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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 ELIZABETH M ANDREWS IN SUPPORT OF STIPULATION

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews and I am employed by Avista Corporation ("Company" or "Avista") as Senior Manager of Revenue Requirements in the State and Federal Regulation Department, at 1411 East Mission Avenue, Spokane, Washington.

Q. Have you previously provided direct testimony in this Case?

A. Yes. My previous direct testimony in this proceeding covered accounting and financial data in support of the Company's need for the proposed electric and natural gas increases in rates over the two-year rate period January 1, 2018 through December 31, 2019. I explained pro formed operating results including expense and rate base adjustments made to actual operating results and rate base for the Two-Year Rate Plan.

Q. What is the scope of this testimony?

A. The purpose of my testimony is to describe and support the electric and natural gas revenue requirement elements of the Stipulation and Settlement ("Stipulation") filed on October 20, 2017, as well as explain why the Stipulation is in the public interest. The parties to the Stipulation include the Staff of the Idaho Public Utilities Commission ("Staff'), Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"), the Community Action Partnership Association of Idaho ("CAPAI"), and the Company. These entities are collectively referred to as the "Settling Parties." The Idaho Conservation League ("ICL"), and the Sierra Club, do not join in the Settlement Stipulation.

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

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. 17, which is a copy of the Stipulation and Settlement filed on October 20, 2017, with the Commission.

II. SUMMARY OF ORIGINAL FILING

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

A. On June 9, 2017, Avista filed an Application with the Commission for authority to increase revenue effective January 1, 2018 and January 1, 2019 for electric and natural gas service in Idaho. The Company proposed a Two-Year Rate Plan with an increase in electric base revenue of $18.6 million or 7.5% for 2018, and $9.9 million or 3.7% for 2019. With regard to natural gas, the Company proposed an increase in base revenue of $3.5 million or 8.8% for 2018 (5.7% on a billed basis), and $2.1 million or 5.0% for 2019 (3.3% on a billed basis). By Order No. 33808, dated June 30, 2017, the Commission suspended the proposed schedules of rates and charges for electric and natural gas service.

For electric, the Company used the results of the electric cost of service study (sponsored by Ms. Knox) as a guide to spread the general increase. The spread of the proposed increase generally resulted in the rates of return for the various electric service schedules moving approximately 15% closer to the overall rate of return (unity). While we believe it is reasonable and appropriate to use the cost of service study results as the basis for rate spread, we tempered the amount of movement toward unity proposed in this case due primarily to the impact such movement would have between the rate schedules.

The Company proposed to increase the electric monthly customer charge from $5.75 per month to $6.00 per month effective January 1, 2018.

For natural gas, the Company used the results of the cost of service study (sponsored by Company witness Mr. Miller) as a guide to spread the natural gas general increase. The spread of the proposed increase generally resulted in the rates of return for the various service schedules moving approximately one-third closer to the overall rate of return (unity).

The Company proposed to increase the natural gas monthly customer charge from $5.25 per month to $6.00 per month effective January 1, 2018.

Q. What are the primary factors driving the Company's need for an electric and natural gas increases?

A. The primary factor driving the Company's electric and natural gas revenue requirements in 2018 and 2019 is an increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest) from that currently authorized. For 2018, net power supply expenses contributes to the incremental revenue requirement.

For electric, specific capital investments over the period 2017-2018 include, among other things, upgrades to certain major generating facilities, such as the Nine Mile Rehabilitation project, the Little Falls Plant Upgrade, and the Kettle Falls Stator Rewind projects, as well as capital investment associated with the Clark Fork and Spokane River License agreements, discussed by Company witness Mr. Kinney.

For natural gas, specific capital investments over the period 2017-2018 include, among other things, capital investments related to the Gas Facilities Replacement (Aldyl A) and Gas Isolated Steel Replacement programs, as well as Gas Schweitzer Mountain Road HP and Gas Rathdrum Prairie HP main reinforcement projects, discussed by Company witness Ms. Rosentrater.

For power Supply, as discussed by Company witness Mr. Johnson, the level of Idaho's share of power supply expense for 2018 has increased by approximately $1.9 million ($5.9 million on a system basis) from the level currently included in base rates. This increase in expense is primarily due to lower net spot market sales resulting from less favorable economic operating conditions for the Company's gas-fired resources.

