

[Service Date January 6, 2016]

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	DOCKETS UE-150204 and
TRANSPORTATION COMMISSION,	)	UG-150205 ( <i>Consolidated</i> )
	)	
Complainant,	)	ORDER 05
	)	
v.	)	FINAL ORDER REJECTING TARIFF
	)	FILING, ACCEPTING PARTIAL
AVISTA CORPORATION dba	)	SETTLEMENT STIPULATION,
AVISTA UTILITIES,	)	AUTHORIZING TARIFF FILINGS
	)	
Respondent.	)	
	)	
.....	)	

*Synopsis: The Commission rejects the revised tariff sheets Avista Corporation dba Avista Utilities (Avista or Company) filed on February 9, 2015, that would have increased rates for the Company's electric customers by 6.7 percent, raising \$33.2 million in additional revenue for Avista, and its tariff sheets that would have increased rates for Avista's natural gas customers by 6.9 percent, raising \$12 million in additional revenue for the Company, if either had been approved by the Commission.*

*The Commission approves and accepts the partial, multiparty settlement stipulation filed on May 1, 2015, including the proposed capital structure of 9.5 percent return on equity, 7.29 percent rate of return, and 48.5 percent equity component.*

*Based on the evidence presented, the Commission authorizes and requires the Company to file revised tariff sheets with natural gas rates that will recover \$10.8 million, for a 6.3 percent increase in rates. Further, after full consideration of the record, the Commission authorizes and requires Avista to file revised tariff sheets with electric rates that will recover \$8.1 million less in revenue, for a 1.63 percent rate decrease.*

*Paragraph 6 of the Settlement, "Electric Rate Spread/Rate Design," only provides electric rate spread and rate design provisions for a revenue requirement increase. As we order a decrease in Avista's electric rates, this provision of the Settlement is moot. Instead, the Commission adopts an equitable approach to electric rate spread and rate design that apportions a uniform percentage rate decrease across Avista's rate schedules and schedule blocks.*

**Date:** 12-4-17 **Exh #** 74  
**Regulatory Commission of Alaska**  
U-16-094 By: JL U-17-008  
 Northern Lights Realtime & Reporting, Inc.  
 (907) 337-2221

*The Commission finds Staff's methodology for electric pro forma plant additions well principled and audited and accepts the pro forma plant additions as Staff has proposed. We also approve Staff's adjustment updating the test year to reflect the results of the 2014 Commission Basis Report.*

*With regard to the Company's claims of attrition eroding its earnings for both its natural gas and electric operations, the Commission recognizes that Avista has been underearning in its natural gas operations for many years. The Company has engaged in rapid replacement and improvement of gas distribution infrastructure, driven largely by safety and reliability concerns as well as compliance with Commission orders and policies supporting replacement of pipe that has a high risk of failure. We acknowledge that Avista is likely to experience attrition in its natural gas operations in the rate year, and therefore accept Staff's attrition methodology, with a slight change in the escalation rate for the period 2007 to 2014, for the purposes of setting rates for Avista's natural gas operations. The Commission allows a natural gas attrition adjustment in the amount of \$6.8 million.*

*Although the Company has shown a recent balanced financial position on its electric operations, we are concerned this will not continue for the foreseeable future and, absent an attrition adjustment, that the Company may not have an opportunity to achieve earnings on electric operations at or near authorized levels. Thus, we grant an attrition adjustment to the modified test year amounts for Avista's electric service. We make two modifications to Staff's attrition analysis to arrive at the attrition adjustment we authorize today. Similar to the methodology for attrition for natural gas, we modify the escalation rate applied to the 2007-2014 time period. Further, we reduce to zero the escalation rate for distribution plant capital investments and expenses. After these changes to the methodology based on the facts and circumstances of this case, we find the revenue requirement for Avista's electric service should be reduced by \$8.1 million, based upon the results of a modified historical test year with known and measurable pro forma adjustments, including an attrition adjustment of \$28.3 million.*

