DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851
DAVID.MEYER@AVISTACORP.COM

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-21-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-21-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	DIRECT TESTIMONY OF
NATURAL GAS SERVICE TO ELECTRIC	)	ELIZABETH M. ANDREWS
AND NATURAL GAS CUSTOMERS IN THE	)	IN SUPPORT OF
STATE OF IDAHO	)	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. I filed direct testimony in this proceeding that covered accounting and financial data in support of the Company's Two-Year Rate Plan for the period September 1, 2021 through August 31, 2023. In that testimony I explained pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base for the over the two-year period.

Q. What is the scope of this testimony?

A. The purpose of this testimony is to describe and support the electric and natural gas revenue requirement elements of the Stipulation and Settlement ("Stipulation") filed on June 14, 2021, 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, Inc. ("CAPAI"), the Idaho Conservation League ("ICL"), and Walmart Inc. ("Walmart"). These entities are collectively referred to as the "Parties" and singularly as a "Party" and represent all who have appeared in these proceedings. All Parties to this case are in support of the Stipulation.

Company witness Mr. Ehrbar discusses the non-revenue related elements of the Stipulation agreed to by the 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 (FCA) authorized levels, as well as agreed-upon workshops and meetings/conferences agreed to.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. 19, which is a copy of the Stipulation and appendices filed with the Commission on June 14, 2021.

II. SUMMARY OF ORIGINAL FILING

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

A. On January 29, 2021, Avista filed an Application with the Commission for authority to increase revenue effective September 1, 2021, and September 1, 2022, for electric and natural gas service in Idaho. The Company proposed a "Two-Year Rate Plan" with an increase in electric base revenue of $24.8 million or 10.1% for "Rate Year 1", and $8.7 million or 3.2% for "Rate Year 2". With regard to natural gas, the Company proposed an increase in base revenue of $52,000 or 0.1% for "Rate Year 1", and $1.0 million or 2.2% for "Rate Year 2". By Order No. 34930, dated February 23, 2021, the Commission provided notice of the Application and set an intervention deadline for interested persons and parties to intervene in the case.

In its filed case, Avista proposed that these increases would be offset by the effect of Tax Customer Credit Tariff Schedules 76 (electric) and 176 (natural gas). Avista stated the proposed amortization of approximately $31.3 million in electric tax benefits from Schedule 76, beginning on September 1, 2021, would completely offset Avista's requested electric rate relief for Rate Year 1 until about November 30, 2022. However, Avista also represented that its Idaho electric customers would see an $8.7 million (3.5%) bill increase for Rate Year 2, effective September 1, 2022. Avista also stated the proposed 10-year amortization of $12.1 million in natural gas tax benefits from Schedule 176, beginning September 1, 2021, would result in about $1.2 million in benefits per year. The Company stated that these benefits would offset the proposed (as-filed) $0.1 million natural gas base rate increase in Rate Year 1, decreasing natural gas customers' bills by about 1.8%.

For Rate Year 2 Avista proposed to amortize its "Natural Gas Deferred Depreciation Expense" balance of about $0.9 million for one-year, effective September 1, 2022 through August 31, 2023. Avista also proposed offsetting the proposed $1.0 million revenue requirement increase through Schedule 177. The Company represented that, after application of Schedule 176 and 177 impacts, customers would see a 0.1% increase, effective September 1, 2022.

The Company used the results of the electric and natural gas cost of service studies (sponsored by Ms. Knox and Mr. Anderson) as a guide to spread the general increase. In this case, for electric operations, the study showed Residential Service Schedule 01 and Extra-Large General Service Schedule 25 provide less than the overall rate of return under present rates. All of the other service schedules provide more than the overall rate of return under present rates to varying degrees. For natural gas operations, the study indicated that the General Service Schedule 101 (serving most residential customers) is providing less than the overall rate of return (unity), and Large General, and Transportation service schedules (111/112 and 146) are providing more than unity.

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

A. The primary factors driving the Company's electric and natural gas revenue requirements in Rate Year 1 (RY1) and Rate Year 2 (RY2) 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 RY1, electric net power supply expenses also contribute to the incremental electric revenue requirement. Other changes impacting the Company's revenue requirement requests relate to increases 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.

Electric specific capital investments for the 2020/2021 period include, among other things, upgrades to certain major generating facilities, such as the Long Lake Stability Enhancement and Upgrade, CS2 Single Phase Transformer, Cabinet Gorge Automation and Upgrades, and Little Falls Powerhouse Redevelopment, as well as capital investment associated with the Clark Fork and Spokane River License agreements, discussed by Company witness Mr. Thackston.

For natural gas, specific capital investments over the period 2020/2021 period include, among other things, capital investments related to the Gas Facilities

Replacement (Aldyl A) and Jackson Prairie Joint Project, as well as Gas Replacement Street and Highway Program, discussed by Company witness Ms. Rosentrater.

For power supply, on direct, as discussed by Company witness Mr. Kalich, the level of Idaho's share of power supply expense for RY1 pro formed into this case had increased by approximately $7.1 million ($21.6 million on a system basis), from the level currently included in base rates. This increase in expense was primarily due to the increase in the price of natural gas. In addition, power supply expenses were higher by $3.6 million (of the $7.1 million) as a result of the inclusion of the Palouse and Rattlesnake wind power purchase agreements (PPA), which are currently tracked through the Company's Power Cost Adjustment (PCA).

