retail rates were flat to declining for approximately 50-60 years, up until about 1980 when they began to rise.

Illustration No. 5



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

continued to be flat or declining, due primarily to the strong growth in kWh sales.

In contrast, retail prices began to increase in 1980 due, at least in part, to the significant decline in use per customer, which resulted in lower annual sales growth. Post-1980 – because annual costs were growing at a faster pace than revenues, it was necessary to increase retail rates each year so that total revenues were equal to total costs. These are the circumstances currently facing not just Avista, but many investor-owned and consumer-owned utilities across the country, and it is the primary reason Avista has requested electric and natural gas revenue increases through this filing.

Q. As Avista removes old equipment and replaces it with new, does the depreciation component currently included in retail rates cover the cost to replace facilities?

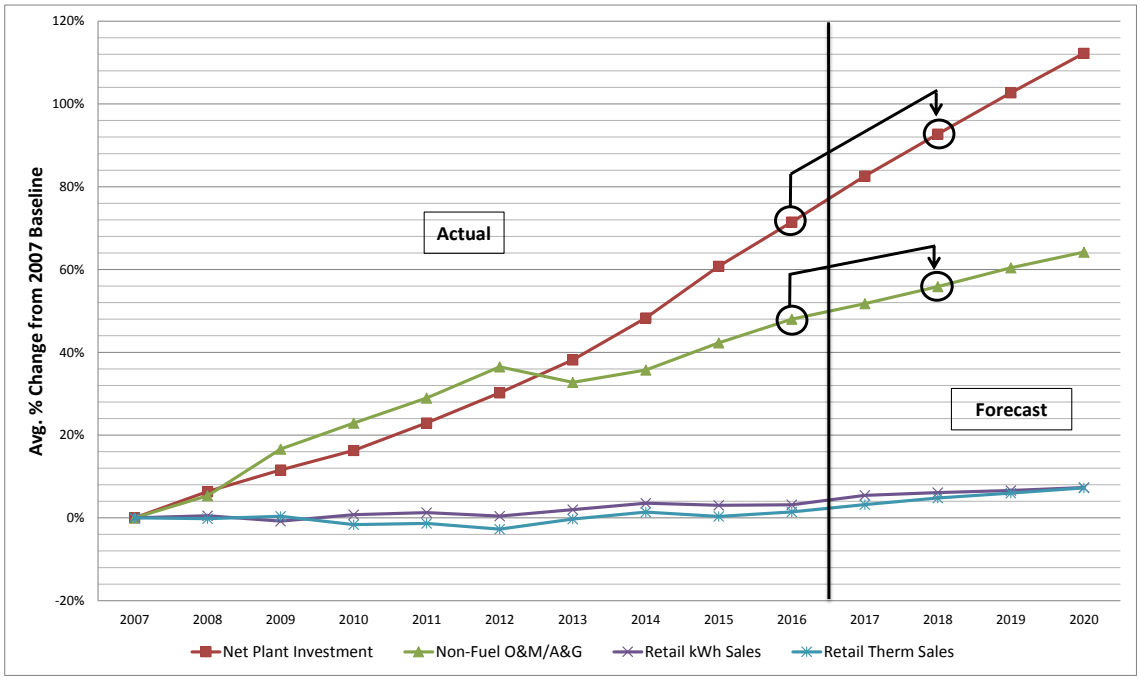
A. No. The depreciation component currently included in retail rates generally covers a very small amount of the new facilities and equipment placed into service, especially for the long-lived assets. Avista's retail rates are cost-based, which means the prices customers are paying today for transformers, distribution poles, substations, and transmission lines, among other facilities, are based on the cost to install those facilities, in some cases, 40, 50, and

even 60 years ago. The costs of the same equipment and facilities today are many times more expensive. The depreciation component built into retail rates today is based on the much lower cost to install those facilities many years ago. Therefore, the depreciation component in retail rates covers only a small fraction of the annual costs associated with the new investment in facilities.

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

A. The graph in Illustration No. 6 below shows actual information for the period 2007 to 2016, and forecast information for 2017 to 2020. The information in the graph is for all of Avista Utilities' combined electric and natural gas operations in Idaho, Washington, and Oregon.

Illustration No. 6 - Avista Utilities' System Electric and Natural Gas Operations



The red line on the graph shows the actual growth in net utility plant investment (which is an indicator of rate base growth) from 2007 through 2016, and the expected growth for 2017 through 2020. The purple and blue lines on the graph show the changes in retail kilowatt-hour (kWh) sales and retail therm sales, respectively, for the same time period.

The graph shows that net plant investment and non-fuel operations and maintenance (O&M) expenses and administrative and general (A&G) expenses are growing faster than sales. The growth in kWh sales and therm sales reflect the annual growth in revenue to the Company, absent any rate increases.

With costs growing faster than sales revenue, there is a gap each year between costs, and the revenues to cover those costs, absent a rate increase. A rate increase is necessary each year to cover that gap.

One of the reasons for this "gap" is Avista's obligation to serve. Unlike other businesses, Avista has a legal obligation to provide safe and reliable service to electric customers that request service from the Company. When a new customer requests service, we must hook them up even if the cost to serve that customer results in increased costs to all other customers. Likewise, if the facilities serving an existing customer are deteriorating and need repair, we must repair or replace them so that the customer continues to receive safe, reliable service.

Without the obligation to serve, we could consider refusing to hook up new customers in order to avoid increased costs to our existing customers, or no longer serve some of the more remote, more costly areas to provide service, which would allow us to avoid further investment, and reduce labor and other operating costs.

Unregulated businesses have the opportunity to shut down aging facilities or under-producing retail outlets, eliminate product lines, and cut back on investment and maintenance. As an example, on January 14, 2016, Walmart

announced plans to close 269 underperforming retail stores of which 154 stores are in the United States. In their news release[8] they explained that:

> Closing stores is never an easy decision, but it is necessary to keep the company strong and positioned for the future, Doug McMillon, Walmart's president and chief executive, said in a statement.

In contrast, Avista has an obligation to continue to serve all existing customers with safe, reliable service, as well as hook up new customers upon their request.

Q. Are there other factors that contribute significantly to this "gap" between the growth in costs and the growth in sales revenue?

A. Yes. Electric and natural gas utilities, like Avista, are very unique businesses in that we offer dollar incentives to customers to not use our product (through our energy efficiency programs). Furthermore, our communication with our customers related to energy usage is to use less of our product – not more.