*For operations and maintenance expenses at all thermal plants except Colstrip and Coyote Springs 2, we authorize Avista to use test year actual expenses as the test year expenses are sufficiently reflective of historical data for use in setting rates. With regard to major maintenance at Colstrip and Coyote Springs 2, we find Staff's proposal to normalize major maintenance expenses a reasonable approach to allow Avista to recover these costs.*

*The Commission also resolves several contested adjustments, including Project Compass. We reject Staff's recommended disallowance of \$12.7 million of Project Compass' capital costs relating to the extended timeline and the Project Compass bonus plan. Avista demonstrated that it acted prudently in retaining its contractor to implement Project Compass. The Company considered switching to a different contractor and decided against it since this would have resulted in an extended timeline for the project that would have been more costly. Further, the Commission finds that Avista carried its burden to show that the Project Compass bonus plan was used to motivate employees to complete an essential project and that the bonuses were approved through appropriate channels.*

*We decline to rule on the prudence of Avista's proposed advanced metering infrastructure in this case because the issue is not ripe for Commission determination. Should the Company choose to do so, it may file an accounting petition requesting deferred accounting treatment of metering costs.*

*The Commission approves the Company's adjustment increasing 2014 wages and 2015 union wages, but we reject the 2015 non-union increase and the 2016 increases as they are not known and measurable expenses. We reject Avista's proposal to adjust the amount of time its executives allocate to Washington utility work because these projections are similarly not known and measurable.*

*The Commission approves a plan consistent with Avista's five-year plan to increase funding for the Low-Income Rate Assistance Program by seven percent or twice the percentage increase in the residential electric and natural gas base rates as reasonable. In its compliance tariff filing, Avista is directed to increase funding for Schedule 92 by 7 percent and Schedule 192 by twice the percentage base rate increase for Schedule 101 customers, or 12.6 percent, as well as identify each assistance service available to its customers and their eligibility requirements.*

**TABLE OF CONTENTS**

SUMMARY .....	5
MEMORANDUM .....	6
I. Background and Procedural History .....	6
II. Settlement Stipulation .....	8
A. Terms and Conditions .....	8
1. Summary .....	8
2. Joint Testimony in Support of Settlement .....	9
B. Discussion/Decision .....	11
III. Contested Issues .....	13
A. Pro Forma Plant Additions .....	13
B. Attrition .....	18
1. Historical Context .....	19
2. Positions of the Parties .....	27
3. Discussion and Decision .....	37
C. Generation Plant Operations and Maintenance .....	53
D. Project Compass .....	57
E. Advanced Metering Infrastructure .....	63
F. Labor Expenses .....	71
1. Non-Executive Wages .....	71
2. Executive compensation .....	73
G. Low-Income Rate Assistance Program .....	76
H. Miscellaneous Expenses .....	80
FINDINGS OF FACT .....	87
CONCLUSIONS OF LAW .....	90
ORDER .....	93
APPENDIX A .....	95
TABLE A1 .....	96
TABLE A2 .....	97
APPENDIX B .....	98
TABLE B1 .....	99
TABLE B2 .....	100
APPENDIX C .....	101

SUMMARY

- 1 **PROCEEDINGS:** On February 9, 2015, Avista Corporation d/b/a Avista Utilities (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-28, Electric Service. The Company requested authority to increase charges and rates for electric service by approximately \$33.2 million or 6.7 percent in billed rates. This matter has been designated by the Commission as Docket UE-150204.
- 2 Also on February 9, 2015, Avista filed revisions to its currently effective Tariff WN U-29, Natural Gas Service. In this filing, Avista seeks to increase rates for natural gas service by approximately \$12 million or 6.9 percent in billed rates. This matter has been designated as Docket UG-150205. In Order 01, Complaint and Order Suspending Tariff Revisions and Order of Consolidation, the Commission suspended these tariff revisions and consolidated Dockets UE-150204 and UG-150205 for hearing.
- 3 **PARTY REPRESENTATIVES:** David J. Meyer, Vice President and Chief Counsel for Regulatory and Governmental Affairs, Spokane, Washington, represents Avista. Lisa W. Gafken, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Division of the Washington State Attorney General's Office (Public Counsel). Patrick J. Oshie, Jennifer Cameron-Rulkowski, Christopher Casey, and Brett P. Shearer, Assistant Attorneys General, Olympia, Washington, represent the Commission's regulatory staff (Staff).<sup>1</sup>
- 4 Melinda Davison and Jesse E. Cowell, Davison Van Cleve, P.C., Portland, Oregon, represent the Industrial Customers of Northwest Utilities (ICNU). Chad M. Stokes and Tommy A. Brooks, Cable Huston, Portland, Oregon, represent the Northwest Industrial Gas Users (NWIGU). Ronald L. Roseman, attorney, Seattle, Washington, represents The Energy Project.

