BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

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IDAHO PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE FOR ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	))))))))	CASE NO. AVU-E-21-01 AVU-G-21-01

DIRECT TESTIMONY OF DONN ENGLISH
IN SUPPORT OF THE STIPULATION
AND SETTLEMENT

IDAHO PUBLIC UTILITIES COMMISSION

JULY 19, 2021

Q. Please state your name and business address?

A. My name is Donn English. My business address is 11331 W. Chinden Blvd., BLDG 8, STE 201-A, Boise, Idaho 83714.

Q. By whom are you employed and in what capacity?

A. I am employed by the Idaho Public Utilities Commission as a Program Manager overseeing the Accounting and Audit Department in the Utilities Division. I am also the Program Manager overseeing the Technical Analysis Department, also within the Utilities Division.

Q. Please describe your educational background and professional experience.

A. My educational background and professional experiences are shown in Exhibit No. 101.

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

A. The purpose of my testimony is to describe the Application of Avista Corporation ("Avista" or "Company") to increase its rates and charges for electric and natural gas service in Idaho, describe the proposed comprehensive Stipulation and Settlement ("Settlement") reached by the parties in this case, and explain Staff's support for the stipulated revenue requirement. Staff witness Mike Louis' testimony provides support for cost of service and rate design issues agreed to by the parties and also discusses the appropriate level of net power supply expenses to include in base rates.

Q. How is your testimony organized?

A. My testimony is subdivided under the following headings:

Background

Q. Please describe Avista's original filing.

A. Avista made its original filing with the Idaho Public Utilities Commission ("Commission") on January 29, 2021, proposing a two-year rate plan to increase its revenue. The Company requested authority to increase its electric base revenue in Idaho by $24.8 million, or 10.1%, effective September 1, 2021, and $8.7 million, or 3.2%, effective September 1, 2022. For natural gas, the Company requested an increase in base revenue of $52,000, or 0.1%, effective September 1, 2021, and $1.0 million, or 2.2%, effective September 1, 2022. With the two-year rate plan, the Company would not file another general rate case with a proposed effective date prior to September 1, 2023.

The Company's requested increases were based on a test period ending December 31, 2019, with specific expense adjustments based on pro forma period ending August 31, 2021, for the first increase in the two-year rate plan, and August 31, 2022, for the second increase. Capital additions through August 31, 2022, were included in the Company's proposed first-year increase and calculated on an Average of Monthly Averages ("AMA") basis. For the second year of the rate plan, capital additions were included through August 31, 2023, and were also calculated on an AMA basis.

The Company proposed using a capital structure of 50% equity and 50% debt, and a return on common equity ("ROE") of 9.9%, for an overall weighted average cost of capital of 7.3%.

Q. How did the Company propose to mitigate the effect of its requested increase on customers?

A. In Order No. 34906, the Commission approved the Company's Tax Accounting Application request authorizing it to change its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant basis adjustments, including Industry Director Directive No. 5 ("IDD #5") and meters (Case Nos. AVU-E-20-12 and AVU-G-20-07). The change in accounting method provided immediate benefits to Idaho customers, which Avista recorded in a regulatory liability account.

Avista proposed to amortize and return those deferred tax benefits to customers ($31.3 million Idaho electric and $12.1 million Idaho natural gas) through separate tariff schedules, Tax Customer Credit Tariff Schedule 76 (electric) and 176 (natural gas), to offset the requested increases.

For Idaho electric customers, the Company proposed to use the tax benefit to offset the entire first-year rate increase, resulting in no billed impact to electric customers until approximately December of 2022. For Idaho natural gas customers, the Company proposed a ten-year amortization of the tax benefits, resulting in a first year decrease in billed rates of approximately 1.8%. For the second year, the Company proposed to offset the requested increase of approximately $1.0 million by using the "Natural Gas Deferred Depreciation Expense" regulatory liability approved in Order No. 34276 in Case Nos. AVU-E-18-03 and AVU-G-18-02 (see Settlement at page 9, para. 14). The Natural Gas Deferred Depreciation Expense balance is estimated to be approximately $900,000 through August 31, 2021. Under the Company's proposal, Idaho natural gas customers would see a second-year increase in billed rates of approximately 0.1%.