Avista continues to run its successful energy efficiency programs, which help existing and new customers, use less energy in their homes and businesses. Avista's energy efficiency programs include not only our direct

[8]https://www.nytimes.com/2016/01/16/business/walmart-to-close-269-stores.html?_r=0

incentive programs that help fund energy efficiency measures for customers, and engineering assistance to help design and implement energy efficient measures, but also extensive education and information to encourage customers to take steps to use energy more efficiently.

In the long-term, this investment in energy efficiency is absolutely the right thing to do and will allow us to avoid building or acquiring new, higher-cost generating resources in the future. However, it also contributes to lower sales revenue growth, and contributes to the "gap" in revenues to cover the costs associated with maintaining a safe, reliable utility system to serve our customers.

IV. NEED FOR CONTINUING CAPITAL INVESTMENT

Q. Please explain how Avista identifies and prioritizes capital investments, and why the investments are made in the time frame they are completed.

A. I will summarize why Avista is making capital investments in the time frame they are being completed, and the process we use for identifying and prioritizing those investments. Company witnesses Mr. Kinney, Ms. Rosentrater, and Mr. Kensok provide details of our capital projects in progress, as well as planned projects, and address why they need to be done in the planned time frame, and what the risks

and consequences are of not completing the projects in that time frame.

Our process to identify and prioritize capital investment is designed to meet the overall need for investment, in the appropriate time frame, in a manner that best meets the future needs and expectations of our customers, in both the short-term and long-term. The Company's practice has been to constrain the level of capital investment each year, such that not all of the prioritized projects and programs[9] will be funded in a given year at the level requested. Avista believes that holding capital spending below the level requested accomplishes several important objectives, including:

- ***Promotes Innovation*** - Encourages ways to satisfy the identified investment needs in a manner that may identify potential cost savings, defer implementation, or other creative options or solutions.
- ***Balances Cost and Risk*** – Captures the customer benefits of deferring needed investments by prudently managing the cost consequences and risks associated with such deferrals.
- ***Efficiently Allocates Capital*** – Ensures that the highest-priority needs are adequately funded in the most efficient and effective way.
- ***Reduces Variability*** - Moderates the magnitude of year-to-year variability to avoid excessive rate impacts, and more efficiently optimizes the number and cost of personnel necessary to carry out the capital projects.

[9] "Project" refers to an individual investment for a specific period of time. "Programs" represent investments that address systemic needs that are ongoing with no recognized endpoint, such as the wood pole management program. For ease of reference, the term "capital project" will be used to represent both capital projects and capital programs.

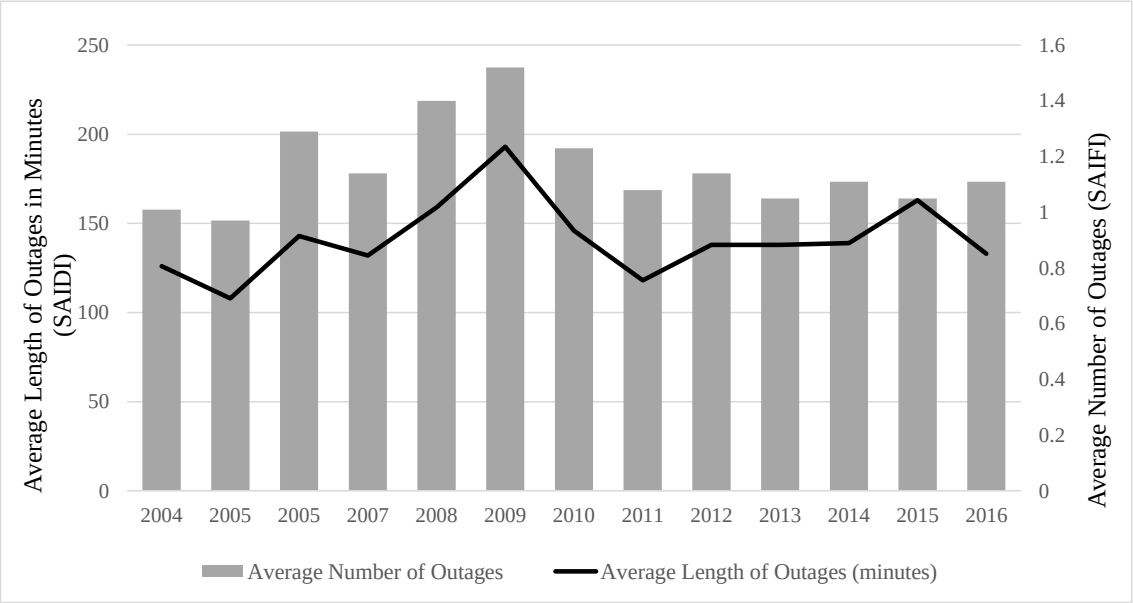
Avista currently has chosen to stabilize the level of annual capital spending at what can be described as a constrained level of $405 million, in an effort to accomplish the objectives described above.

Whether the investment touches the customer directly, such as our customer service or metering systems, or indirectly, such as improving the capability and efficiency of our employees and internal work processes, each dollar we invest ultimately supports three primary objectives:

1) to deliver **safe and reliable service** to customers;
2) achieve **high customer satisfaction**; and
3) at a **reasonable cost to customers**.

1. Safe and Reliable Service – "Reliability" encompasses every aspect of our service and the many infrastructure systems we rely on, along with a priority on the safety of our employees, our customers, and the communities we serve. Each year we track and report on how well our system has performed as measured by the number of service interruptions or electric outages (SAIFI), and the duration or length of time in minutes of interruptions (SAIDI) that are experienced by our customers. The Company's annual reliability performance for the years 2004 through 2016 is shown in Illustration No. 7 below.

Illustration No. 7 – Avista Electric System Reliability (2004 – 2016)



As shown in Illustration No. 7 above, the Company's annual level of reliability will vary from year-to-year. This fluctuation in outages is common in utility electric systems, and for Avista, is caused by events such as wind and ice storms, fires, heavy snowfall, animals, vehicles striking our poles and equipment, etc.[10] Our capital investment plan is designed to achieve a reasonable balance of reliable service, which contributes to a high level of customer satisfaction, while at the same time keeping costs reasonable for customers. The reliability of our system is relatively stable, and we believe is at a level which

[10] The measuring protocol for SAIDI and SAIFI excludes outages caused by very large outage events such as the windstorm of November 2015. These major events are referred to a "major event days."

effectively achieves this balance of reliability, customer satisfaction, and at a reasonable cost.