III. SUMMARY OF SETTLEMENT STIPULATION

Q. Would you briefly summarize the Stipulation?

A. Yes. Under the terms of the Stipulation, as discussed further by Mr. Ehrbar, Avista would implement revised tariff schedules designed to recover additional annual electric revenue of $12.9 million or 5.2% (on a billed basis the increase is 5.1%), effective January 1, 2018, and increase base revenues by $4.5 million, or 1.8% (on a billed basis the increase is 1.7%)[1], effective January 1, 2019. For natural gas, the Settling Parties agree that Avista would increase natural gas base revenue by $1.2 million, or 2.9% (1.9% on a billed basis), effective January 1, 2018, and $1.1 million, or 2.7% (1.8% on a billed basis), effective January 1, 2019. These rate changes are designed to provide retail revenues necessary to allow the Company the opportunity to earn the rate of return agreed to in the Stipulation

[1] Overall electric percentage increase in billed rates for January 1, 2018 and January 1, 2019 vary from that shown by Mr. Ehrbar within his schedules for electric service, on page 4 of his supporting testimony, as the Settling Parties agreed with the proposal to offset the current Schedule 97 (Electric Earnings Test Deferral) rebate of $2.7 million, which expires on December 31, 2017, with $1.5 million related to the electric earnings test for calendar year 2015.

for the two-year rate period January 1, 2018 through December 31, 2019.

As noted by Mr. Ehrbar, a residential customer using an average of 910 kilowatt hours per month would see a $5.22, or 5.9%, increase per month for a revised monthly bill of $93.34. An additional increase of $2.16 per month, or 2.3%, for a revised monthly bill of $95.50 would be effective January 1, 2019. (See Exhibit No. 17, Paragraph 15, for the January 1, 2018 and January 1, 2019 electric percentage changes in rates by rate schedule.)

For natural gas, a residential customer using an average of 63 therms per month would see a $1.13, or 2.1%, increase per month for a revised monthly bill of $53.74. An additional increase of $1.09 per month, or 2.0%, for a revised monthly bill of $54.83 would be effective January 1, 2019. (See Exhibit No. 17, Paragraph 16, for the January 1, 2018 and January 1, 2019 natural gas percentage changes in rates by rate schedule.)

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

The Stipulation calls for an overall rate of return of 7.61%, determined using a capital structure consisting of 50% common stock equity and 50% debt, an authorized return on equity of 9.5% and cost of debt of 5.72%.

With regard to the Two-Year Rate Plan, the Settling Parties agree that, during the January 1, 2018 - December 31, 2019 rate period covered by this Stipulation, Avista will not file another electric or natural gas general rate case to increase base rates before May 31, 2019, and any such rates will not go into effect prior to January 1, 2020. This does not apply to tariff filings authorized by or contemplated by the terms of the Power Cost Adjustment (PCA), Fixed Cost Adjustment (FCA), the Purchased Gas Adjustment tariff (PGA), or other miscellaneous annual filings. Avista agrees that it will not file deferred accounting requests or requests to create a regulatory asset during the Stay-out Period, except in extraordinary circumstances. For purposes of this paragraph extraordinary circumstances will not include changes in inter-jurisdictional allocation methodology, accounting changes, or costs related to the Company's participation in Energy Imbalance Markets.

Lastly, the Settling Parties agreed to certain cost of service, and rate spread and rate design changes as described by Mr. Ehrbar in his supporting testimony.

Q. Please explain how the Settling Parties arrived at the Stipulation in this proceeding.

A. The Stipulation is the product of settlement discussions held in the Commission offices on September 29, 2017.[2] It represents a compromise among differing points of view, with concessions made by the Settling Parties, to reach a balancing of interests. As will be explained in the Company's testimony, the Stipulation represents a fair, just and reasonable compromise of the issues and is in the public interest. In addition, the Stipulation is the end result of extensive audit work conducted through the discovery process[3], including various on-site audit visits by Commission Staff, and hard bargaining by the Settling Parties in this proceeding.