Q. How was this case processed after the Company's filing was received?

A. The Commission issued a combined Notice of Application and Notice of Intervention Deadline ("Notice") on February 23, 2021, establishing an Intervention Deadline of March 16, 2021. Intervenor status was subsequently granted to Clearwater Paper Corporation, Idaho Forest Group, LLC, the Community Action Partnership Association of Idaho, Inc., the Idaho Conservation League, and Walmart Inc., (collectively referred to as the "Parties"). The Parties participated in two settlement conferences, and on June 14, 2021, the proposed settlement signed by all Parties was filed with the Commission.

Staff Investigation

Q. What type of investigation did Staff conduct to evaluate the Company's rate increase request?

A. Staff's approach in any general rate case is to extensively review the Company's Application and associated testimony and workpapers, identify adjustments to its revenue requirement, and prepare to file testimony for a fully-litigated proceeding. There were 17 Staff members analyzing this case consisting of auditors, engineers, utility analysts, and consumer investigators, along with supervisors. Staff auditors reviewed the Company's test year results of operations, capital budgets, capital spending trends, operations, and maintenance ("O&M") expenses and trends, and verified all of the Company's calculations and assumptions with regard to the overall revenue requirement. Because of the public health emergency due to the COVID-19 virus, Staff members were not able to conduct onsite audits or reviews of the Company's books and records and they did not have extensive in-person interviews with Company personnel. However, the auditors reviewed thousands of transactions, selected samples, and performed transaction testing in accordance with standard audit practices. Staff reviewed the Company's labor expense, incentive plans, and employee benefits to ensure the appropriate level of expenditures are included in rates.

Staff reviewed both completed and proposed Company investments to determine the prudence of capital additions. Expenditures including pension expense, salaries, and O&M expenses were also examined. Additionally, Staff investigated the Company's cost of capital, actual and proposed capital structure, cost of service, and revenue normalization. In total, Staff submitted over 180 production requests and held several virtual meetings with Company personnel as a part of its comprehensive investigation.

Based on the success of its investigation, Staff proposed 27 separate revenue requirement adjustments during settlement discussions, all of which were either completely or partially accepted by the Company.

Settlement Evaluation

Q. How did Staff determine that the overall Settlement was reasonable?

A. In every settlement evaluation, Staff and other parties must examine the risks of losing positions at hearing and determine if the agreement is a better overall outcome. Staff must evaluate each individual adjustment and determine the likelihood of the Commission accepting or rejecting Staff's rationale for the adjustment. Ultimately, Staff's intent in every settlement conference is to negotiate the best possible outcome for customers.

Q. Does Staff support the Settlement as reasonable?

A. Yes. After a comprehensive review of the Company's Application, thorough audit of the Company's books and records, and extensive negotiations with the parties to the case, Staff supports the proposed Settlement. The Settlement offers a reasonable balance between the Company's opportunity to earn a reasonable return on its investment and affordable rates for customers. Staff believes the Settlement, supported by the Parties, is in the public interest, fair, just, and reasonable; and should be approved by the Commission.

Settlement Overview

Q. Would you please describe the terms of the

Settlement?

A. The proposed Settlement provides a reduction in the Company's requested revenue requirement. Instead of the Company's proposed electric base rate increase $24.8 million (10.1%) and natural gas base rate increase of $52,000 (0.1%) for the first year of the two-year rate plan, base rates under the proposed Settlement for Idaho electric customers will increase by $10.6 million (4.3%), and natural gas customers will see a base rate decrease of $1.6 million (3.7%) effective September 1, 2021. On September 1, 2022, Idaho electric customers' base rates under the proposed Settlement will increase by $8.0 million (3.1%) compared to the proposed $8.7 million (3.5%), while natural gas customers' base rates will increase by $0.9 million. These base rate increases are before any offsets from the Tax Customer Credit Schedule Nos. 76 and 176.

The Tax Customer Credit Schedule No. 76 will entirely offset the base rate increases under the proposed Settlement for Idaho electric customers for both years of the two-year rate plan. Schedule No. 176 will amortize the available tax deferral balance for Idaho natural gas customers over 10 years which will result in a billed rate decrease of 4.5% on September 1, 2021, and a billed rate increase of 1.5% on September 1, 2022, under the proposed Settlement. During the Company's next general rate case, the remaining balance of the Customer Tax Credit for natural gas and the remaining amortization will be revisited and possibly modified.

