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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 KAREN K. SCHUH

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

A. My name is Karen K. Schuh. I am employed by Avista Corporation as a Senior Regulatory Analyst in the State and Federal Regulation Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Please briefly describe your educational background and professional experience.

A. I graduated from Eastern Washington University in 1999 with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. After spending six years in the public accounting sector, I joined Avista in January of 2006. Since 2006, I have worked in various positions within the Company in the Finance Department (Plant Accounting and Resource Accounting) and joined the State and Federal Regulation Department as a Regulatory Analyst in 2008. Currently, as a Senior Regulatory Analyst, I am responsible for, among other things, preparing the capital adjustments in general rate cases for the Idaho and Washington jurisdictions.

Q. What is the scope of your testimony?

A. My testimony and exhibits in this proceeding will explain how the Company's capital investments in utility plant from December 31, 2016 through December 31, 2019 are incorporated into the proposed revenue requirements in this case. Company witness Ms. Andrews has included adjustments prepared by me to reflect these investments in her electric and natural gas revenue requirement for the Company's Two-Year Rate Plan beginning January 1, 2018 through December 31, 2019.

A table of contents for my testimony is as follows:

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Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. 11, Schedule 1 which was prepared by me. This exhibit provides a summary of the capital investments included in each of the capital witnesses testimony by year.[1]

[1] Company witnesses Mr. Kinney, Ms. Rosentrater and Mr. Kensok sponsor testimony explaining the Company's capital investments.

II. WITNESSES TESTIFYING TO CAPITAL ADDITIONS

Q. Would you please provide a brief summary of the witnesses who provide testimony related to capital additions in this proceeding?

A. Yes. The following witnesses are presenting direct testimony supporting capital additions in this case:

Mr. Scott Kinney, Director of Power Supply, will provide detailed explanations of the Company's electric generation-related capital additions as well as the capital requirements for the implementation of Protection, Mitigation and Enhancement programs ("PM&E"), related to hydroelectric licenses.

Ms. Heather Rosentrater, Vice President of Energy Delivery, will explain capital additions related to electric transmission and distribution, natural gas delivery, facilities, fleet, as well as general plant.

Mr. James Kensok, Vice President and Chief Information and Security Officer, will provide an overview of Avista's Information Service/Information Technology (IS/IT) programs and projects. This includes summaries of the Company's capital investments for a range of IS/IT systems used by the Company.

Q. How have capital witnesses presented the transfers-to-plant in their testimony?

A. Mr. Kinney, Ms. Rosentrater and Mr. Kensok present capital transfers-to-plant on a calendar year basis from January 1, 2017 through December 31, 2019 on a total system basis (i.e, the totals include all planned transfers to plant for electric and natural gas operations for the Idaho, Washington and Oregon jurisdictions). A detailed listing of project names and calendar year totals can be found in Exhibit No. 11, Schedule 1.

Table No. 1 below reflects the calendar year transfers to plant totals that are represented in each witness' testimony:

TABLE NO. 1

Capital Projects (System) in $(000's)

Functional Group Name	Witness	2017	2018	2019
Generation/ Production	Mr. Kinney	66,135	59,718	87,196
Transmission	Ms. Rosentrater	79,303	60,416	79,814
Electric Distribution	Ms. Rosentrater	77,575	70,528	70,871
Natural Gas Distribution	Ms. Rosentrater	76,811	68,024	74,793
General Plant	Ms. Rosentrater	57,330	44,880	6,060
Other Plant	Ms. Rosentrater	9,616	9,412	9,333
Enterprise Technology	Mr. Kensok	63,461	49,534	33,422
Total		$ 430,230	$ 362,513	$ 361,489

Q. Company Witness Mr. Thies makes reference to planned capital expenditures of $405 million per year. Why do the annual totals in Table No. 1 differ from the $405 million planned expenditures?

A. There are two primary reasons. First, totals in Table No. 1 above represent <u>transfers-to-plant</u>, whereas, Mr. Thies' $405 million represents capital <u>expenditures</u>. There is a timing difference between when the dollars are spent, and when the various capital projects are completed and transferred to plant-in-service.

Second, Mr. Thies' $405 million includes the investment associated with Advanced Metering Infrastructure ("AMI"), and Table No. 1 excludes the investment associated with AMI, except for the inclusion of the Company's meter data management project expected to be in-service in 2017. The remainder of the AMI investment is related to the Company's Washington jurisdiction and has been excluded from Table No. 1 and excluded this case.