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 increase annual base electric revenues by $10.6 million, or 4.3%, effective September 1, 2021, and increase base revenues by $8.0 million, or 3.1%, effective September 1, 2022. For natural gas, the Parties agree that Avista should decrease natural gas base revenue by $1.6 million, or 3.7%, effective September 1, 2021, and increase natural gas base revenue $0.9 million, or 2.2%, effective September 1, 2022. 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 for RY1 and RY2.

The Company would also return to customers the Tax Customer Credits available of approximately $31.3 million for electric and $12.1 million for natural gas, through separate Tariff Schedules 76 (electric) and 176 (natural gas). The Parties agreed to apply the Tax Customer Credit for electric and natural gas over the Two-Year Rate Plan as described by Mr. Ehrbar.[1] Specifically, as discussed by Mr. Ehrbar, for RY1 electric, the Company would return an amount equal to the base rate increase. For RY2 electric, the Company would return the remaining balance of the Tax Customer Credit, offsetting the overall base rate increase effective September 1, 2022. For natural gas, the Company would begin returning the Tax Customer Credit September 1, 2021, over a ten-year period.[2]

As noted by Mr. Ehrbar, effective September 1, 2021 an electric residential customer using an average of 892 kilowatt hours per month would see a $0.49, or 0.6%, increase per month for a revised monthly bill of $86.12. Effective September 1, 2022 an electric residential customer would see a $0.31, or 0.4%, increase per month for a revised monthly bill of $86.43.

For natural gas, effective September 1, 2021 a natural gas residential customer using an average of 63 therms per month would see a $2.30, or 4.6%, decrease per month for a revised monthly bill of $47.19. Effective September 1,

---

[1] As described by Mr. Ehrbar, in recognition that certain rate schedules are generally above their relative cost of service, the Parties agree that Schedule 25P should receive 25% of the overall percentage base rate changes for the September 1, 2021 and September 1, 2022 base rate increases. In addition, Schedules 11/12 should receive 25% of the overall percentage base rate change for the September 1, 2022 increase. All other schedules, except Schedule 1, should receive a uniform percentage of the overall base rate revenue increase. The remaining revenue requirement should be spread to Schedule 1. For natural gas, the Parties agreed to a uniform percentage of distribution margin increase on September 1, 2021 and September 1, 2022.

[2] For the Natural Gas Tax Credit amortization, the Parties agree to begin amortizing the Company's natural gas tax basis benefit over ten years in this case and carrying through the Two-Year Rate Plan. However, the amortization period of the remaining balance available at the time of the Company's next general rate case will be subject to review and possible change of the amortization period at that time.

2022 a natural gas residential customer would see a $0.76, or 1.6%, increase per month for a revised monthly bill of $47.95.

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

The Stipulation calls for an overall rate of return of 7.05%, determined using a capital structure consisting of 50% common stock equity and 50% debt, an authorized return on equity of 9.4% and cost of debt of 4.7%.

With regard to the Two-Year Rate Plan, during the September 1, 2021 – August 31, 2023 rate period covered by this Stipulation, Avista will not file another electric or natural gas general rate case to increase base rates before February 1, 2023, and any such rates will not go into effect prior to September 1, 2023. This does not apply to tariff filings authorized by or contemplated by the terms of the PCA, FCA, Purchased Gas Cost Adjustment (PGA), or other miscellaneous annual/regular tariff filings.

Lastly, the Parties agreed to certain rate spread and rate design changes as described by Mr. Ehrbar in his supporting testimony, as well as other Stipulation components related to the PCA and FCA, as well as agreed-upon workshops and meetings/conferences.

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

A. The Stipulation is the product of settlement discussions held virtually on May 19, 2021 and June 4, 2021. It represents a compromise among differing points of view, with concessions made by the Parties, to reach a balancing of interests. 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 virtual conference discussions with Commission Staff, and hard bargaining by the Parties in this proceeding.

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 Stipulation enjoys broad-based support from a variety of constituencies, including CAPAI, Clearwater, Idaho Forest, ICL, Walmart, and Staff.

In addition, with the use of Tax Customer Credits to offset base rate changes over the Two-Year Rate Plan, the Stipulation provides no base rate change overall for electric customers in RY1, effective September 1, 2021, and an overall reduction of 0.8% in RY2, effective September 1, 2022. For natural gas, customers will see an overall reduction of 4.5% in RY1, effective September 1, 2021, and an overall increase of 1.5% in RY2, effective September 1, 2022.

[3] Avista responded to over 218 production requests (including sub-parts) from the Parties.

IV. ELECTRIC REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

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

A. The Parties agreed that electric revenue increases are necessary, effective September 1, 2021 and September 1, 2022. While Avista's filing requested electric revenue requirement increases of 24.8 million and $8.7 million, effective September 1, 2021 and September 1, 2022, respectively, the Parties agreed-upon adjustments, including the agreed-upon rate of return, result in recommended electric revenue increases of $10.6 million and $8.0 million, respectively. These increases are designed to provide sufficient retail revenues for the September 1, 2021 through August 31, 2023 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 Parties' agreement with regard to an Authorized Rate of Return, including the Return on Equity.