Q. How was the stipulated revenue requirement derived?

A. The Settlement first-year revenue requirement was calculated by starting with the Company's proposed revenue requirement and subtracting the agreed upon adjustments proposed by Staff and the Parties. The calculation of the Settlement revenue requirement is shown on Table No. 1 (electric) and Table No. 3 (natural gas) of the Settlement. Table No. 2 (electric) and Table No. 4 (natural gas) illustrate the additional proforma adjustments accepted by the Parties to come to a second-year revenue requirement under the proposed Settlement. Several agreed upon adjustments to the Company's revenue requirement were timing differences where amortization periods were extended, while other adjustments updated the Company's proforma estimates to actual amounts as they became known. Rather than discuss every adjustment that was proposed and agreed upon, I will highlight the adjustments that had a significant impact to revenue requirement and those that require additional policy discussions.

Q. Please explain the cost of capital and return on equity components of the Settlement.

A. In its Application, Avista proposed a 50% common equity ratio and a 9.9% ROE. The Parties agreed to a ROE of 9.4% while accepting the 50% common equity ratio. A 9.4% ROE reduces the Company's requested first-year electric revenue requirement by approximately $2.9 million and requested first-year natural gas revenue requirement by approximately $0.6 million.

Q. How does the Settlement account for the Company's capital investments in net rate base?

A. In its Application, the Company proposed to include capital investments through August 31, 2022, in the calculation of net rate base for the first-year increase. The Parties agreed that only capital investments scheduled to be placed in service before August 31, 2021, will be included in the first-year revenue requirement. Those capital additions will be in service and benefitting customers when new rates are effective on September 1, 2021.

For the second-year increase effective September 1, 2022, the Company proposed capital additions through August 31, 2023, to be included in the calculation of net rate base. The Parties agreed that any capital investment after August 31, 2022 would be excluded, and the Settlement revenue requirement for the second-year of the rate plan would only include a portion of the Company's capital investments from September 1, 2021, through August 31, 2022.

Q. Does the Settlement address any specific capital projects?

A. Yes, for settlement purposes, the Rattlesnake Flats Interconnection and Transmission/Substation projects were removed from the Company's net rate base. Additionally, 5% of certain IS/IT investments and 50% of the Customer Facing Technology projects were removed. The Parties agree that these projects will be further reviewed in the Company's next general rate case.

Q. Will you please summarize how employee labor and incentive payments are accounted for in the Settlement?

A. For executive compensation, all wage increases, and incentive payments were removed from revenue requirement consistent with Staff's recommendation in other rate cases. The Company will recover the Idaho jurisdictional portion of executive salaries at the 2019 test year level.

For non-executive labor, the Company will recover the 2019 Idaho jurisdictional portion of employee salaries plus the contractually obligated 2020 bargaining unit ("union") increases during the first year of the two-year rate plan. On September 1, 2022, the Company will begin recovering the 2020 non-union annualized labor increases as well at the 2021 union annualized labor increases.

The Company proposed to recover the 6-year average of Idaho's jurisdictional share of non-executive incentive payments. The Settlement provides recovery of non-executive incentive payments at the 2019 test year target levels, reducing the proposed revenue requirement. Staff believes that recovery of employee incentive payments should not be greater than the Company's actual target levels.

Q. Please discuss the adjustment to the Company's proposed Wildfire Expenses.

A. This adjustment includes in revenue requirement the Company's actual wildfire expenses for the period September 1, 2020, through December 31, 2021, as well as expected amounts from January 2021 through August 2021. The Idaho electric jurisdictional share of $1.471 million establishes the base level of wildfire expense recovery and reduces the first-year revenue requirement by $727,000. During the second year of the rate plan, the base level of wildfire expenses included in revenue requirement increases to $1.836 million.

In Order No. 34883, Case No. AVU-E-20-05, the Company received approval to defer into a regulatory asset account the incremental expenses associated with the Company's Wildfire Mitigation Plan. The Company will continue to defer any difference in actual wildfire expense from the authorized level approved in base rates into the Wildfire Expense Balancing Account. The balance in the deferral will be included for review and recovery in a future general rate case.