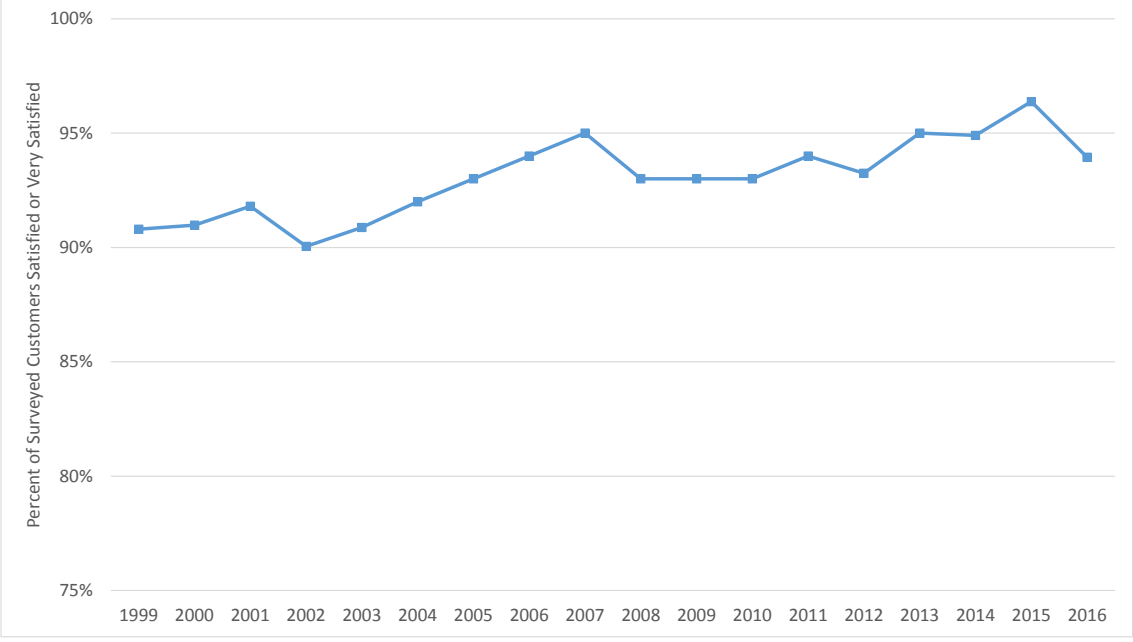
This assessment is evidenced in part, by our high level of customer satisfaction from our customer satisfaction surveys, and by the low number of complaints we receive (and the state commissions receive) each year that are related to reliability issues.

2. High Customer Satisfaction – Each year the Company surveys customers who have had recent contact with our customer service and field service employees to gauge the level of their satisfaction with the quality of our service and their experience doing business with the Company. This survey, known as "Voice of the Customer," tracks many key service metrics such as wait time on the phone and the knowledge, experience and helpfulness of employees. In addition to equipping our employees to provide excellent service, we have also made major re-investments in technology systems, such as our new customer care and billing system, which enables us to deliver service more tailored to the preferences of our individual customers. The Company's performance in meeting our objective to provide high customer satisfaction is measured, in part, by the results of the Voice of the Customer survey.

As shown in Illustration No. 8 below, our most recent 2016 year-end results show an overall customer satisfaction rating of 94% for both electric and natural gas service across all our jurisdictions. This 94% rating reflects customers that are either "satisfied" or "very satisfied" with the service they receive from Avista.

We believe our stable-to-improving performance in achieving high levels of customer satisfaction reflects a reasonable level of investment in infrastructure and technology to deliver quality customer care.

Illustration No. 8 – Avista Total Customer Satisfaction Ratings



3. Reasonable Cost to Customers – The third primary objective related to our capital investments is to be mindful

of the overall cost impacts to our customers over time. In recent years Avista has chosen to not fund all of the capital investment projects requested by the various departments in the Company, driven in large part by the Company's desire to mitigate the retail rate impacts to customers. The decision to delay funding on certain projects is made only in cases where the Company believes the amount of risk associated with the delay is reasonable and prudent. As new, unexpected, high-priority capital projects arise, the capital projects for the year must be reprioritized to limit the total spend for the year to fall within the constrained overall capital spending level. In other instances, some scheduled capital projects will encounter unexpected delays due to such things as permitting issues, delays in receipt of materials and equipment, etc. A delay in one project may allow another project to be accelerated in time as part of managing the availability of our workforce and to continue to make progress on projects next in the "queue" that need to be done. The continuing progress on projects in the queue is very important to avoid the creation of a large "bow-wave" of investment that needs to be done in a relatively short period of time. This reprioritization occurs within

the Capital Planning Group (CPG),[11] which is charged with ensuring that the total capital spend for the year stays within the constrained spending limit established by the Company.

The dollar amount of capital projects requested by departments in recent years, and the amounts approved by the Company is provided in Table No. 1 below. The dollar amounts for projects that were delayed (not approved) are also shown:

Table No. 1 – Capital Project Requests/Approvals

Year	Requested	Approved	Delayed
2012	$268,974,720	$250,000,000	$18,974,720
2013	$319,552,833	$250,000,000	$69,552,833
2014	$386,256,808	$331,000,000	$55,256,808
2015	$403,864,170	$355,000,000	$48,864,170
2016	$450,595,906	$375,000,000	$75,595,906
2017	$461,111,714	$405,000,000	$56,111,714