The Stipulation resolves all issues among the Settling Parties associated with the calculation of the Company's requested cost of capital, including capital structure and cost components, and resolves all revenue

[2] The Sierra Club was unable to attend the settlement conference.
[3] Avista responded to over 179 production and audit requests (including sub-parts) from IPUC Staff and other intervening parties.

requirement issues over the Two-Year Rate Plan. As discussed by Mr. Ehrbar, the Stipulation also includes agreement regarding certain cost of service issues, as well as rate spread and rate design.

Q. Why is the Stipulation in the public interest?

A. The Stipulation is in the "public interest" for several reasons. The Stipulation was the product of the give-and-take of negotiation that produced an "end result" that is just and reasonable. In addition, it is supported by the evidence, demonstrating the need for rate adjustments to provide recovery of necessary expenditures and investment, the costs of which are not offset by a growth in sales margins. The Settlement enjoys broad-based support from a variety of constituencies, including CAPAI, Clearwater, Idaho Forest Group, and the Staff of the Commission.

In addition, the Settlement provides base rate certainty over the next two years (2018/2019), which would benefit all customers, as they plan and budget for their needs. The Two-Year Rate Plan would prohibit Avista from making further changes in base rates prior to January 1, 2020, thereby breaking the yearly cycle of rate filings.

III. Electric REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

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

A. The Settling Parties agreed that electric revenue increases are necessary, effective January 1, 2018 and January 1, 2019. While Avista's filing requested electric revenue requirement increases of $18.6 million and $9.9 million, effective January 1, 2018 and January 1, 2019, respectively, the Settling Parties agreed-upon adjustments, including the agreed-upon rate of return, result in recommended electric revenue increases of $12.9 million and $4.5 million, respectively. These increases are designed to provide sufficient retail revenues for the 2018 and 2019 two-year rate period, which would provide the Company with the opportunity to earn the return agreed to in the Stipulation.

Q. Please explain the Settling Parties' agreement with regard to an Authorized Rate of Return, including the Return on Equity.

A. The Settling Parties have agreed to an overall rate of return of 7.61%, based on a return on equity of 9.5%, an equity component at 50% and cost of debt of 5.72%. By comparison, the Company's original filing requested an overall rate of return of 7.81%, a return on equity of 9.9%, an equity component of 50% and cost of debt of 5.72%.

Q. Please provide an overview of the electric revenue requirement adjustments agreed to by the Settling Parties for 2018 effective January 1, 2018.

A. The Settling Parties agreed to an electric revenue requirement effective January 1, 2018 that reflects the adjustments shown below in the excerpted table from the Stipulation:

Table No. 1: Electric Revenue Requirement (Jan. 1, 2018)

SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT EFFECTIVE JANUARY 1, 2018 (000s of Dollars)

		Revenue Requirement		Rate Base	
	Amount as Filed:	**$**	**18,571**	**$**	**796,609**
	Adjustments:				
a.)	Cost of Capital	$	(2,604)		
b.)	Company 2017 Net Rate Base Updates	$	58	$	(1,926)
c.)	Miscellaneous Company Updates: Regulatory Amortization, Uncollectibles, Maintenance and IS/IT Expenses.	$	112		
d.)	Remove Officer Incentives and Reduce Non-Officers Incentives	$	(393)		
e.)	Reduce Officer Labor Expenses	$	(115)		
f.)	Reduce 2017 IS/IT Capital Projects	$	(276)	$	(1,762)
g.)	Delay Meter Data Management Project Recovery to January 1, 2019	$	(1,075)	$	(6,834)
h.)	Remove 2018 Expense: Delay Recovery to Janaury 1, 2019				
i.)	2018 Labor Increase	$	(447)		
ii.)	2018 Underground Equipment Inspection Expense	$	(270)		
i.)	Miscellaneous Adjustments: Board of Director Expenses, Injuries and Damages, Legal and Environmental Expenses, Removal of Expiring Lease Expense and Inclusion of O&M Savings	$	(671)		
	Adjusted Amounts Effective January 1, 2018	**$**	**12,890**	**$**	**786,087**

As can be seen by a review of the individual line descriptions provided within the summary table above, the adjustments accepted for settlement purposes cover a broad range of revenue and cost categories, including the authorized rate of return. The individual adjustments should not be viewed in isolation; rather, they should be viewed in total as part of the entire Stipulation, and are the result of hard bargaining and compromise.

