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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 REBUTTAL TESTIMONY OF ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

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

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

A. Yes. My testimony covered accounting and financial data in support of the Company's Two-Year Rate Plan for the period January 1, 2018 through December 31, 2019. I explained the pro formed operating results, including expense and rate base adjustments made to actual operating results. In addition, I incorporated the Idaho share of the proposed adjustments of other witnesses in this case.

I also provided direct testimony in support of the electric and natural gas revenue requirement elements of the Settlement Stipulation filed with the Commission on October 20, 2017.

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

A. My testimony is in response to the testimonies of Sierra Club witness Dr. Hausman and reiterated by Idaho

Conservation League witness Mr. Otto, concerning two capital project additions (one project in 2016, and one in 2017) related to SmartBurn controls on Colstrip Units 3 and 4. I will also discuss the Company's plans for its in-progress depreciation study, as it relates to Colstrip.

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

A. No.

A table of contents for my testimony is as follows:

II. Party Positions on Settlement Agreement

Q. Before discussing the issues raised by Dr. Hausman and Mr. Otto, what is each of their positions with regard to the Settlement Stipulation filed by the Settling Parties[1] on October 20, 2017?

A. Representing the Sierra Club, Dr. Hausman does not recommend a change to the proposed revenue requirements or

[1] The "Settling Parties" collectively include the Company, the Staff of the Idaho Public Utilities Commission ("Staff'), Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"), and the Community Action Partnership Association of Idaho ("CAPAI"). The Idaho Conservation League ("ICL"), and the Sierra Club, did not join in the Settlement Stipulation.

rates in this proceeding, stating:

> The majority of issues included in the Settlement Agreement have nothing to do with Colstrip, and therefore I hesitate to disturb a revenue requirement agreement that reflects a balance among the interests of a diverse group of stakeholders.[2]

He does however, propose the Commission require Avista to remove the capital costs associated with its Colstrip Units 3 and 4 SmartBurn capital investment for purposes of all future proceedings.[3]

For its part, Mr. Otto on behalf of the Idaho Conservation League, also supports the overall revenue requirement.[4/5] However, consistent with Dr. Hausman, Mr. Otto requests the Commission find the SmartBurn projects imprudent and order the Company to remove the cost from Avista's rate base going forward.[6]

Q. Please describe the capital projects of concern by Dr. Hausman and Mr. Otto.

A. Both witnesses, Dr. Hausman and Mr. Otto, have concerns regarding two capital projects completed at Colstrip Units 3 and 4 for which Avista has 15% ownership. Specifically, one project was completed in June 2016, and

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[2] Hausman, Di, p. 5, ll. 14-20.
[3] Hausman, Di, p. 6, ll. 2-3.
[4] Otto, Di, p. 2, ll. 15.
[5] He does, however, not support the provision that limits the ability of the Company to reduce base rates during the Two-Year Rate Plan if there are reductions as a result of the Company's depreciation study or the pending Hydro One acquisition of Avista. Otto, Di, pp 3:22-4:20.
[6] Otto, Di, p. 11, ll. 19-20.

one project was completed in June 2017.

These two projects, as discussed further in the rebuttal testimony of Company witness Mr. Thackston, both relate to the installation of SmartBurn controls for emissions of nitrogen oxides ("NOx") at the Colstrip facility as part of a strategic decision to satisfy environmental objectives.

As discussed further below, Idaho's share of these capital projects in 2016 and 2017, total $685,000 and $359,000, respectively, for a total of $1,044,000.[7]

Q. Do you agree with Dr. Hausman or Mr. Otto's proposal that the Commission should order Avista to effectively "write off" these two specific SmartBurn projects?

A. No, I do not. As discussed by Mr. Thackston, these projects were done in an effort to proactively install SmartBurn as the last available, low cost, NOx pollution prevention emission control prior to the expected installation of a very expensive emission post-combustion

[7] When recommending the project disallowance amount for the IPUC to consider, Dr. Hausman includes capital project amounts of $1,993,516 for the 2016 capital project and $1,047,417 for the 2017 capital project. These amounts were provided in response to Sierra Club data requests, in which the Company did not explain that these balances were Avista project totals rather than only Idaho's share of the projects.

control technology called Selective Catalytic Reduction (SCR) in future years.

In the 2012 decision timeframe, SCRs were being ordered in many surrounding States and the Sierra Club was also litigating against Colstrip to require SCR for alleged "New Source Review" violations. The owners, therefore, chose to install SmartBurn in an effort to manage a future regulatory obligation in a strategic and cost-effective manner.[8]

Furthermore, these projects were prudent and moved into service in 2016 and 2017, thereby benefiting customers. The SmartBurn technology was installed on one unit (Unit 4) in 2016; the same rationale supported the installation on the other (Unit 3) in 2017. This Commission previously included in rates the capital expenditures on SmartBurn for Unit 4 in Case No. AVU-E-16-03, with no party taking issue with this investment.

III. Colstrip Capital Additions

Q. Please provide the overall cost of the SmartBurn Colstrip capital projects and Idaho's share of these projects.

A. Table No. 1 below, shows the two specific Colstrip Units 3 and 4 SmartBurn projects.

[8] Thackston, Di, p. 8.