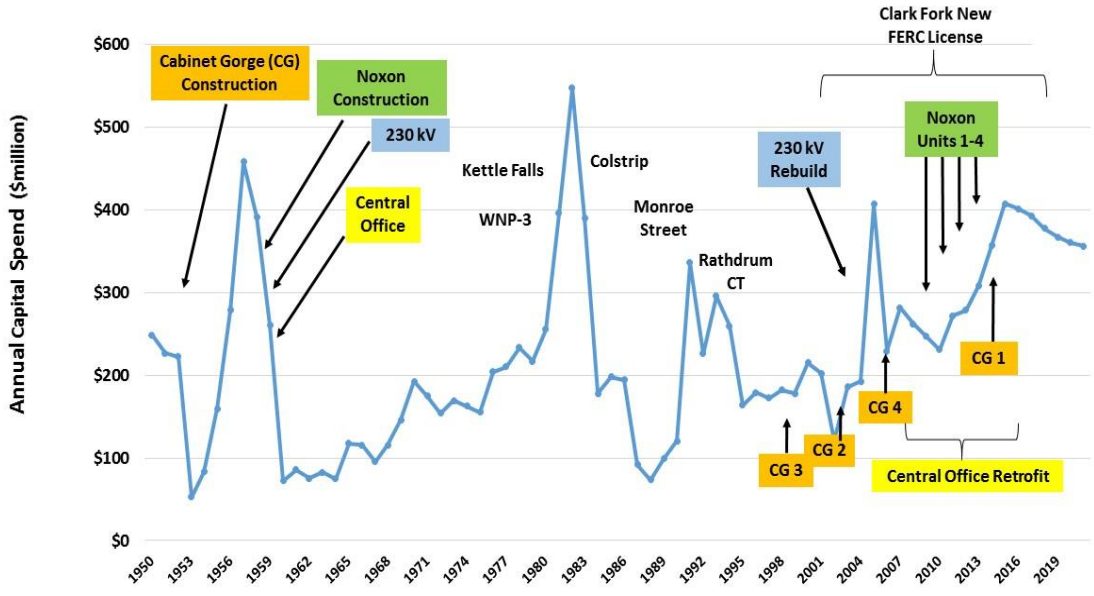
The infrastructure investment we face today arises, in part, from the re-investment that is necessary to rebuild or replace facilities that were installed many years ago. The line graph in Illustration No. 9 on the next page shows Avista's capital spending on an annual basis from 1950 to

[11] The CPG is a group of Avista employee directors that represent all capital intensive areas of the Company. The CPG meets to review the submitted Business Cases and prioritize funding to limit the capital spend to the level set by senior management. The CPG meets monthly to review the status of the capital projects, and approves or declines new Business Cases as well as monitors the overall capital budget.

2016, along with investment plans for 2017 – 2021. The dollars have been adjusted for inflation to reflect equivalent dollars in 2016 for comparison purposes, e.g., the dollars spent in 1983 have been adjusted (increased) to reflect what it would have cost to complete the same projects in 2016.

The graph shows our Cabinet Gorge and Noxon Rapids major hydroelectric projects, originally built in the 1950s, being refurbished 40 to 50 years later; as well as our 230kV transmission system receiving major upgrades 40 to 50 years later. Our Central Office building was completed in 1958, and we recently remodeled and replaced the original HVAC system 50 years later, in order to continue to use these same facilities for the foreseeable future.

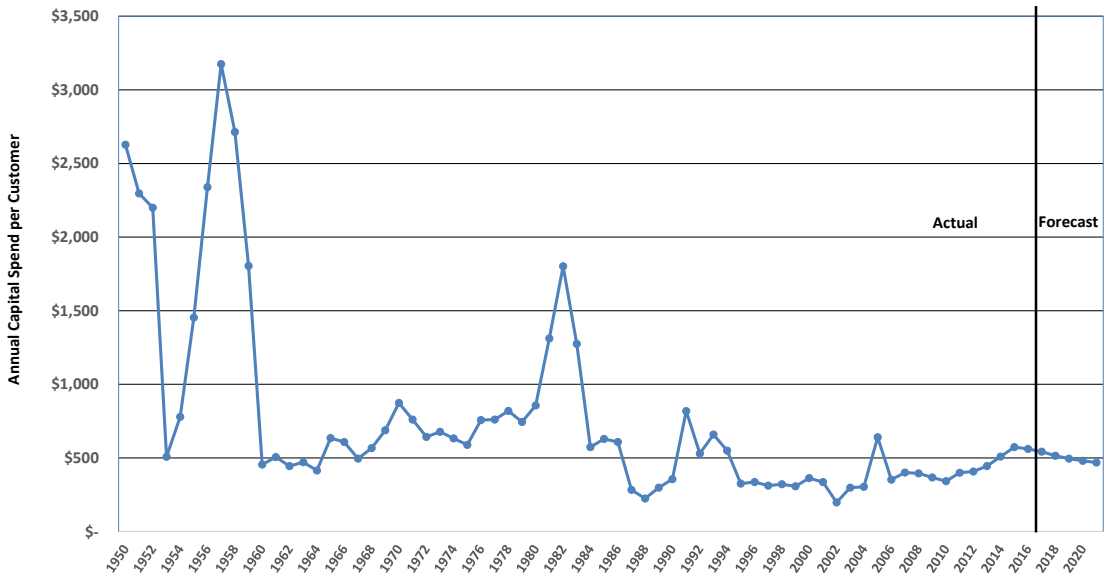
Illustration No. 9 – Avista Annual Capital Spend 1950-2021 (2016 Dollars)



It is informative to view the line graph in Illustration No. 9 above on a per-customer basis. The graph in Illustration No. 10 below represents Avista's annual capital spending, in 2016 dollars (from Illustration No. 9 above) divided by the number of customers for each respective year. Avista's annual capital spending has grown in recent years, but so has the number of customers being served by the Company. The graph below illustrates that our current level of capital spending on a per-customer basis is in line with the per-customer capital spending for approximately the last 30-years. That is, if a trend-line for the last 30-years were to be calculated and over-laid on the graph, it would

show that capital spending on a per-customer basis has been relatively flat for the last 30-years. In addition, for the period 2017-2021, the graph shows the planned capital spending on a per-customer basis declining to the future.