Q. Would you please elaborate on the individual line items contained within Table No. 1?

A. Yes. A description of the adjustments resulting in the electric revenue requirement, effective January 1, 2018, follows.

Cost of Capital - (line a.) The overall revenue requirement reduction related to the cost of capital reduces the overall revenue requirement for electric by $2.604 million. The agreed-upon cost of capital components are shown in the table below:

Component	Capital Structure	Cost	Weighted Cost
Debt	50%	5.72%	2.86%
Common Equity	50%	9.50%	4.75%
Total	100%		**7.61%**

Company 2017 Net Rate Base Updates - (line b.) The 2017 filed electric capital additions were updated by Avista to reflect adjustments for updated information, including related depreciation expense, accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT), associated with these adjustments to reflect balances as of December 31, 2017. This adjustment resulted in an overall reduction to rate base of $1.926 million, and an increased revenue requirement of $58,000.

Miscellaneous Company Updates - (line c.) This adjustment reflects updates to expenses related to removal of the expiring Colstrip credit regulatory amortization, uncollectible expense, maintenance expense associated with the Company's Colstrip generation plant, and annualized incremental Information Service / Information Technology (IS/IT) labor positions added in 2017. This adjustment increases the overall revenue requirement by $112,000.

Remove Officer Incentives and Reduce Non-Officer Incentives - (line d.) This adjustment reflects the removal of all officer incentives included in the Company's original filing. This adjustment also reduces incentives for Non-Officers to a 100% payout ratio. This adjustment decreases the overall revenue requirement by $393,000.

Reduce Officer Labor Expenses - (line e.) This adjustment reduces officer labor expenses from that included in the Company's original filing to an agreed-upon level. This adjustment decreases the overall revenue requirement by $115,000.

Reduce 2017 IS/IT Capital Projects - (line f.) This adjustment reduces certain capital investments related to Information Services/Information Technology (IS/IT) refresh and expansion projects planned during 2017. This adjustment decreases the overall revenue requirement by $276,000, and reduces net rate base by $1.762 million.

Delay Meter Data Management Project Recovery to January 1, 2019 - (line g.) This adjustment removes the Meter Data Management System project costs completed in October 2017, delaying the recovery until January 1, 2019. This adjustment decreases the overall revenue requirement by $1.075 million, and reduces net rate base by $6.834 million.

Remove 2018 Expense: Delay Recovery to January 1, 2019 - (line h.)

2018 Labor Increase - (line i.) This adjustment removes the incremental non-executive labor increases planned for 2018, and includes them with the January 1, 2019 rate change. This adjustment decreases the overall revenue requirement by $447,000.

<u>2018 Underground Inspection Equipment Expense</u> - (line ii.) This adjustment removes the 2018 underground equipment inspection costs, and includes them with the January 1, 2019 rate change. This adjustment decreases the overall revenue requirement by $270,000.

<u>Miscellaneous Adjustments</u> - (line i.) Reflects the net change in operating expenses related to: 1) removing requested additional Board of Director expenses ($270,000); 2) removing legal expenses allocated to Idaho electric in error ($42,000); 3) removing expenses associated with certain leases expiring during the 2018 rate year ($192,000); 3) removing certain 2016 environmental cleanup costs allocated to Idaho electric in error ($48,000); 4) inclusion of the O&M savings associated with the Company's new website application ($23,000); 5) reducing the six-year average of injuries and damages ($11,000); and 6) the net effect of removing certain other miscellaneous A&G expenses ($85,000). The net effect of this adjustment decreases the overall revenue requirement by $671,000.

Q. Please summarize the impact of these adjustments on the electric revenue requirement agreed to by the Settling Parties effective January 1, 2018.

A. The adjustments discussed above, and agreed to by the Settling Parties, reduces Avista's 2018 rate year electric revenue requirement of $18.571 million to $12.89 million, resulting in a 5.2% electric base rate increase (on a billed basis the increase is 5.1%), effective January 1, 2018. The Net rate base agreed to by the Settling Parties for electric is $786.1 million.