A. The Parties have agreed to an overall rate of return of 7.05%, based on a return on equity of 9.4%, an equity component at 50% and cost of debt of 4.7%. By comparison, the Company's original filing requested an overall rate of return of 7.30%, a return on equity of 9.9%, an equity component of 50% and cost of debt of 4.7%.

Q. Please provide an overview of the electric revenue requirement adjustments agreed to by the Parties for rates effective September 1, 2021 [Rate Year 1].

A. The Parties agreed to an electric revenue requirement effective

September 1, 2021, that reflects the adjustments shown below in the excerpted table from the Stipulation:

Table No. 1: Electric Revenue Requirement – RY1

SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT
EFFECTIVE SEPTEMBER 1, 2021
(000s of Dollars)

		Revenue Requirement	Rate Base
	Amount as Filed:	**$ 24,783**	**$ 864,166**
	Adjustments:		
a.)	Cost of Capital	$ (2,881)	
b.)	Company 2020/2021 Net Rate Base Updates	$ 640	$ 2,816
c.)	Miscellaneous Company Updates: Compass Regulatory Amortization, Regulatory Assessmant Fee, Colstrip/CS2 Major Maintenance, Insurance and Conversion Factor	$ (522)	
d.)	Restate Incentives and Officer Labor to 2019 Test Year Actuals	$ (426)	
e.)	Remove 2020 Non-Union and 2021 Labor Increases	$ (1,366)	
f.)	Remove Certain 2021 Capital Projects	$ (1,010)	$ (4,673)
g.)	Remove AMA 2022 Capital Additions	$ (1,438)	$ (22,341)
h.)	Adjust Wildfire Expenses	$ (727)	
i.)	Delay EIM Investment Recovery to September 1, 2022	$ (922)	$ (3,891)
j.)	Update Net Pro Forma Power Supply Expense and Transmission Revenues		
i.)	Update Pro Forma Gas Prices	$ 1,878	
ii.)	Include Palouse and Rattlesnake Wind PPA Contracts in PCA	$ (3,949)	
iii.)	Remove BPA Contract	$ (383)	
iv.)	Revise Transmission Revenues	$ (2,529)	
k.)	Restate Uncollectibles	$ (29)	
l.)	Fee Free Amortization	$ (58)	
m.)	Miscellaneous Adjustments: Board of Director Expenses, Injuries and Damages, Legal and Internal Auditing expenses, Gains on Sale of Property, Information Services expense and reclassification of other administrative and general	$ (462)	
	Adjusted Amounts Effective September 1, 2021	**$ 10,599**	**$ 836,077**

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 September 1, 2021, 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 $2.881 million. The agreed-upon cost of capital components are shown in the table below:

Component	Capital Structure	Cost	Weighted Cost
Debt	50%	4.70%	2.35%
Common Equity	50%	9.40%	4.70%
Total	100%		7.05%

Company 2020/2021 Net Rate Base Updates – (line b.) The 2020 and 2021 filed electric capital additions were updated by Avista to reflect adjustments to net rate base to update information related to 2020 and 2021 (January 1, 2020 through August 31, 2021) capital additions, including related depreciation expense, as well as the impact on Accumulated Depreciation and Accumulated Deferred Federal Income Taxes, to reflect balances as of August 31, 2021. This adjustment increases the overall revenue requirement by $640,000 and increases net rate base by $2.816 million.[4]

[4] Included in this adjustment were updated information associated with Avista's investment in its Colstrip Unit 3 and 4 generating facilities for the period 2020 and 2021, resulting in a reduction to net rate base of $2.081 million and reduced revenue requirement of $36,000 in RY1. The Parties otherwise accept the Colstrip Regulatory Amortization adjustment as filed by the Company, including approval of the Colstrip capital additions included in the Regulatory Asset through 2021, and the removal of Colstrip transmission assets from the calculation of the Regulatory Asset and amortization. The resulting regulatory amortization beginning September 1, 2021 totals approximately $887,000 annually. See discussion on revised depreciation rates below associated with the Colstrip Transmission assets.

<u>Miscellaneous Company Updates</u> – (line c.) This adjustment reflects adjustments to expenses to update information related to removal of the expiring Project Compass regulatory amortization, to correct the regulatory fee expense calculation and update for the current IPUC 2021 regulatory assessment fee, including its impact on the Revenue Conversion Factor, as well as adjustments to reflect actual major maintenance expense associated with the Company's Colstrip generation plant and actual insurance expense. This adjustment decreases the overall revenue requirement by $522,000.

<u>Restate Incentives and Officer Labor to 2019 Test Year Actuals</u> – (line d.) This adjustment reflects the removal of the six-year average incentives as proposed by the Company and 2020 incremental officer labor. This adjustment reflects actual incentive and officer labor at 2019 test period levels. This adjustment decreases the overall revenue requirement by $426,000.

<u>Remove 2020 Non-Union and 2021 Labor Increases</u> – (line e.) This adjustment removes 2020 non-union and 2021 union and non-union labor increases included by the Company, reflecting only labor salary levels of 2019 for non-union employees and 2020 for union employees. This adjustment decreases the overall revenue requirement by $1.366 million.

<u>Remove Certain 2021 Capital Projects</u> – (line f.) This adjustment removes certain capital investments related to: 1) Rattlesnake Flats Interconnection and Transmission/Substation projects; 2) 5% of certain IS/IT investments; and 3) 50% of the Customer Facing Technology projects. For settlement purposes, these projects have been removed from this rate case and will be reviewed in the Company's next

general rate case.[5] This adjustment decreases the overall revenue requirement by $1.01 million and reduces net rate base by $4.673 million.