Table No. 1

Colstrip Projects Included in Case No. AVU-E-17-01								
Sierra Club Data Response	Project Description	Project ID	Project Cost	WA Share	ID Share	In Service Date	Revenue Requirement	Gross Rate Base
SC_ 3-7	Smartburn-Nox	10023705	1,047,417	688,467	358,950	6/30/2017	$ 38,682	$ 358,950

Colstrip Projects Included and Approved in Case No. AVU-E-16-03								
Data Response	Project Description	Project ID	Project Cost	WA Share	ID Share	In Service Date	Revenue Requirement	Gross Rate Base
SC_ 3-6	Smartburn-NOx	10022111	1,993,516	1,308,345	685,171	6/30/2016	$ 73,635	$ 685,171

Table No. 1 separates these two projects between: 1) the project completed in June 2016, which was already included in Avista's 2016 general rate case (Case No. AVU-E-16-03) and reflected in current rates; and 2) the project completed in June 2017, included in this proceeding and a part of the overall revenue requirement agreed to by the Parties in the Settlement filed with the Commission on October 21, 2017. Accordingly, only the project completed in 2017 is at issue in this proceeding, since the project completed in 2016 is already built into rates as used and useful plant in the prior rate case (Case No. AVU-E-16-03). Indeed, no party objected to this plant item in the prior case. Essentially, the Sierra Club is seeking to collaterally attack a prior Commission determination approving rates as just and reasonable, at least as to the SmartBurn installed on Unit 4. (See Order No. 33682 at Case No. AVU-E16-03.)

As can be seen in Table No. 1 above, the total cost to Avista, based on its 15% ownership share, for the 2016 and

2017 projects, is approximately $1,994,000 and $1,047,000 respectively.[9] This share is further allocated to Avista's Idaho and Washington jurisdictions based on the Company's Production/Transmission (P/T) allocation ratio of approximately 34% Idaho/66% Washington. Idaho's share, therefore, for the 2016 and 2017 capital projects, is approximately $685,000 and $359,000, respectively, for a total of $1,044,000.

Q. What is the revenue requirement impact on customer rates for these two projects?

A. As shown in Table No. 1 above, the annual revenue requirement currently included in customers' rates (approved in Case No. AVU-E-16-03 and effective January 1, 2017), related to the June 2016 completed SmartBurn project, is approximately $74,000.

The incremental revenue requirement amount included in this case, and included in the Settlement Stipulation, is approximately $39,000.

[9] The overall cost for the SmartBurn project install on Unit 4 in 2016 was less expensive than the SmartBurn project install on Unit 3 in 2017, primarily because the design work compatible for both units was completed in 2016.

III. DEPRECIATION STUDY

Q. Dr. Hausman refers to the depreciation rates for the Colstrip projects as "stale" and "outdated", and that the Company should have filed its depreciation study prior to filing the Company's direct filed case.[10] Do you agree?

A. No, I do not. The Company's current depreciation rates are not stale or outdated, and there was no requirement to include the depreciation study within the Company's current general rate case in Idaho. The Company's prior depreciation study, completed in 2012, reviewing plant as of December 31, 2010, was approved by the Commission in 2013. Due to the length of time to complete a depreciation study, and the fact a utility typically would not expect its assets to change so significantly to require a depreciation study sooner, the Company typically completes its depreciation studies approximately every five years. The timing of this depreciation study is consistent with that plan: utilizing 2016 plant balances, completion of study in late 2017, with Commission filings and expected changes in rates in each of its jurisdictions in 2018.

Q. When does Avista expect to file its depreciation study with this Commission?

A. The Company expects to file its depreciation study

[10] Hausman, Di, p. 36, ll. 3-6.

in the first quarter of 2018. The parties will have the time they need to review the study, and the appropriate accounting of these changes can be determined by the Commission at that time.

Q. Does Avista agree with Mr. Hausman that because of the in-process depreciation study, it may be premature for the Parties to agree on a revenue requirement in this case?[11]

A. No, I do not. Dr. Hausman assumes the new depreciation study may have an impact on the depreciable lives of the Colstrip Units 3 and 4 assets, due to a shortened depreciable life of these assets agreed-to in a recent Puget Sound Energy case in the State of Washington.[12/13] However, the Company's current depreciation study for Colstrip goes out to 2034-2036. Based on preliminary discussions with the consultant performing the Company's study, these dates will not materially change.

The appropriate place to raise concerns about accelerating the depreciation schedule for Colstrip should occur in the regulatory filing for the updated depreciation

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[11] Hausman, DI, p. 37, ll. 4-5.

[12] Hausman, DI, pp. 35-36.

[13] The shortened period discussed by Dr. Hausman appears to be based on a negotiated settlement with Puget Sound Energy regarding the depreciation period for that company's 25 percent ownership interest in Colstrip Units 3 and 4. That settlement has not been approved by the Washington Utilities and Transportation Commission yet and the shortened period is not otherwise supported by a depreciation study.

schedule, including that of Colstrip.

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

A. Yes, it does.