Q. Please provide an overview of the incremental electric revenue requirement components agreed to by the Settling Parties effective January 1, 2019.

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

Table No. 2: Electric Revenue Requirement (Jan. 1, 2019)

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

		Revenue Requirement	Rate Base
	Rate Base Amount Effective January 1, 2018		**$ 786,087**
	Incremental Revenue Adjustment to January 1, 2018 Rate Change (see Tabel No. 1):		
a.)	Add Meter Data Management Project	$ 1,075	$ 6,834
b.)	Add 2018 Related Capital and Expenses:		
i.	2018 Capital Additions on an AMA Basis	$ 1,938	$ 2,071
ii.	Property Tax Expense on 2018 Plant Additions	$ 613	
iii.	2018 Annualized Labor Increase	$ 648	
iv.	2018 Underground Equipment Inspection Expense	$ 270	
	January 1, 2019 Incremental Revenue Adjustment and Rate Base Amount (above January 1, 2018 Rate Change - see Table No. 1)	**$ 4,544**	**$ 794,992**

Q. Please elaborate on the individual line items contained within Table No. 2?

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

Add Meter Data Management Project - (line a.) This adjustment adds the Meter Data Management System project costs completed October of 2017 for recovery effective January 1, 2019. This adjustment increases the overall revenue requirement by $1.075 million, and increases net rate base by $6.834 million.

Add 2018 Related Capital and Expenses - (line b.)

2018 Capital Additions on an AMA Basis - (line i.) This adjustment includes certain 2018 capital additions on an AMA basis. This adjustment increases the overall revenue requirement by $1.938 million, and increases net rate base by $2.071 million.

Property Tax Expense On 2018 Plant Additions - (line ii.) This adjustment includes property tax expense associated with 2018 capital additions. This adjustment increases the overall revenue requirement by $613,000.

2018 Annualized Labor Increase - (line iii.) This adjustment includes the 2018 annualized non-executive labor increases for both union and non-union employees. This adjustment increases the overall revenue requirement by $648,000.

2018 Underground Inspection Equipment Expense – (line iv.) This adjustment includes the 2018 underground equipment inspection costs. This adjustment increases the overall revenue requirement by $270,000.

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

A. The adjustments discussed above, and agreed to by the Settling Parties, reduces Avista's 2019 rate year electric revenue requirement of $9.9 million to $4.5 million, resulting in a 1.9% electric base rate increase (on a billed basis the increase is 1.7%), effective January 1, 2019. The Net rate base agreed to by the Settling Parties for electric is $795.0 million.

IV. NATURAL GAS REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

Q. Please explain the derivation of the Natural Gas Revenue Requirement outlined in the Stipulation.

A. The Settling Parties agreed that natural gas revenue increases are necessary, effective January 1, 2018 and January 1, 2019. While Avista's filing requested natural gas revenue requirement increases of $3.5 million and $2.1 million, effective January 1, 2018 and January 1, 2019, respectively, the Settling Parties agreed-upon adjustments, including the agreed-upon rate of return, result in recommended natural gas revenue increases of $1.2 million and $1.1 million, respectively. These increases are designed to provide sufficient retail revenues for the 2018 and 2019 two-year rate period, which would provide the Company with the opportunity to earn the return agreed to in the Stipulation.

Q. Is the Authorized Rate of Return, including the Return on Equity the same as that explained above for electric?

A. Yes. Consistent with that for electric, the Settling Parties have agreed to an overall rate of return of 7.61%, based on a return on equity of 9.5%, an equity component at 50% and cost of debt of 5.72%.

Q. Please provide an overview of the natural gas revenue requirement adjustments agreed to by the Settling Parties for 2018 effective January 1, 2018.