---

<sup>1</sup> In formal proceedings, such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. See, RCW 34.05.455.

5 **COMMISSION DETERMINATIONS:** The Commission authorizes Avista to file revised tariff sheets reflecting an electric revenue requirement decrease of \$8.1 million or 1.63 percent and a natural gas revenue requirement increase of \$10.8 million or 6.3 percent. The Commission approves and accepts the partial, multiparty settlement stipulation (Settlement), including the 7.29 percent rate of return (ROR), the 9.5 percent return on equity (ROE), and the 48.5 percent common equity capital structure. The Commission finds that paragraph 6 of the Settlement, which addresses electric rate spread and rate design for an increase in the revenue requirement, is moot. We adopt an equitable approach to the Company's electric rate spread and rate design that apportions a uniform percentage rate decrease across rate schedules and schedule blocks.

### MEMORANDUM

#### I. Background and Procedural History

6 On February 9, 2015, Avista filed revisions to its currently effective Tariff WN U-28, Electric Service, and Tariff WN U-29, Gas Service. The Company requested authority to increase charges and rates for electric service by approximately \$33.2 million, or 6.7 percent in billed rates. The Company also requested a natural gas rate increase of \$12 million, or 6.9 percent in billed rates. The Commission suspended operation of the tariffs and consolidated the dockets for hearing.

7 Avista based its initial request on a test year from October 1, 2013, through September 30, 2014. The filing included proposals for the following:

- An overall ROR of 7.46 percent.<sup>2</sup>
- An ROE of 9.9 percent.<sup>3</sup>
- A capital structure consisting of 48.0 percent equity and 52.0 percent debt.<sup>4</sup>
- An attrition adjustment for both its electric and natural gas operations.

---

<sup>2</sup> Morris, Exh. No. SLM-1T at 3:4-5 and 3:20-21.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

- 8 On March 12, 2015, the Commission conducted a prehearing conference before Administrative Law Judge Marguerite E. Friedlander. On May 1, 2015, Avista, Staff, Public Counsel, NWIGU, and ICNU filed a partial, multiparty settlement stipulation (Settlement), which is attached to, and incorporated as Appendix C to this order.<sup>5</sup> The Settling Parties filed testimony in support of the Settlement on July 24, 2015.
- 9 Staff, NWIGU, ICNU, The Energy Project, and Public Counsel filed response testimony and exhibits regarding the remaining issues on July 27, 2015. On September 4, 2015, the Company filed rebuttal testimony and exhibits, while Staff, ICNU, and Public Counsel filed cross-answering testimony and exhibits on select issues. The Commission held public comment hearings in both Spokane, and Spokane Valley, Washington, on September 15, 2015, and September 16, 2015, respectively. In total, the Commission and Public Counsel received 105 comments regarding the proposed rate increases from Washington customers, with 97 comments opposing the increases, no comments supporting the increases, and 8 comments neither supporting nor opposing.<sup>6</sup>
- 10 On October 5-6, 2015, the Commission convened an evidentiary hearing at its headquarters in Olympia, Washington, to address the remaining contested issues outside of the Settlement. Chairman David W. Danner, Commissioner Philip B. Jones, and Commissioner Ann E. Rendahl were assisted at the bench by Judge Friedlander. Altogether, the record includes more than 250 exhibits admitted during the evidentiary hearing. The transcript of this proceeding exceeds 600 pages in length.
- 11 On November 4, 2015, Avista, The Energy Project, NWIGU, ICNU, Staff, and Public Counsel filed post hearing briefs.<sup>7</sup>

---

<sup>5</sup> See Appendix C following this Order. The Energy Project did not join in the Settlement; however, The Energy Project did not file testimony in opposition to the Settlement.