Illustration No. 10 – Avista Annual Capital Spend per Customer – 1950-2021 (2016 Dollars)

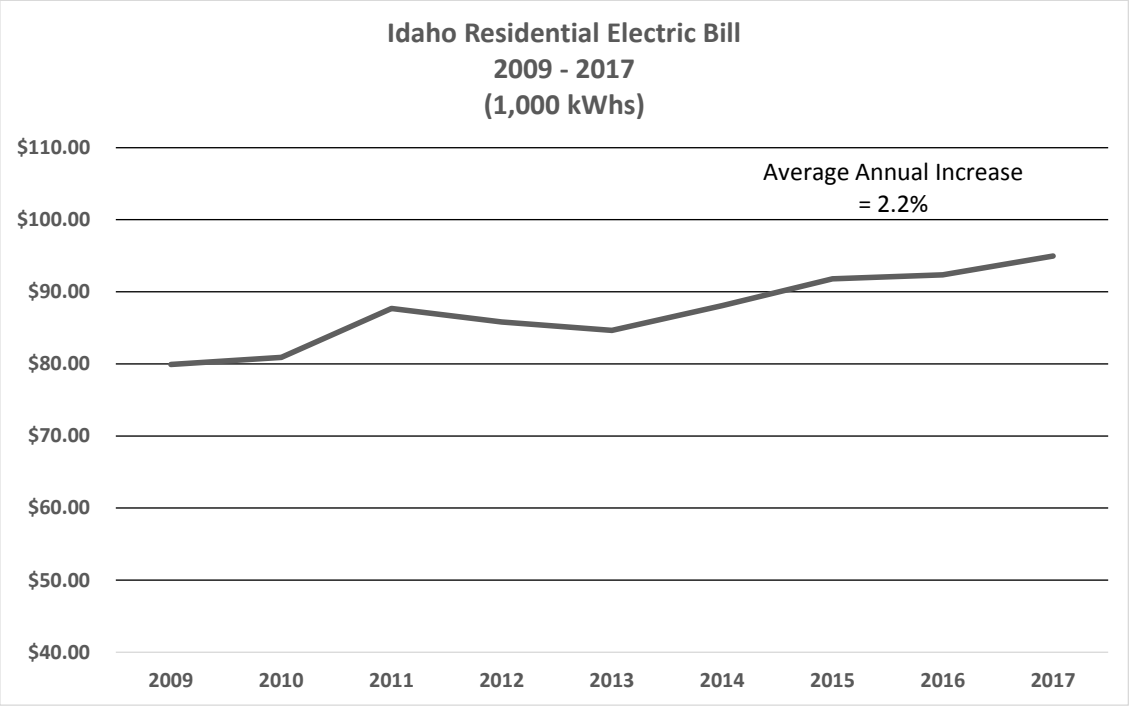


Q. How have customers' electric and natural gas bills changed in recent years as Avista has continued to make necessary investments in its utility systems?

A. The line graph in Illustration No. 11 below shows the change in the monthly bill, from 2009 to 2017, for an Idaho residential electric customer using an average of 1,000 kilowatt-hours per month. The graph shows that the average increase over time has been 2.2% per year. Although this average increase is a little higher than the level of

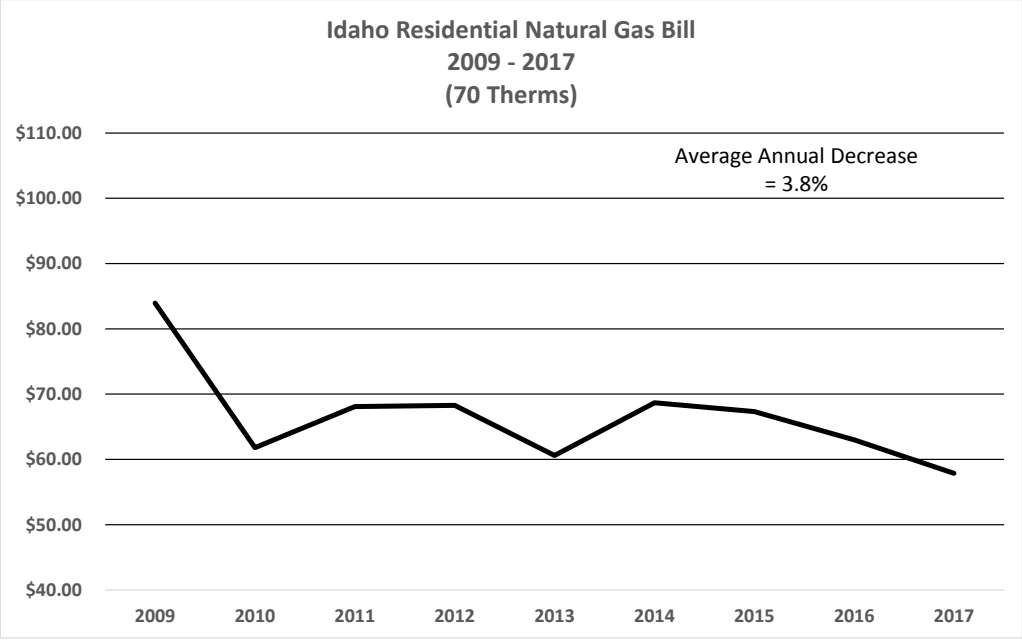
inflation during the same period, the increase to customers during this period is less than it otherwise would have been due to the Company choosing to fund less than the dollar amounts of capital projects requested by the various departments of the Company.

Illustration No. 11 – Idaho Residential Electric Bill (2009-2017)



With regard to natural gas, the line graph in Illustration No. 12 below shows the change in the monthly bill, from 2009 to 2017, for an Idaho residential natural gas customer using an average of 70 therms per month. The graph shows that customer bills have dropped from approximately $84 per month in 2009, to approximately $58 per month in 2017. The graph shows that bills have decreased significantly for this time period, even as Avista has continued to make the necessary investments to maintain its delivery system and invest in new technology. The decrease in customers' natural gas bills is driven primarily by the decline in natural gas commodity costs, as well as a decrease in interest costs during the period.