Remove 2022 AMA Capital Additions – (line g.) This adjustment removes the Company's capital additions beyond August 31, 2021, included by the Company for Rate Year 1, reflecting only plant investment prior to the September 1, 2021, effective date. This adjustment decreases the overall revenue requirement by $1.438 million and reduces net rate base by $22.341 million.

Adjust Wildfire Expenses – (line h.) This adjustment reflects actual wildfire expenses for the period September 2020 through December 2020, as well as expected amounts from January 2021 through August 2021. The agreed-upon wildfire expense amount of $1.471 million establishes the "base" wildfire expense level for Rate Year 1. This adjustment decreases the overall revenue requirement by $727,000.

As discussed in paragraph 17 of the Stipulation, the Parties agree to a two-way Wildfire O&M Expense Balancing Account to defer the difference in actual O&M Wildfire expenses, up or down, from the authorized "base" level approved in Rate Year 1 of $1.471 million (and Rate Year 2 of $1.836 million discussed below). The balance in the deferral will be included for review and recovery in future general rate cases.

Delay EIM Recovery to September 1, 2022 – (line i.) This adjustment removes Energy Imbalance Market (EIM) investment expected to be in service by the March 1, 2022 "Go-Live" date. This investment is delayed for recovery until September 1, 2022. This adjustment decreases the overall revenue requirement by

[5] Each of the identified projects were described in the direct testimonies of Company witnesses Ms. Rosentrater, Mr. Kensok and Mr. Magalsky.

$922,000 and reduces net rate base by $3.891 million.

Power Supply and Transmission Related Net Expenses – (line j.) This item updates net Pro Forma Power Supply Expense and Transmission Revenues as follows:

- Update Pro Forma Gas Prices – (line i.) This adjustment restates pro forma power supply net expenses to reflect updated natural gas forward prices for September 2021 through August 2022 contract months. This adjustment increases the overall revenue requirement by $1.878 million.

- Palouse and Rattlesnake Flats Wind – (line ii.) This adjustment reflects the removal of the Palouse Wind and Rattlesnake Wind Power Purchase Agreements ("PPA") net expenses from base power supply expense but allows actual costs to be reflected in the PCA. This adjustment decreases the overall revenue requirement by $3.949 million. See further discussion at Exhibit No. 19, Paragraphs 10 (Palouse) and 11 (Rattlesnake) for further information.

- Remove BPA Contract – (line iii.) This adjustment reduces power supply expenses to reflect not having contracted with BPA for an additional 50 MW of firm transmission rights for Coyote Springs 2. The Company was recently notified by BPA that they retracted their offer for transmission services, indicating a lack of availability over that path. This adjustment decreases the overall revenue requirement by $383,000.

- Revise Transmission Revenues – (line iv.) This adjustment revises transmission revenues to reflect Idaho's share of: 1) a long-term firm point-to-point transmission service agreement with Idaho Power for 100 MW of service commencing on May 1, 2021, and continuing through April 30, 2026 ($829,000 Idaho); 2) four (4) months of a second long-term firm point-to-point transmission service agreement with Idaho Power for 100 MW of service commencing on May 1, 2022, and continuing through April 30, 2027 ($276,000 Idaho); 3) inclusion of the Company's FERC Transmission General Rate Case revenue increase expected to begin October 1, 2021 ($1.399 million Idaho); and 4) a correction to transmission revenue from the original Application ($25,000 Idaho). These resulting changes in transmission revenues will also be reflected in the PCA authorized base effective September 1, 2021. This adjustment decreases the overall revenue requirement by $2.529 million.

Restate Uncollectibles – (line k.) Avista has authority to defer uncollectible expense above the amount embedded in current rates into a COVID-19 Regulatory Asset Account.[6] This adjustment sets the uncollectible expense amount at the amounts approved in the previous rate case. This adjustment decreases the overall revenue requirement by $29,000.

Fee Free Amortization – (line l.) This adjustment revises the amortization expense of the Fee Free deferral balance ($291,000) to reflect a three-year amortization, beginning September 1, 2021, of approximately $91,000 annually.[7] This adjustment decreases the overall revenue requirement by $58,000.

Miscellaneous Adjustments – (line m.) This adjustment reflects the net change in operating expenses related to: 1) removing Board of Director expenses and fees ($189,000); 2) removing legal expenses allocated to Idaho electric ($50,000); 3) including Idaho's share of the gains on the sale of electric property in 2019 ($22,000); 4) removing internal audit expenses ($49,000); 5) removing injury and damages expenses from the six-year average ($4,000); 6) removing IS/IT expenses to reflect actual expenses in 2020 ($86,000); and 7) removing other miscellaneous A&G expenses ($26,000). The net effect of this adjustment decreases the overall revenue requirement by $462,000.

Q. Please summarize the impact of these adjustments on the electric revenue requirement agreed to by the Parties effective September 1, 2021 [Rate Year 1].

[6] See Case No. GNR-U-20-03, including Consolidated Avista Case Nos. AVU-E-20-03 and AVU-G-20-03.
[7] The Fee Free program allows customers to make payments by credit or debit card without paying a service fee. This program was approved in Commission Order No. 33494, case Nos. AVU-E-16-01 and AVU-G-16-01 and implemented in February 2017.