<sup>6</sup> Exh. No. 6.

<sup>7</sup> Staff filed a Motion for Leave to File Supplemental Argument on Brief (Motion) on December 4, 2015. This Motion was denied on December 8, 2015, by Order 04.



## II. Settlement Stipulation

### A. Terms and Conditions

#### 1. Summary

12 On May 1, 2015, Avista, Staff, Public Counsel, ICNU, and NWIGU filed a Settlement to resolve certain issues pertaining to the Company's cost of capital, power supply, rate spread, and rate design.<sup>8</sup> The effect of the Settlement reduced Avista's requested electric revenue requirement from \$33.2 million to \$17 million and its requested natural gas revenue requirement from \$12 million to \$11.3 million.<sup>9</sup> The Settlement provided for a 9.5 percent ROE and an overall ROR of 7.29 percent.<sup>10</sup> The Company agreed to file an updated power supply adjustment two months prior to new electric rates from this proceeding going into effect.<sup>11</sup> The Company's update to the power supply adjustment was filed on October 29, 2015, and reduced the electric revenue requirement by \$12.3 million.<sup>12</sup>

13 The Settlement also provided for a further reduction in power supply costs by \$1.5 million at the time that the Company provided its update.<sup>13</sup> The Energy Recovery Mechanism trigger remained at \$30 million, and the methodology as well as the proper name for the Retail Revenue Adjustment would not change.<sup>14</sup> The Settlement provided for an equal percentage of revenue increase for purposes of spreading the electric and natural gas revenue requirements.<sup>15</sup>

---

<sup>8</sup> Settlement, ¶ 3.

<sup>9</sup> Joint Motion for an Order Approving Settlement, ¶ 2.

<sup>10</sup> *Id.*, ¶ 4.

<sup>11</sup> *Id.*, ¶ 5. The statutory effective date of Avista's general rate request in these combined dockets is January 11, 2016.

<sup>12</sup> *Id.*

<sup>13</sup> Settlement, ¶ 5(c).

<sup>14</sup> *Id.*, ¶¶ 5(d) and (e).

<sup>15</sup> *Id.*, ¶¶ 6(a) and 7(a).



14 The settling parties proposed an electric rate design to address any revenue requirement increase the Commission may approve. However, the Settlement did not offer a proposal in the event of an electric revenue requirement decrease. As for the natural gas rate design, the Settlement recommends the following:

- Natural Gas Schedule 101: The Basic Charge would remain at \$9.00 per month, and the revenue spread to the volumetric rates on a uniform percentage basis.<sup>16</sup>
- Natural Gas Schedule 146: The Basic Charge would increase from \$500 to \$525 per month, and the remaining revenue increase spread on a uniform percentage across all blocks.<sup>17</sup>
- Natural Gas Schedules 111: The monthly Minimum Charge based on Schedule 101 rates (breakeven at 200 therms) would increase and a uniform percentage increase spread to all blocks.<sup>18</sup>
- Natural Gas Schedules 121: The monthly Minimum Charge based on Schedule 101 rates (breakeven at 500 therms) would increase and a uniform percentage increase spread to all blocks.<sup>19</sup>
- Natural Gas Schedule 131: A uniform percentage increase spread to all blocks.<sup>20</sup>

## 2. Joint Testimony in Support of Settlement

15 Avista, Staff, Public Counsel, NWIGU, and ICNU filed Joint Testimony in Support of the Settlement (Joint Testimony) on July 24, 2015. The Company states that the Settlement balances its interests and the interests of its customers on cost of capital, power cost, and rate spread and rate design issues.<sup>21</sup> Staff asserts that the 7.29 percent

---

<sup>16</sup> *Id.*, ¶ 7(b)(i).

<sup>17</sup> *Id.*, ¶ 7(b)(ii).

<sup>18</sup> *Id.*, ¶ 7(b)(iii).

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> Norwood, Exh. No. 2 at 13:7-8.