A. The Settling Parties agreed to a natural gas revenue requirement effective January 1, 2018 that reflects the adjustments shown below in the excerpted table from the Stipulation:

<u>Table No. 3: Natural Gas Revenue Requirement (Jan. 1, 2018)</u>

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT EFFECTIVE JANUARY 1, 2018 (000s of Dollars)

		Revenue Requirement		Rate Base	
	Amount as Filed:	**$**	**3,480**	**$**	**144,807**
	Adjustments:				
a.)	Cost of Capital	$	(470)		
b.)	Company 2017 Net Rate Base Updates	$	324	$	2,199
c.)	Miscellaneous Company Updates: Uncollectibles and IS/IT Expenses.	$	20		
d.)	Adjust Weather Normalization	$	(1,162)		
e.)	Remove Officer Incentives and Reduce Non-Officers Incentives	$	(105)		
f.)	Reduce Officer Labor Expenses	$	(29)		
g.)	Reduce 2017 IS/IT Capital Projects	$	(43)	$	(214)
h.)	Remove Meter Data Management Project: Delay Recovery to January 1, 2019	$	(415)	$	(1,860)
i.)	Remove 2018 Labor Expense: Delay Recovery to Janaury 1, 2019	$	(120)		
j.)	Miscellaneous Adjustments: Board of Director Expenses, Injuries and Damages, Advertising Expenses, Legal Expenses, Removal of Expiring Lease Expense and Inclusion of O&M Savings/Expenses.	$	(300)		
	Adjusted Amounts Effective January 1, 2018	**$**	**1,180**	**$**	**144,932**

Q. Would you please elaborate on the individual line items contained within Table No. 3?

A. Yes. A description of the adjustments resulting in the natural gas revenue requirement, effective January 1, 2018, follows.

<u>Cost of Capital</u> - (line a.) As previously described (see above). This adjustment reduces the overall revenue requirement by $470,000.

<u>Company 2017 Net Rate Base Updates</u> - (line b.) The 2017 filed natural gas capital additions were updated by

Avista to reflect adjustments for updated information, including related depreciation expense, A/D and ADFIT, associated with these adjustments to reflect balances as of December 31, 2017. This adjustment increases the overall revenue requirement by $324,000 and increases net rate base by $2.199 million.

Miscellaneous Company Updates - (line c.) This adjustment reflects updates to expenses related to uncollectible expense and annualized incremental IS/IT labor positions added in 2017. This adjustment increases the overall revenue requirement by $20,000.

Adjust Weather Normalization - (line d.) This adjustment revises the natural gas weather normalization adjustment, increasing test year billing determinants, thereby increasing test year (present) revenue. This adjustment decreases the overall revenue requirement by $1.162 million.

Remove Officer Incentives and Reduce Non-Officer Incentives - (line e.) This adjustment reflects the removal of all officer incentives included in the Company's original filing. This adjustment also reduces incentives for Non-Officers to a 100% payout ratio. This adjustment decreases the overall revenue requirement by $105,000.

Reduce Officer Labor Expenses - (line f.) This adjustment reduces officer labor expenses from that included in the Company's original filing to an agreed-upon level. This adjustment decreases the overall revenue requirement by $29,000.

Reduce 2017 IS/IT Capital Projects - (line g.) This adjustment reduces certain capital investments related to IS/IT refresh and expansion projects planned during 2017. This adjustment decreases the overall revenue requirement by $43,000, and reduces net rate base by $214,000.

Delay Meter Data Management Project Recovery to January 1, 2019 - (line h.) This adjustment removes the Meter Data Management System project costs completed in October 2017, delaying the recovery until January 1, 2019. This adjustment decreases the overall revenue requirement by $415,000, and reduces net rate base by $1.860 million.

Remove 2018 Labor Expense: Delay Recovery to January 1, 2019 - (line i.) This adjustment removes the incremental non-executive labor increases planned for 2018, and includes them with the January 1, 2019 rate change. This adjustment decreases the overall revenue requirement by $120,000.

Miscellaneous Adjustments - (line j.) Reflects the net change in operating expenses related to: 1) removing requested additional Board of Director expenses ($70,000); 2) removing legal expenses allocated to Idaho natural gas in error ($3,000); 3) removing expenses associated with certain leases expiring during the 2018 rate year ($53,000); 3) removing advertising expenses allocated to Idaho natural gas in error ($25,000); 4) inclusion of the O&M savings associated with the Company's new website application ($6,000); 5) reducing the six-year average of injuries and damages ($127,000); and 6) the net effect of removing certain other miscellaneous A&G expenses ($16,000). The net effect of this adjustment decreases the overall revenue requirement by $300,000.