A. The adjustments discussed above, and agreed to by the Parties, reduce Avista's proposed RY1 electric revenue requirement increase of $24.8 million to an electric revenue requirement increase of $10.6 million, resulting in an overall 4.3% electric base rate increase, effective September 1, 2021. The net rate base agreed to by the Parties for electric services is $836.1 million.

Mr. Ehrbar discusses the overall net bill impact to customers in RY1 after the effect of Tariff Schedule 76 "Tax Customer Credit," which returns an amount equal to the base rate increase of $10.6 million, resulting in an overall 0.0% bill impact to customers September 1, 2021.

Q. Please provide an overview of the incremental electric revenue requirement components agreed to by the Parties effective September 1, 2022 [Rate Year 2].

A. The Parties agreed to an incremental electric revenue increase effective September 1, 2022 (RY2), that reflects the adjustments shown below in the excerpted table from the Stipulation:

<u>Table No. 2: Electric Revenue Requirement – RY2</u>

SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT
EFFECTIVE SEPTEMBER 1, 2022
(000s of Dollars)

		Revenue Requirement	Rate Base
	Rate Base Amount Effective September 1, 2021		**$ 836,077**
	Incremental Revenue Adjustment to September 1, 2021 Rate Change (see Tabel No. 1):		
a.)	Add EIM Investment	$ 922	$ 3,891
b.)	Add Incremental 2021/2022 Related Capital and Expenses:		
i.	Capital Additions	$ 4,266	$ 27,948
ii.	Property Tax Expense on 2021 Plant Additions	$ 786	
iii.	2020/2021 Labor Increase	$ 924	
iv.	IS/IT Expenses	$ 201	
v.	Wildfire Expenses	$ 365	
vi.	Colstrip/CS2 Major Maintenance	$ 381	
vii.	Colstrip Amortization	$ 155	$ 1,890
	September 1, 2022 Incremental Revenue Adjustment and Rate Base Amount (above September 1, 2021 Rate Change - see Table No. 1)	**$ 8,000**	**$ 869,806**

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 September 1, 2022 for RY2, follows.

<u>Add EIM Investment</u> – (line a.) Effective September 1, 2022, this adjustment reflects the EIM investment that will be in service by the March 1, 2022, "Go-Live" date. This adjustment increases the overall revenue requirement by $922,000, and increases net rate base by $3.891 million in Rate Year 2, above Rate Year 1 levels.[8]

<u>Add Incremental 2021/2022 Related Capital and Expenses to Rate Year 2 (incremental above Rate Year 1)</u> – (line b.) This item includes certain incremental increases in 2021 and 2022 related to capital and expenses in RY2, above RY1

[8]See further discussion regarding EIM at paragraph 18 of the Stipulation. Currently Idaho's share of its incremental EIM O&M expenses are being deferred per Order No. 34606 in Case No. AVU-E-20-01 until the expected "go live" date March 1, 2022. The Parties agree that effective with the expected "go live" March 1, 2022 date, the Company will begin to reflect Idaho's share of incremental EIM O&M expenses through the PCA up to Idaho's share of EIM benefits that also will flow through the PCA. Any incremental EIM O&M expenses exceeding EIM benefits would continue to be deferred for review and determination of recovery in a future proceeding.

levels, as follows:

- Capital Additions – (line i.) This adjustment includes certain 2021 capital additions from September 1, 2021 through August 31, 2022, prior to the RY2 September 1, 2022, effective date. This adjustment increases the overall revenue requirement by $4.266 million and increases net rate base by $27.948 million.
- Property Tax Expense on 2021 Capital Additions – (line ii.) This adjustment includes incremental property tax expense associated with 2021 capital additions at existing levy rates. This adjustment increases the overall revenue requirement by $786,000.
- 2020/2021 Labor Increases – (line iii.) This adjustment includes 2020 non-union annualized non-executive labor increases and 2021 union annualized labor increases. This adjustment increases the overall revenue requirement by $924,000.
- IS/IT Expenses – (line iv.) This adjustment reflects incremental 2021/2022 increases primarily associated with changes in contractual agreements, pre-paid costs, or the continuation of costs for products and services that will increase beyond the RY1 levels. This adjustment increases the overall revenue requirement by $201,000.
- Wildfire Expenses – (line v.) This adjustment reflects incremental 2021/2022 expected wildfire expense increases. As noted above, the Parties agree to a two-way Wildfire O&M Expense Balancing

Account to defer the difference in actual O&M Wildfire expenses, up or down, from the authorized "base" level, revised to $1.836 million for RY2. This adjustment increases the overall revenue requirement by $365,000. The balance in the deferral will be included for review and recovery in future general rate cases.