ROR is reasonable because it is nearly identical to the 7.30 percent ROR the Commission authorized in Docket UE-140762 for Pacific Power & Light Company.<sup>22</sup> Staff states that the testimony of Avista witness Adrien McKenzie is the only ROR testimony in the record, and it supports the settled capital structure.<sup>23</sup> Staff notes that the Settlement's debt level is near the upper end of the proxy group of 20 comparison utilities provided by Mr. McKenzie, which indicates that the equity percentage in the Settlement is not overly generous.<sup>24</sup> According to Staff, the 7.29 percent ROR recommended by the Settlement is only slightly lower than the ROR set in Avista's last general rate case.<sup>25</sup>

- 16 Staff is particularly satisfied with the modeling corrections and assumption updates to the power supply component of the Settlement, as well as the continuation of the Energy Recovery Mechanism in its present form.<sup>26</sup> While the parties do not agree on a specific cost of service methodology, the Settlement maintains the electric residential basic charge at \$8.50 per month, which Staff asserts is consistent with the Commission's preference for basic charges to reflect only "direct customer costs."<sup>27</sup>
- 17 Public Counsel contends that the Settlement amounts reflect a trend toward declining ROR and ROE for regulated utilities.<sup>28</sup> Public Counsel asserts that the agreement "represents a fair assignment of revenue responsibility for all customer classes."<sup>29</sup> Additionally, Public Counsel points out that the Settlement provides no increases to residential basic charges for electric and natural gas customers despite Avista's initial filing proposing a substantial increase to both.<sup>30</sup>

---

<sup>22</sup> McGuire, Exh. No. 2 at 15:15-17.

<sup>23</sup> *Id.* at 15:16-19.

<sup>24</sup> *Id.* at 16:6-10.

<sup>25</sup> *Id.* at 16:18-17:2.

<sup>26</sup> *Id.* at 17:10-12.

<sup>27</sup> *Id.* at 18:10-15 (citing *WUTC v. Pacific Power & Light Company*, Docket UE-140762, Order 08, ¶ 216 (Mar. 21, 2015) [*PPL Order 08*]).

<sup>28</sup> Johnson, Exh. No. 2 at 22:11-12.

<sup>29</sup> *Id.* at 23:8-9.

<sup>30</sup> *Id.* at 23: 12-15.

18 NWIGU supports the Settlement because “the agreement reached on capital costs is consistent with the cost of capital approved for other dual fuel utilities in the region.”<sup>31</sup> ICNU argues that the agreement is a reasonable outcome that “allows the Commission to devote its full attention to still contested issues.”<sup>32</sup> ICNU insists that the proposed reductions to Avista’s authorized ROE and ROR are appropriate.<sup>33</sup>

### B. Discussion/Decision

19 Pursuant to WAC 480-07-730(3), a multiparty settlement is an agreement by some, but not all, parties on one or more issues that is offered as their position in the proceeding along with the evidence that they believe supports it. The Commission’s rules allow non-settling parties, in this instance, The Energy Project, to offer evidence and argument in opposition to the agreement.<sup>34</sup> The Energy Project, the sole non-settling party, has chosen not to avail itself of this opportunity or even to raise an objection to the terms and conditions of the Settlement.

20 The Commission will approve settlements when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the Commission. Ultimately, in settlements, as in fully-litigated rate cases, the Commission must determine that the resulting rates are fair, just, reasonable, and sufficient, as required by state law.

21 Thus, the Commission considers the individual components of the settlement under a three-part inquiry. We ask:

- Whether any aspect of the proposal is contrary to law.
- Whether any aspect of the proposal offends public policy.
- Whether the evidence supports the proposed elements of the settlement as a reasonable resolution of the issues at hand.

---

<sup>31</sup> Finklea, Exh. No. 2 at 28:2-4.

<sup>32</sup> Mullins, Exh. No. 2 at 25:18-19.

<sup>33</sup> *Id.* at 26:6-8.

<sup>34</sup> WAC 480-07-730(3).