Q. How does the Settlement account for investments the Company has made to join the Energy Imbalance Market ("EIM")?

A. The Company included its capital investments in preparing to join the EIM_ in the first-year rate increase. Because the expected "Go-Live" date for the Company's participation in the EIM is not until March 1, 2022, the Parties agreed to delay recovery of this investment until the second-year rate increase effective on September 1, 2022.

Per Order No. 34606 in Case No. AVU-E-20-01, the Idaho jurisdictional share of the incremental EIM O&M expenses are being deferred until the expected "Go-Live" date. The Parties agree that effective with the expected March 1, 2022 "Go-Live" date, the Company will begin to reflect Idaho's share of incremental EIM O&M expenses through the annual Power Cost Adjustment ("PCA") mechanism, up to Idaho's share of the EIM benefits that will also flow through the PCA. Any incremental EIM O&M expenses exceeding the EIM benefits will continue to be deferred and reviewed for recovery in a future proceeding.

Q. Do you have any other comments on the Settlement?

A. Yes. Staff believes that an important aspect of a two-year rate plan is to provide rate stability and certainty to customers. Although not explicitly stated in the Settlement, the Parties agreed that other than this two-year rate plan, base rates from a general rate case filing would not increase before September 1, 2023. Stability and certainty in rates only occur if the Company does not file another general rate case during the two-year rate plan. Therefore, it is important that the Commission order in this case require the Company not to file another general rate case with rates effective prior to September 1, 2023. With that caveat, Staff believes the Settlement represents a fair, just, and reasonable compromise of the positions put forth by all parties and is in the public interest. Therefore, Staff recommends the Commission approve the Settlement without material changes or modifications.

Colstrip Transmission Investments

Q. Please provide a brief summary of the accounting treatment approved by the Commission for Colstrip Units 3 and 4.

A. In Order No. 34276 in Case No. AVU-E-18-03, the Commission approved the Settlement Stipulation proposed by the settling parties regarding Avista's recovery of its undepreciated investment in Colstrip Units 3 and 4 and the asset retirement obligations ("ARO") for Colstrip, assuming a useful life of those units through December 31, 2027. The current level of Idaho's share of the depreciation expense ($2.475 million annually) would continue to be recovered through December 31, 2027. The undepreciated balance as of December 31, 2027, and the ARO would be offset by $6.41 million of tax credits derived from the Tax Cuts and Jobs Act of 2018. The remaining balance not recovered through depreciation will be recovered through the amortization of a Regulatory Asset (FERC Account No. 183.327 - Colstrip Regulatory Asset) and amortized over 34.75 years (beginning April 1, 2019) through 2053. The Colstrip Regulatory Asset, net of accumulated deferred federal income taxes, is included in rate base.

Q. Does the Settlement change the accounting treatment for Colstrip Units 3 and 4?

A. No, the Settlement is silent on the accounting treatment for Colstrip. However, Company witness Andrews testimony discusses Avista's proposal to remove transmission assets from the Colstrip Regulatory Asset and begin depreciating those transmission assets using the same depreciation rates approved for non-Colstrip transmission assets. The Company has determined that the transmission assets will be functional if and when Colstrip generating units are no longer functional. Therefore, the Company proposed to move the Colstrip transmission assets from the Regulatory Asset account to Plant in Service.

Although the Settlement is silent on this accounting proposal, the stipulated revenue requirement accounts for a reduction in the Colstrip amortization expense by $125,000. On June 24, 2021, after the Settlement was signed by all Parties and filed with the Commission, Avista sent an email to the Parties explaining that the Settlement did not address the new depreciation rates for the Colstrip transmission assets, although embedded in the agreed upon revenue requirement. Because Avista must use the updated depreciation rates on its books to match the accounting for the Colstrip transmission assets, the Commission must approve the change in depreciation rates in an order. All Parties to the case concurred that the Commission Order in this case should address the depreciation rates for the Colstrip transmission assets.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JULY 2021, SERVED THE FOREGOING **DIRECT TESTIMONY OF DONN ENGLISH IN SUPPORT OF THE STIPULATION AND SETTLEMENT,** IN CASE NOS. AVU-E-21-01/AVU-G-21-01, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

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