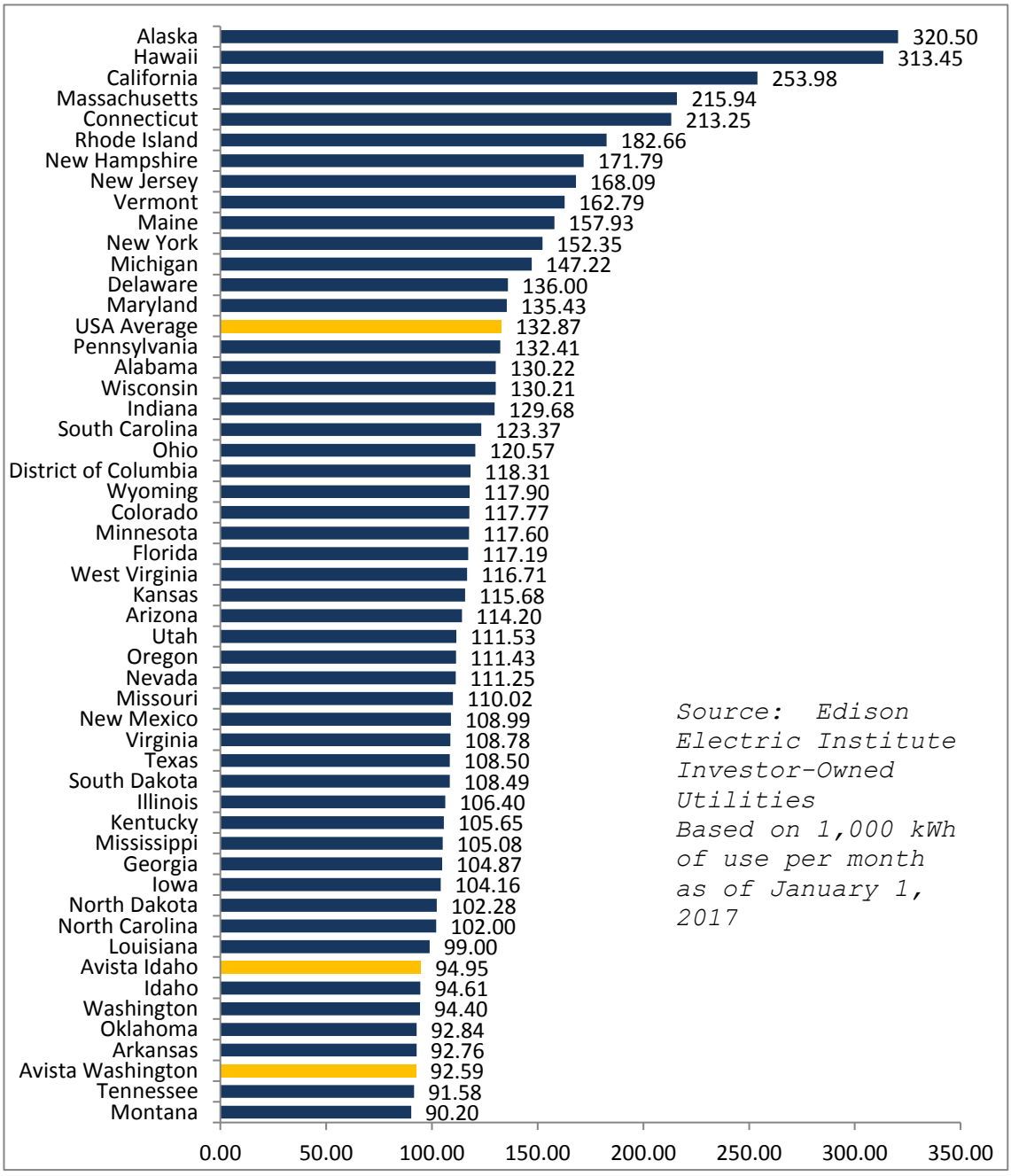
Illustration No. 12 – Idaho Residential Natural Gas Bill (2009-2017)



With regard to Avista's retail rates compared to other investor-owned utilities, Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 13 below provides a comparison of an Avista residential customer's monthly bill in Idaho and Washington with utility bills in other states. The chart shows that Avista's residential customers' rates are among the lowest in the Country for investor-owned utilities.[12]

[12] The primary reason for the difference in electric bills for Avista's Idaho and Washington residential customers is the difference in rate design for the two states. Residential Schedule 1 in Idaho is comprised of an inclining, two-block rate structure, while the rate design for Residential Schedule 1 in Washington is comprised on an inclining, three-block rate structure.

Illustration No. 13 – Average Residential Monthly Electric Bill



Our relatively low retail rates are due in large part to a history of our Company aggressively pursuing the acquisition and preservation of a diversified portfolio of

low cost resources for the benefit of our customers. They are also a result of Avista's efforts to control its capital investment costs and utility operating costs, in order to keep retail rates as low as reasonably possible.

Q. How does Avista identify and prioritize its capital investments?

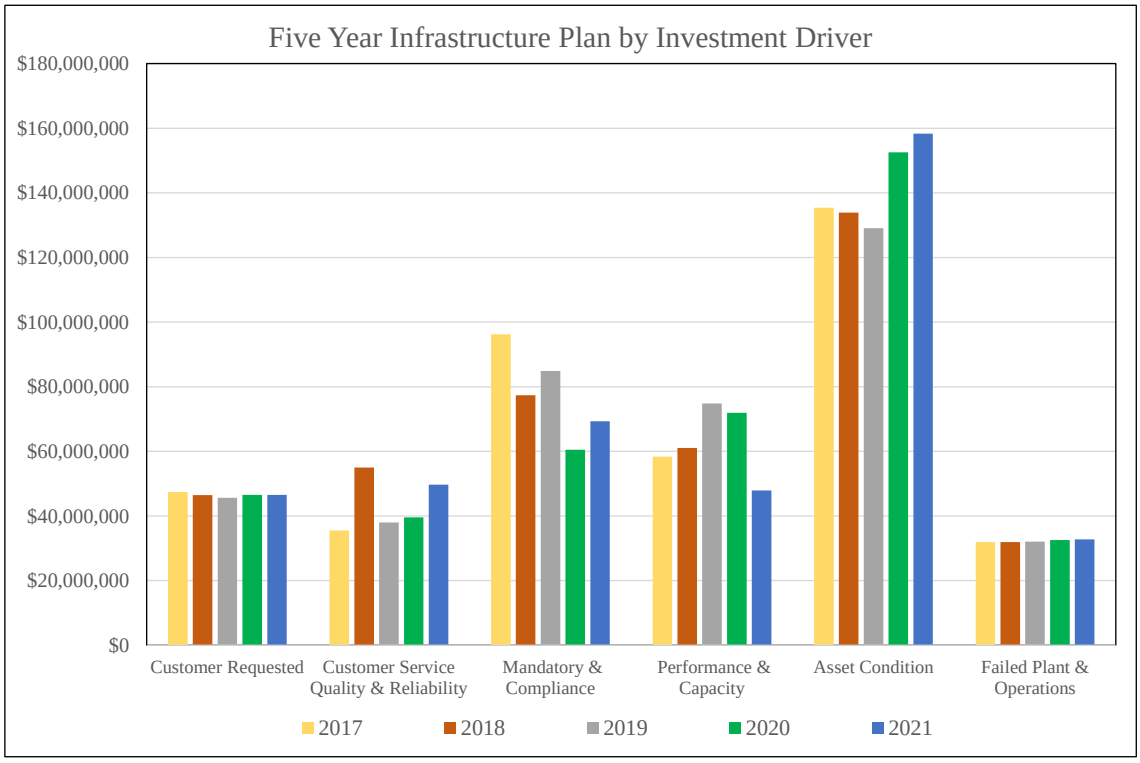
A. Avista's capital investments originate from the following six major "investment drivers":

1. Respond to customer requests for new service or service enhancements;
2. Meet our customers' expectations for quality and reliability of service;
3. Meet regulatory and other mandatory obligations;
4. Address system performance and capacity issues;
5. Replace infrastructure at the end of its useful life based on asset condition; and
6. Replace equipment that is damaged or fails, and support field operations.