Q. Please summarize the impact of these adjustments on the natural gas revenue requirement agreed to by the Settling Parties effective January 1, 2018.

A. The adjustments discussed above, and agreed to by the Settling Parties, reduces Avista's 2018 rate year natural gas revenue requirement of $3.48 million to $1.18 million, resulting in a 2.9% natural gas base rate increase (1.9% on a billed basis), effective January 1,

2018. The net rate base agreed to by the Settling Parties for natural gas is $144.9 million.

Q. Please provide an overview of the incremental natural gas revenue requirement components agreed to by the Settling Parties effective January 1, 2019.

A. The Settling Parties agreed to an incremental natural gas revenue increase effective January 1, 2019 that reflects the adjustments shown below in the excerpted table from the Stipulation:

<u>Table No. 4: Natural Gas Revenue Requirement (Jan. 1, 2019)</u>

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT EFFECTIVE JANUARY 1, 2019 (000s of Dollars)		Revenue Requirement	Rate Base
	Rate Base Amount Effective January 1, 2018		$ 144,932
	Incremental Revenue Adjustment to January 1, 2018 Rate Change (see Tabel No. 1):		
a.)	Add Meter Data Management Project	$ 415	$ 1,860
b.)	Add 2018 Related Capital and Expenses:		
i.	2018 Capital Additions on an AMA Basis	$ 414	$ (852)
ii.	Property Tax Expense on 2018 Plant Additions	$ 122	
iii.	Annualized 2018 Labor Increase	$ 181	
	January 1, 2019 Incremental Revenue Adjustment and Rate Base Amount (above January 1, 2018 Rate Change - see Table No. 1)	**$ 1,132**	**$ 145,940**

Q. Please elaborate on the individual line items contained within Table No. 4?

A. Yes. A description of the adjustments resulting in the natural gas revenue requirement, effective January 1, 2019, follows.

<u>Add Meter Data Management Project</u> - (line a.) This adjustment adds the Meter Data Management System project

costs completed October of 2017 for recovery effective January 1, 2019. This adjustment increases the overall revenue requirement by $415,000, and increases net rate base by $1.860 million.

Add 2018 Related Capital and Expenses - (line b.)

2018 Capital Additions on an AMA Basis - (line i.) This adjustment includes 2018 capital additions on an AMA basis. This adjustment increases the overall revenue requirement by $414,000, and decreases net rate base by $852,000.[4]

Property Tax Expense on 2018 Plant Additions - (line ii.) This adjustment includes property tax expense associated with 2018 capital additions. This adjustment increases the overall revenue requirement by $122,000.

2018 Annualized Labor Increase - (line iii.) This adjustment includes the 2018 annualized non-executive labor increases for both union and non-union employees. This adjustment increases the overall revenue requirement by $181,000

[4] Including the impact of 2018 capital additions, as well as including the impact on accumulated depreciation and accumulated deferred federal income taxes on total net plant during 2018 on an average-of-monthly-average basis, has the result of decreasing overall net rate base.

Q. Please summarize the impact of these adjustments on the natural gas revenue requirement agreed to by the Settling Parties effective January 1, 2019.

A. The adjustments discussed above, and agreed to by the Settling Parties, reduces Avista's 2019 rate year natural gas revenue requirement of $2.1 million to $1.1 million, resulting in a 2.7% natural gas base rate increase (1.8% on a billed basis), effective January 1, 2019. The Net rate base agreed to by the Settling Parties for natural gas is $145.9 million.

V. CONCLUSION

Q. In conclusion, why is this Stipulation in the public interest?

A. This Stipulation strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As such, it represents a reasonable compromise among differing interests and points of view.

The terms of the Stipulation represent electric and natural gas base rate increases designed to provide necessary retail revenues over the Two-Year Rate Plan from January 1, 2018 through December 31, 2019. The Settling Parties have agreed that the Company has demonstrated the need for the revenue increases for its electric and natural gas operations, thus providing recovery of its costs over the 2018-2019 two-year rate period.

In the final analysis, any settlement reflects a compromise in the give-and-take of negotiations. The Commission has before it a Stipulation that is supported by sound analysis and supporting evidence, the approval of which is in the public interest.

Q. Does this conclude your direct testimony?

A. Yes, it does.