- Colstrip/CS2 Major Maintenance – (line vi.) This adjustment revises the Colstrip/CS2 Maintenance expense level included in RY1 to reflect the revised expense for RY2. This adjustment adjusts the Colstrip/CS2 Maintenance expense to one-third of each amount deferred for calendar years 2019 through 2021. This adjustment increases the overall revenue requirement by $381,000.
- Colstrip Amortization – (line vii.) This adjustment reflects the recovery of Avista's investment in the Colstrip Units 3 and 4 generating facilities (reflecting an accelerated depreciation rate of 2027), including the Colstrip capital additions between September 1, 2022 and August 31, 2023 on an AMA basis in the Colstrip Regulatory Asset, for recovery over its authorized amortization period. This adjustment increases the overall revenue requirement by $155,000 and increases net rate base by $1.89 million.[9]

[9] Included in this adjustment were updated information associated with Avista's investment in its Colstrip Unit 3 and 4 generating facilities for the period September 2022 through August 2023, resulting in an increase in RY2 net rate base from that as filed of $591,000, and a reduction to as-filed revenue requirement of $12,000. As noted above, the Parties otherwise accept the Colstrip Regulatory Amortization adjustment as filed and updated by the Company, including approval of the Colstrip capital additions included in the Regulatory Asset through August 2023. The resulting regulatory amortization beginning September 1, 2022 totals $929,000 annually. See also discussion on revised depreciation rates, immediately below, associated with the Colstrip Transmission assets.

Q. Please summarize the impact of these adjustments on the electric revenue requirement agreed to by the Parties effective September 1, 2022 [Rate Year 2].

A. The adjustments discussed above, and agreed to by the Parties, reduces Avista's RY2 electric revenue requirement of $8.7 million to $8.0 million, resulting in a 3.1% electric <u>base</u> rate increase, effective September 1, 2022. The Net rate base agreed to by the Parties for electric is $869.8 million.

Mr. Ehrbar discusses the overall net bill impact percentage to customers in RY2 after the effect of Tariff Schedule 76 "Tax Customer Credit," which returns an amount equal to the total base rate increase from RY1 ($10.6 million) and RY2 ($8.0 million), totaling $18.6 million, resulting in an overall RY2 rate decrease for customers of 0.8%.

V. COLSTRIP ACCOUNTING - CHANGE IN TRANSMISSION DEPRECIATION RATES

Q. Please describe the Colstrip Unit 3 and 4 Pro Forma Amortization Adjustment and the change of accounting for Colstrip transmission assets agreed to by the Parties.

A. As a part of the Stipulation the Parties agreed to Avista's Colstrip Unit 3 and 4 accounting for capital additions and amortization of the regulatory asset, as filed by the Company and pro formed in electric Adjustments (3.14) and (22.07) "Pro Forma Colstrip Amortization" for RY1 and RY2. The Company's as-filed adjustments were reduced by agreed-upon Colstrip capital and expense updates reflecting actual 2020 capital additions and 2021/2022 capital addition updates provided during the process of the case.

Pro Forma Colstrip Amortization Adjustments and the accounting agreed to by the Parties, as described below, reflects the approved treatment (with one modification for transmission assets) by the IPUC to recover Avista's investment in the Colstrip Units 3 and 4 generating facilities after reflecting an accelerated depreciation rate of 2027. This adjustment also reflects the recovery of Colstrip capital additions between January 1, 2020 and August 31, 2023, on an AMA basis for RY1 and RY2 within the Colstrip Regulatory Asset.

In the Company's filed case, it explained that the Commission's prior approval of the Colstrip Unit 3 and 4 accounting, per Order 34276 in Case No. AVU-E-18-03, included the deferral of Colstrip generation and transmission assets with accelerated depreciation to 2027, and the deferral of the excess amount of depreciation not included in customers' rates, be deferred in the Colstrip Regulatory Asset, with an amortization recovery over 30 years. After the accounting had been approved by the IPUC in Case No. AVU-E-18-03, the Company determined that the Colstrip transmission assets would have other uses after the Colstrip generating facility was no longer operational for Avista's purposes. Therefore, in this case the Company proposed, and the Parties support, removing the transmission assets from the accelerated depreciation/deferral accounting that has been approved by the Commission to date.

To accomplish this change in accounting, the Company adjusted the depreciation expense to be calculated on the Colstrip Transmission assets using the approved depreciation rates on non-Colstrip transmission assets. Due to the length of depreciation rates versus the regulatory amortization period being similar, there is little impact of this change on the annual revenue requirement recovered from customers, but for moving expense from an amortization expense back to a depreciation expense. This allows for the Colstrip transmission assets to be useful and depreciated after 2027.

The Parties, therefore, request that the Commission approve the depreciation rates provided in Table No. 3 below, with the approval of the Stipulation, thereby allowing Avista to properly record depreciation expense on its books for the Colstrip transmission assets as agreed to by the parties.[10]

Table No. 3 – Colstrip Transmission Assets

Colstrip Transmission Assets		
Asset Category	Existing Depreciation Rates	New Depreciation Rates (1)
ED.AN.350300	6.02%	1.07%
ED.AN.350400	6.02%	1.19%
ED.AN.352000	11.19%	1.63%
ED.AN.353000	5.69%	2.41%
ED.AN.353100	5.69%	2.41%
ED.AN.354000	6.75%	1.51%
ED.AN.355000	8.07%	1.93%
ED.AN.356000	8.25%	1.90%
ED.AN.359000	5.62%	1.41%
(1) Transmission asset depreciation rates above were approved in Docket AVU-E-18-03 for all non-Colstrip transmission assets.		

[10] The revised depreciation rates in Table No. 3 were not specifically called out in the Stipulation but were subsequently acknowledged and agreed to by the Parties. This change should be specifically addressed and approved in any Order approving the Stipulation.