III. CAPITAL ADJUSTMENTS

Q. How were the capital additions for the Two-Year Rate Plan developed in this case?

A. Summarized below in Table No. 2 are the electric capital adjustments I have prepared for the Two-Year Rate Plan:

Table No. 2

Idaho Electric Adjustments in $(000's)

	Adj #	Plant in Service	Accumulated Depreciation	Deferred Taxes	Rate Base
Rate Year 1 (2018)					
2016 AMA Balance (Test Year)		1,382,037	(491,764)	(181,780)	**708,493**
2016 AMA-EOP Adjustment	1.03	44,531	(7,016)	(9,388)	**28,127**
2017 EOP Adjustment	3.08	80,408	(34,216)	(15,592)	**30,600**
Rate Year 1		1,506,976	(532,996)	(206,760)	**767,220**
Rate Year 2 (2019)					
2017 EOP Balance		1,506,976	(532,996)	(206,760)	**767,220**
2018 AMA Adjustment	19.01	26,854	(19,992)	(7,411)	**(549)**
2018 EOP Adjustment	19.02	49,825	(19,992)	(7,411)	**22,422**
2019 AMA Adjustment	19.03	21,327	(22,208)	(6,006)	**(6,887)**
Rate year 2		1,604,982	(595,188)	(227,588)	**782,206**

Summarized in Table No. 3 below are the natural gas capital adjustments I have prepared for the Two-Year Rate plan:

Table No. 3					
Idaho Natural Gas Adjustments in $(000's)					
	Adj #	**Plant in Service**	**Accumulated Depreciation**	**Deferred Taxes**	**Rate Base**
Rate Year 1 (2018)					
2016 AMA Balance (Test Year)		244,550	(80,795)	(34,956)	**128,799**
2016 AMA-EOP Adjustment	**1.03**	5,028	(2,816)	8	**2,220**
2017 EOP Adjustment	**3.06**	13,303	(6,418)	(2,852)	**4,033**
Rate Year 1		262,881	(90,029)	(37,800)	**135,052**
Rate Year 2 (2019)					
2017 EOP Balance		262,881	(90,029)	(37,800)	**135,052**
2018 AMA Adjustment	**19.01**	4,975	(3,850)	(1,317)	**(192)**
2018 EOP Adjustment	**19.02**	9,271	(3,850)	(1,443)	**3,978**
2019 AMA Adjustment	**19.03**	2,553	(4,347)	(352)	**(2,146)**
Rate year 2		279,680	(102,076)	(40,912)	**136,692**

The transfers-to-plant adjustments presented in my testimony, and reflected in the Two-Year Rate Plan, have been included using Idaho's share (electric and natural gas). Mr. Kinney, Ms. Rosentrater and Mr. Kensok discuss their respective area transfers-to-plant on a system basis for each calendar year, and I have incorporated the Idaho share of these investments for the Two-Year Rate Plan beginning January 1, 2018.

As in prior rate cases, Avista started with rate base for the historical test year, which, for this case, is the average-of-monthly-averages ("AMA") for the twelve months-ended

December 31, 2016, making the following adjustments as described below:

(1) **2016 Plant In Service** – The 2016 AMA plant in service balance is adjusted to a 2017 EOP balance for Rate-Year 1, and then to a 2019 AMA balance for Rate Year 2. This is done by first walking forward the accumulated depreciation ("AD") and accumulated deferred federal income taxes("ADFIT") to a 2016 EOP balance, then to a 2017 EOP balance, which is incorporated into the Rate Year 1 rate based calculation for retail rates effective January 1, 2018. For Rate Year 2, beginning January 1, 2019, the 2017 EOP rate base is adjusted to a 2018 AMA balance, next to a 2018 EOP balance and finally, to a 2019 AMA balance.

(2) **2017 Capital Additions EOP Basis** – This adjustment adds capital additions to plant in service during 2017,[2] including the AD, depreciation expense and ADFIT associated with these additions, on a 2017 EOP basis.

[2] For each of the rate base adjustments for the periods 2016 AMA through 2019 AMA, distribution-related capital expenditures associated with connecting new customers to the Company's system were excluded. The Pro Forma adjustments do not include the increase in revenues from growth in the number of customers from the historical test year to the 2018 and 2019 rate years, and therefore, the growth in plant investment associated with customer growth should also be excluded.