An explanation of each of these drivers, as well as examples of specific capital projects under these drivers, is provided in the Infrastructure Investment Plan, attached as Schedule 2. In addition, Company witnesses Mr. Kinney, Ms. Rosentrater, and Mr. Kensok provide details on the specific capital projects planned and in progress, why the projects need to be done in the time frame they will be completed, as well as what the risks and consequences are of not completing the projects.

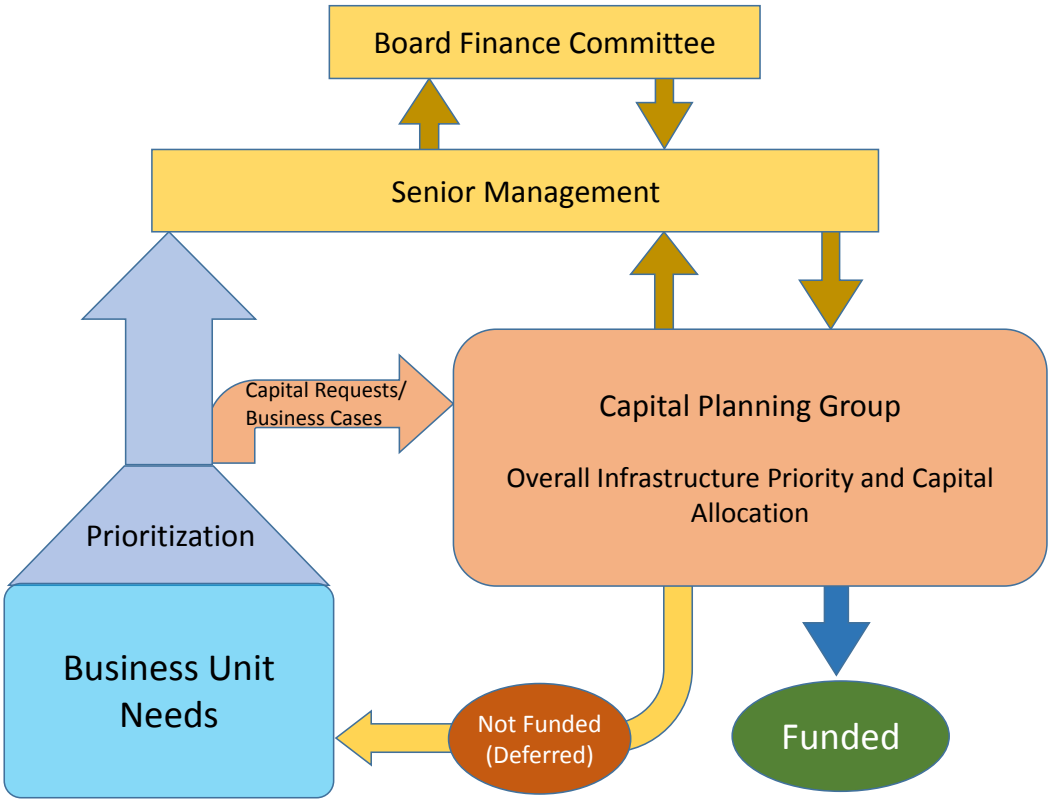
A breakdown of planned investments for each driver for 2017-2021 is shown in Illustration No. 14 below.

Illustration No. 14 – Planned Investments by Capital Investment Driver (2017-2021)



The process under which Avista's planned capital expenditures are identified and prioritized is illustrated in Illustration No. 15 below.

Illustration No. 15 – Identification and Prioritization Process



The capital projects are identified in the lower-left portion of the diagram labeled "Business Unit Needs," and are then prioritized within each department. This prioritization occurs with the knowledge of the continuing constraint on the capital spend level for the Company, while at the same time the leadership of each department informs Senior Management of both the near-term and longer-term

needs that are being delayed.[13] For the prioritized projects, Business Cases[14] are developed for each of the Capital Requests that go to the Capital Planning Group (CPG) (as illustrated in the diagram). The CPG prioritizes the Capital Requests across departments, such that the overall planned capital spend stays within the constrained spend level established by Senior Management. The highest priority Capital Requests are Funded, and a portion of the Capital Requests are Not Funded (Deferred), as shown on the diagram. The Board Finance Committee reviews and approves the first year of the five-year capital investment plan. Under this Identification and Prioritization Process, the capital projects are screened and prioritized twice; once within the departments, and then a second time across

[13] Examples of deferred and underfunded projects include, 1) the Company's Hatwai-Lolo #2 230kV transmission line re-conductor and rebuild, and 2) rebuilding electric distribution feeders at the end of their useful life. The Hatwai-Lolo project, which is required to comply with federal transmission planning standards, has been deferred in order to balance the overall demand for investment across the Company. Avista's engineers are evaluating other possible short-term solutions for complying with the planning standards until this project can be completed. The Company's grid modernization program for rebuilding distribution feeders is optimized on a 60-year cycle, however, it has not been funded at a level to achieve that cycle time, in order to accommodate other priority investment needs in Avista's electric distribution system. The planned funding for 2017 – 2021 supports an 84 year cycle.

[14] A Business Case is a summary document that defines the business problem addressed by a project or program, along with a proposal and recommended solution. The Business Case explains why the work is necessary, and the risks associated with not making the investment, as well as the alternatives considered, the selected alternative and the timeline associated with the project.

departments within the CPG. This Identification and Prioritization Process is explained in more detail in the Infrastructure Investment Plan in Exhibit No.1, Schedule 2.