VI. 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 Parties agreed that natural gas revenue changes are necessary, effective September 1, 2021 and September 1, 2022. While Avista's filing requested natural gas revenue requirement increases of $52,000 and $950,000, effective September 1, 2021 and September 1, 2022, respectively, the Parties agreed-upon adjustments, including the agreed-upon rate of return, result in a natural gas revenue decrease of $1.621 million effective September 1, 2021, and a natural gas revenue increase of $0.939 million effective September 1, 2022. These changes in revenue are designed to provide sufficient retail revenues for the September 1, 2021 through August 31, 2023 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 Parties have agreed to an overall rate of return of 7.05%, based on a return on equity of 9.4%, an equity component at 50% and cost of debt of 4.7%.

Q. Please provide an overview of the natural gas revenue requirement adjustments agreed to by the Parties for rates effective September 1, 2021 [Rate Year 1].

A. The Parties agreed to a natural gas revenue requirement effective

September 1, 2021, that reflects the adjustments shown below in the excerpted table from the Stipulation:

<u>Table No. 4: Natural Gas Revenue Requirement – RY1</u>

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT
EFFECTIVE SEPTEMBER 1, 2021
(000s of Dollars)

		Revenue Requirement		Rate Base	
	Amount as Filed:	**$**	**52**	**$**	**173,485**
	Adjustments:				
a.)	Cost of Capital	$	(578)		
b.)	Company 2020/2021 Net Rate Base Updates	$	(17)	$	(141)
c.)	Miscellaneous Company Updates: Regulatory Assessmant Fee, Insurance and Conversion Factor.	$	7		
d.)	Restate Incentives and Officer Labor to 2019 Test Year Actuals	$	(109)		
e.)	Remove 2020 Non-Union and 2021 Labor Increases	$	(436)		
f.)	Remove Certain 2021 Capital Projects	$	(345)	$	(1,117)
g.)	Remove AMA 2022 Capital Additions	$	(6)	$	(1,079)
h.)	Restate Uncollectibles	$	56		
i.)	Fee Free Amortization	$	(79)		
j.)	Miscellaneous Adjustments: Board of Director Expenses, Legal, Internal Auditing and Information Services expenses, and reclassification of other administrative and general expenses	$	(166)		
	Adjusted Amounts Effective September 1, 2021	**$**	**(1,621)**	**$**	**171,148**

Q. Would you 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 September 1, 2021, follows.

<u>Cost of Capital</u> – (line a.) As previously described (see above). This adjustment reduces the overall revenue requirement by $578,000.

<u>Company 2020/2021 Net Rate Base Updates</u> – (line b.) The 2020 and 2021 filed natural gas capital additions were updated by Avista to reflect adjustments to net rate base to update information related to 2020 and 2021 (January 1, 2020 through August 31, 2021) capital additions, including related depreciation expense,

as well as the impact on Accumulated Depreciation and Accumulated Deferred Federal Income Taxes, to reflect balances as of August 31, 2021. This adjustment decreases the overall revenue requirement by $17,000 and decreases net rate base by $141,000.

Miscellaneous Company Updates – (line c.) This adjustment reflects adjustments to expenses to correct the regulatory fee expense calculation and update for the current IPUC 2021 regulatory assessment fee, including its impact on the Revenue Conversion Factor, as well as adjustments to reflect actual insurance expense. This adjustment increases the overall revenue requirement by $7,000.

Restate Incentives and Officer Labor to 2019 Test Year Actuals – (line d.) This adjustment reflects the removal of the six-year average incentives as proposed by the Company and 2020 incremental officer labor. This adjustment reflects actual incentive and officer labor at 2019 test period levels. This adjustment decreases the overall revenue requirement by $109,000.

Remove 2020 Non-Union and 2021 Labor Increases – (line e.) This adjustment removes 2020 non-union and 2021 union and non-union labor increases included by the Company, reflecting labor salary levels of 2019 for non-union employees and 2020 for union employees. This adjustment decreases the overall revenue requirement by $436,000.

Remove Certain 2021 Capital Projects – (line f.) This adjustment removes certain capital investments related to: 1) 5% of certain IS/IT investments; 2) 50% of the Customer Facing Technology projects; 3) ER 3002 Regulator Station Replacement investment; 4) ER 3005 Non-Revenue (Failed Equipment) investment;

5) ER 3007 Isolated Steel Replacement investment; 6) ER 3055 PMC Program investment. For settlement purposes, these projects have been removed from this rate case and will be reviewed in the Company's next general rate case. This adjustment decreases the overall revenue requirement by $345,000 and reduces net rate base by $1.117 million.

Remove 2022 AMA Capital Additions – (line g.) This adjustment removes the Company's capital additions beyond August 31, 2021, included by the Company for Rate Year 2, reflecting only plant investment prior to the September 1, 2022 effective date. This adjustment decreases the overall revenue requirement by $6,000 and reduces net rate base by $1.079 million.

Restate Uncollectibles – (line h.) Avista has authority to defer uncollectible expense above the amount embedded in current rates into a COVID-19 Regulatory Asset Account. This adjustment sets the uncollectible expense amount at the amounts approved in the previous rate case. This adjustment increases the overall revenue requirement by $56,000.