Also included is an adjustment for the impact of asset retirements in 2017.[3] This adjustment also includes annualizing depreciation expense on the plant-in-service at December 31, 2017. These additions are also carried forward to each adjustment discussed below to a 2018 AMA, 2018 EOP and 2019 AMA basis by extending AD, and ADFIT balances.

(3) **<u>2018 Capital Additions AMA Basis</u>** – This adjustment adds the capital additions to plant-in-service during 2018 on an AMA basis. This adjustment includes the depreciation expense, AD and ADFIT associated with these additions on an AMA basis. This also includes an adjustment for the impact of asset retirements in 2018.[4] These additions are also carried forward to the 2019 AMA rate base calculation, by extending AD and ADFIT balances.

(4) **<u>2018 Capital Additions EOP Basis</u>** – This adjustment modifies the capital additions to plant in service during 2018 to reflect a 2018 EOP basis. This adjustment includes the depreciation expense, AD and

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[3] The 2016 test year and the adjustment from AMA 2016 to EOP 2016 captures the impacts of retirements for 2016. The adjustment to capital rate base for 2017 through 2019 includes reducing rate base and depreciation expense for the impact of retirements.

[4] Ibid.

ADFIT associated with these additions on an EOP basis. This also includes an adjustment for the impact of asset retirements in 2018.[5] These additions are also carried forward to the 2019 AMA rate base calculation, by extending AD and ADFIT balances.

(5) **2019 Capital Additions AMA Basis** – This adjustment adds the capital additions to plant-in-service during 2019 on an AMA basis. This adjustment includes the depreciation expense, AD and ADFIT associated with these additions. This also includes an adjustment for the impact of asset retirements in 2019.[6]

In addition to the explanation of adjustments provided herein, the Company has also provided workpapers, both in hard copy and electronic formats, outlining the additional details related to each of the adjustments.

IV. DEPRECIATION STUDY

Q. What is Avista's plans for its next depreciation study?

A. Avista's next depreciation study is currently underway and is expected to be completed towards the end of 2017. After completion of this study the Company will file a

[5] Ibid.
[6] Ibid.

petition in all of its jurisdictions to request to change depreciation rates as determined by this study.

Q. Why is this depreciation study being performed?

A. The objective of a depreciation study is to recommend depreciation rates to be utilized by Avista for accounting and ratemaking purposes. Also, it is sound accounting practice to periodically update depreciation rates to recognize additions to investment in plant assets and to reflect changes in asset characteristics, technology, salvage, removal costs, life span estimates and other factors that impact depreciation rate calculations. The Company last changed its depreciation rates in Idaho effective January 1, 2013 for Common Plant and April 2, 2013 for Idaho Direct Plant, per Order No. 32769 in Docket Nos. AVU-E-12-08 and AVU-G-12-07. The depreciation rates approved by the Commission were developed from a study based on depreciable plant balances at December 31, 2011 for Transportation assets and December 31, 2010 for all other assets. The Company typically conducts depreciation studies at approximately five-year intervals. For the current study, Avista hired Gannett Fleming, Inc. to undertake a depreciation study of its depreciable electric, natural gas and general plant in service as of December 31, 2016.

Q. Is it important to maintain uniform depreciation rates on common plant by the Company’s three jurisdictions?

A. Yes. Avista will be making similar depreciation filings with the Washington Utilities and Transportation Commission and the Public Utility Commission of Oregon. It is important that the Company maintain uniform plant accounts and depreciation rates on common plant that are allocated to the various services and jurisdictions in which the Company operates. In the event different depreciation rates or methods were to be ordered, it would result in multiple sets of depreciation accounts and records that would need to be adjusted annually for changes in allocation factors. This would impose a costly administrative burden on the Company and unnecessary expense for the Company's customers.

V. REPORTING FOR CAPITAL ADDITIONS

Q. Is the Company proposing to report to the Commission on completed capital additions as part of its proposed Two-Year Rate Plan?

A. Yes. For the Rate Year effective January 1, 2019, the Company is proposing to file with this Commission an "Idaho Electric and Natural Gas Capital Report" by October 15, 2018(approximately 75 days) prior to new rates going into effect. The annual report would provide actual balances through August 31, 2018 with estimated balances through December 31, 2018, and updated estimates for 2019 on an AMA basis. (EOP net plant balances including impact of A/D and ADFIT). This would provide updated information to the Commission regarding the net plant which will be in-service and serving customers prior to new rates going into effect beginning January 1, 2019. This report will include project detailed information regarding transfers-to-plant.

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

A. Yes, it does.