V. O&M AND A&G COST MANAGEMENT

Q. Please briefly explain some of the ways the Company is managing its operating expenses for the benefit of customers.

A. A few examples of how the Company manages its operating expenses for the benefit of customers involve labor, benefits, and IS/IT expenses. As explained in more detail by Company witness Ms. Andrews "Exhibit No. 12," the Company carefully evaluates each component of overall compensation in order to provide total compensation which will be cost-effective for the Company, as well as attract and retain employees. In an effort to appropriately manage our staffing requirements, we have a hiring restriction which requires approval by myself, the President of the Utility, the CFO, and the Sr. VP for Human Resources for all replacement or new hire positions

In order to manage medical costs, several measures have been implemented to manage costs. The Company made changes to the medical plan for employees hired on or after January 1, 2014 such that upon retirement the Company no longer

provides a contribution towards his/her medical premiums. The Company will provide access to the retiree medical plan, but the retiree will pay the full cost of premiums upon retirement. In addition, beginning in January 1, 2020 the method for calculating health insurance premiums will shift more expenses to our retirees, lowering Company medical expense.

In an effort to keep medical office visits down, we offer access to phone or web-based 24/7 telemedicine and we have an on-site clinic. Beginning in 2017, Avista offered a self-insured High Deductible Health Plan ("HDHP") in addition to the current self-insured plan. The HDHP requires plan participants to pay all costs of medical care up to defined deductible limits. Over time we expect this plan to result in lower overall medical costs to the Company.

The Company has also made changes to its retirement plan. Effective January 1, 2014, the defined benefit pension plan was closed to all non-union employees hired or rehired on or after January 1, 2014, and was replaced with a defined contribution 401(k) plan. Under the defined contribution plan the Company will provide a non-elective contribution as a percentage of each employee's pay based on his or her age. In addition to the above changes, the Company also revised our lump sum calculation for non-union retirees under the

defined benefit pension plan to provide non-union participants who retire on or after January 1, 2014 with a lump sum amount equivalent to the present value of the annuity based upon applicable discount rates. This reduces the future costs and risks to the Company of funding and managing the annual pension benefit (annuity) for retirees.

As discussed by Company witness Mr. Kensok, to mitigate operating expense increases in IS/IT, Avista works to automate our systems through technology where reasonable and prudent to do so, and we work to negotiate discounted multi-year contracts with vendors that result in discounted maintenance and support rates. As an example, in 2016 we introduced a cloud-based business performance monitoring tool that automates a portion of the labor performed by our IS teams. This subscription-based license model resulted in a significant reduction of internal labor costs over a three year period, allowing us to redeploy our IS operations team labor resources and providing immediate cost savings.

A second example where the Company has successfully managed IS/IT O&M expenses, is related to a 2017 telecommunications contract, which had two years remaining on its term. We renegotiated early in the term to commit to a longer, five year term which resulted in approximately $215,000 in annual savings over the life of the agreement.

These two examples of cost reductions required no changes to service or quality, no equipment deployments, and were implemented by changing the delivery model in one instance, and committing to a longer term in the other. Both are continuous improvement practices to manage expenses over time.

VI. UTILITY INTO THE FUTURE

Q. What steps is Avista taking to meet the needs and expectations of its customers, both now and into the future?

A. Avista continues to partner with its customers and other stakeholders to change and adapt its operations, and its utility infrastructure, to meet the needs and expectations of not only our customers, but all of our stakeholders.

We are continuing to build on the recent advancements in products, services and changes in our operations. Many of the recent changes were developed and implemented in partnership with the Commission Staff, low income agencies, and representatives of other customer groups.

Some examples of the recent advancements and improvements for our customers are summarized below and others are discussed in more detail in Company witness Mr. Christie's direct testimony. These are just the beginning

of what is to come as we partner with our customers and our other stakeholders in developing an energy future where we use energy efficiently and minimize the impact on our environment.

HVAC Filter Replacement Program: This program is designed to educate customers on the value of replacing filters, and offer choices to customers to make it more convenient for them to remember to replace their filters. In addition to extending the life of a furnace, replacing the furnace filter helps to maintain the expected operating performance of the furnace. This program was launched in August of 2015, and it is available to all Avista customers in Idaho, Oregon, and Washington. Through the filter program, customers have three convenience options: 1) Receiving an e-mail reminder from Avista on a periodic basis to replace their filter, 2) receiving an e-mail reminder with promotional codes from manufacturers and vendors for discounts on filter purchases, and 3) the opportunity to order filters directly from a vendor, for delivery to their home or business on a schedule chosen by the customer. To date, 2,954 customers have signed up for one of the three options in this program.[15]

Battery Electricity Storage at Schweitzer Engineering Laboratories: Avista's Energy Storage project builds upon the technology upgrades in Pullman, Washington, and is part of the Company's investment into research that will improve power system reliability by addressing one of the biggest challenges facing the energy industry – how to integrate power generated from intermittent renewable sources such as wind and solar into the electrical grid. The 1 MW, 3.2 MWh large-scale battery storage system uses batteries manufactured in Washington in a real-world setting at Schweitzer Engineering Laboratories in Pullman. The system went online in 2015, and is the result of a partnership between Avista and the State of Washington, with both parties contributing funding for the project.

[15] To date, 1,413 customers have requested an email reminder without coupons, 1,390 customers requested email reminders with coupons and 151 customer have signed up to receive filters direct from the vendor.

Batteries such as this one provide the capability to store power generated by renewable sources when it's abundant, for example when the wind is blowing, and distribute energy when it's needed, regardless of weather patterns.

Rooftop Solar Estimator: In mid-2015 Avista launched a rooftop solar estimator on www.myavista.com. The solar estimator tool provides a 20 year financial analysis for customers that allows them to compare their options for rooftop solar and make a more fully informed decision if rooftop solar makes sense for them or not. In order to use the tool a customer enters their address and finds their location on a map, then enters their building type (residential or commercial), and average energy usage. The tool then calculates a personalized solar estimate for the customer, which includes a recommended solar system sized for their roof, their estimated annual savings or cost, and a financial analysis of the costs and benefits of installing rooftop solar. Since being launched approximately 3,400 customers have used the rooftop solar estimator.

VII. COMMUNICATIONS WITH CUSTOMERS

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

A. The Company proactively communicates with its customers in a number of ways: customer forums, one-on-one customer interactions through field personnel and account representatives, bill inserts, social media, media contacts, group presentations, and through our employees' involvement in community, business and civic organizations, to name a few. We believe our communications are helping our customers and the communities we serve to better understand the issues

faced by the Company, such as increased infrastructure investment, environmental mitigation and security, all of which have led to higher costs for our customers.

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

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

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

A. Yes.