- 22 The Commission must reach one of three possible results:
- Accept the proposed settlement without condition.
  - Accept the proposed settlement subject to one or more conditions.
  - Reject the proposed settlement.
- 23 We find that the terms and conditions of the Settlement are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission. The capital structure as proposed in the Settlement is balanced in treatment of both the Company and ratepayers. Likewise, the ROE and ROR are within the range of reasonable outcomes and supported by testimony in the evidentiary record.
- 24 The agreement allowed for correction of erroneous power supply expenses caused by an enhancement of the AURORA<sub>XMP</sub> model that inadvertently reversed the signs so that a gain was reflected as a loss and vice versa. Avista agreed to adjustments to several power supply expenses that resulted in significantly lowering the overall power supply expenses it requested.
- 25 With regard to the electric rate design, the settling parties arrived at an approach that would spread any revenue *increase* across the various block rates uniformly, with some additional *increases* in various schedule's basic charges. The settling parties did not, however, provide for rate spread or rate design schemes in the event of an electric revenue decrease. No party addressed this issue during the hearing or on brief. Thus, under the circumstances and given the approaching statutory effective date, we find the reasonable and equitable approach is a uniform percentage electric rate decrease across classes and then a uniform percentage decrease across energy blocks within each class. The Commission will entertain a motion to reopen the record in this proceeding for thirty days following the effective date of the rates resulting from this Order, assuming all parties arrive at a stipulated settlement on a modified rate spread and rate design plan. Otherwise, the Company has indicated it plans to file another request for rate relief early in 2016. Any disagreement with the Commission's approved electric rate spread and rate design may be handled in that proceeding.

### III. Contested Issues

#### A. Pro Forma Plant Additions<sup>35</sup>

- 26 The Company does not present a revenue requirement built on pro forma plant additions to the test year.<sup>36</sup> Instead, it proposes an attrition adjustment supported in part by its “cross-check” study, which is a budget-based projection of plant additions in the year 2016 on an average-of-monthly-averages (AMA) basis.<sup>37</sup> On rebuttal, the Company adjusts its test year ending September 30, 2014, to include booked plant additions through December 31, 2014.
- 27 Staff, Public Counsel, and ICNU present pro forma plant additions beyond the test year. Public Counsel and ICNU make revenue requirement recommendations using only the modified test year without an attrition study.<sup>38</sup> Staff adjusts the test year to reflect booked plant additions through December 31, 2014. Using this adjusted test year, Staff constructs a modified test year with pro forma plant additions and then presents an attrition adjustment developed from its attrition study. NWIGU does not develop plant additions to the test year, recommending no gas rate increase. We examine each party’s pro forma plant additions in turn.

---

<sup>35</sup> In its initial case, Avista proposed a pro forma adjustment for Operations and Maintenance (O&M) costs that would be reduced or eliminated in the post-test year period spanning from October 1, 2014, through December 31, 2016. Schuh, Exh. No. KKS-1T at 25:7-9. Avista identified \$139,000 in additional O&M offsets after it established its final revenue requirement in this case. Smith, Exh. No. JSS-1T at n.18. These offsets are discussed in detail in the Company’s business cases provided as support for its proposed capital additions. Schuh, Exh. No. KKS-1T at 4:18-20. They include, for example, O&M savings related to securing a well water supply for the Kettle Falls Generating Facility, reducing ash abrasion in the facility’s ash collector, reducing transmission line losses, and allocating O&M costs for additional parking at the Central Office to all services and jurisdictions. On response, Staff supports the inclusion of these additional O&M offsets in its recommended O&M offsets adjustment. Hancock, Exh. No. CSH-1T at 29:17-19. Consistent with Commission practice and Staff’s recommended pro forma capital additions as approved herein, the Commission accepts Staff’s recommended O&M offsets adjustment.

<sup>36</sup> Norwood, Exh. No. KON-1T at 28:7-12.

<sup>37</sup> *Id.* at 28:7-15.

<sup>38</sup> ICNU and Public Counsel use the electric plant additions on an AMA basis for test year ending September 30, 2014, while Public Counsel recommends natural gas plant additions on an end-of-period (EOP) basis for the test year ending September 30, 2014.