Fee Free Amortization – (line i.) This adjustment revises the amortization expense of the Fee Free deferral balance ($475,000) to reflect a three-year amortization, beginning September 1, 2021, of approximately $158,000 annually.[11] This adjustment decreases the overall revenue requirement by $79,000.

Miscellaneous Adjustments – (line j.) This adjustment reflects the net change in operating expenses related to: 1) removing Board of Director expenses and fees ($48,000); 2) removing legal expenses allocated to Idaho natural gas ($13,000); 3)

[11] The Fee Free program allows customers to make payments by credit or debit card without paying a service fee. This program was approved in Commission Order No. 33494, case Nos. AVU-E-16-01 and AVU-G-16-01 and implemented in February 2017.

removing internal audit expenses ($13,000); 4) removing IS/IT expenses to reflect actual expenses in 2020 ($22,000); and 5) removing other miscellaneous A&G expenses ($70,000). The net effect of this adjustment decreases the overall revenue requirement by $166,000.

Q. Please summarize the impact of these adjustments on the natural gas revenue requirement agreed to by the Parties effective September 1, 2021 [Rate Year 1].

A. The adjustments discussed above, and agreed to by the Parties, reduce Avista's proposed RY1 natural gas revenue requirement increase of $52,000 to a natural gas revenue requirement decrease of $1.6 million, resulting in an overall 3.7% natural gas base rate decrease, effective September 1, 2021. The net rate base agreed to by the Parties for natural gas services is $171.1 million.

Mr. Ehrbar discusses the overall net bill impact to customers in RY1 after the effect of Tariff Schedule 176 "Tax Customer Credit," which returns the natural gas Tax Customer Credit of $12.1 million over ten years beginning September 1, 2021, resulting in an overall decrease in billed rates of 4.5%.[12]

Q. Please provide an overview of the incremental natural gas revenue requirement components agreed to by the Parties effective September 1, 2022 [Rate Year 2].

A. The Parties agreed to an incremental natural gas revenue increase effective September 1, 2022 (RY2), that reflects the adjustments shown below in the

[12] The Parties agree to begin amortizing the Company's natural gas tax basis benefit over ten years in this case and carrying through the Two-Year Rate Plan. However, the amortization period of the remaining balance available at the time of the Company's next general rate case will be subject to review and possible change of the amortization period at that time. See paragraph 16 of Stipulation.

excerpted table from the Stipulation:

Table No. 5: Natural Gas Revenue Requirement – RY2

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT EFFECTIVE SEPTEMBER 1, 2022 (000s of Dollars)		Revenue Requirement	Rate Base
	Rate Base Amount Effective September 1, 2021		**$ 171,148**
	Incremental Revenue Adjustment to September 1, 2021 Rate Change (see Tabel No. 1):		
a.)	Add Incremental 2021/2022 Related Capital and Expenses:		
i.	Capital Additions	$ 458	$ 1,163
ii.	Property Tax Expense on 2021 Plant Additions	$ 134	
iii.	2020/2021 Labor Increase	$ 297	
iv.	IS/IT Expenses	$ 50	
	September 1, 2022 Incremental Revenue Adjustment and Rate Base Amount (above September 1, 2021 Rate Change - see Table No. 1)	**$ 939**	**$ 172,311**

Q. Please elaborate on the individual line items contained within Table No. 5.

A. A description of the adjustments resulting in the natural gas revenue requirement, effective September 1, 2022 for RY2, follows.

Add Incremental 2021/2022 Related Capital and Expenses to Rate Year 2 (incremental above Rate Year 1) – (line a.) This item includes certain incremental increases in 2021 and 2022 related to capital and expenses in RY2, above RY1 levels, as follows:

- Capital Additions – (line i.) This adjustment includes certain 2021 capital additions from September 1, 2021 through August 31, 2022, prior to the RY2 September 1, 2022, effective date. This adjustment increases the overall revenue requirement by $458,000 and increases net rate base by $1.163 million.
- Property Tax Expense on 2021 Capital Additions – (line ii.) This

adjustment includes incremental property tax expense associated with 2021 capital additions at existing levy rates. This adjustment increases the overall revenue requirement by $134,000.

- 2020/2021 Labor Increases – (line iii.) This adjustment includes 2020 non-union annualized non-executive labor increases and 2021 union annualized labor increases. This adjustment increases the overall revenue requirement by $297,000.
- IS/IT Expenses – (line iv.) This adjustment reflects incremental 2021/2022 increases primarily associated with changes in contractual agreements, pre-paid costs, or the continuation of costs for products and services that will increase beyond the RY1 levels. This adjustment increases the overall revenue requirement by $50,000.

Q. Please summarize the impact of these adjustments on the natural gas revenue requirement agreed to by the Parties effective September 1, 2022 [Rate Year 2].

A. The adjustments discussed above, and agreed to by the Parties, decreases Avista's RY2 natural gas revenue requirement of $950,000 to $939,000, resulting in a 2.2% natural gas base rate increase, effective September 1, 2022. The net rate base agreed to by the Parties for natural gas is $172.3 million. Mr. Ehrbar discusses the overall net bill impact to customers in RY2, effective September 1, 2022, is 1.5%.

VII. 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 changes designed to provide necessary retail revenues over the Two-Year Rate Plan from September 1, 2021 through August 31, 2023. The Parties have agreed that the Company has demonstrated the need for the revenue changes for its electric and natural gas operations, thus providing recovery of its costs over the 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.