**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG-288

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES Request for a General Rate Revision	)	POST-HEARING BRIEF OF AVISTA CORPORATION

COMES NOW Respondent, Avista Corporation (hereinafter "Avista" or "the Company"), and respectfully submits this Post-Hearing Brief in the above-captioned matter.[1]

I. INTRODUCTION

On May 1, 2015, Avista filed revised Tariff Schedules to effect a general rate increase for Oregon retail customers of $8,557,000 or 8.0 percent of its annual revenues. The filing was suspended by the Commission on May 6, 2015, per its Order No. 15-143. Settlement conferences were held with the parties on September 15, 2015, and again, on October 20, 2015, resulting in a Partial Settlement Stipulation that was filed with the Commission on November 6, 2015. In the Stipulation, the parties agreed on several (but not all) adjustments to the proposed revenue requirement, resulting in a reduction in Avista's revenue requirement increase from $8.557 million to a base revenue increase of ~~$6.741~~ $6.447 million. The revenue requirement issues that were resolved are set forth in the table below:

[1] With a few exceptions, this Post-Hearing Brief replicates the Pre-Hearing Brief, which was meant to fully apprise the Commission and the parties of the issues in advance of the hearings. (See, e.g., update to in-service date of the East Medford High Pressure Pipeline Reinforcement in Section III. B.(1))

Table No. 2:

SUMMARY OF ADJUSTED LITIGATION POSITION REVENUE REQUIREMENT
000s of Dollars

	Avista Rev. Req. Incr / (Dec)	OPUC Staff Rev. Req. Incr / (Dec)	NWIGU / CUB Rev. Req. Incr / (Dec)	CUB Rev. Req. Incr / (Dec)
Revenue Requirement As Filed by Avista	$ 8,557	$ 8,557	$ 8,557	$ 8,557
Agreed Upon Adjustments: (1)	(1,816)	(1,816)	(1,816)	(1,816)
Adjusted Revenue Requirement (1)	6,741	6,741	6,741	6,741
Revised / Contested Adjustments				
A. Return on Equity and Capital Structure	-	(1,541)	(1,400)	(1,400)
B. Information Technology Related to Project Compass	-	(132)	-	-
C. Plant Investment	-	(3,194)	-	(218)
D. Wage & Salaries - Bonus & Incentives	-	(329)	-	-
E. Medical Benefits	-	(181)	-	-
F. Pension Expense	-	(361)	(340)	(340)
G. Post Retirement Medical Expenses	-	(25)	-	-
H. Bonus Depreciation	(294) (3)	-	(667) (2)	(667) (2)
Total of Revised / Contested Adjustments	(294)	(5,763)	(2,407)	(2,625)
Adjusted Litigation Position Revenue Requirements	**$ 6,447**	**$ 978**	**$ 4,334**	**$ 4,116**

(1) Per Partial Settlement Stipulation filed on November 6, 2015
(2) Mr. Gorman's total proposal related to state income tax (SIT) and bonus depreciation was $2.02 million (SIT of $1.22 million and $.8 million Bonus Depreciation). The $667,000 reflects the difference between the $2.02 million and the agreed-upon SIT adjustment in the Stipulation of $1.353.
(3) Mr. Gorman's total proposal related to state income tax (SIT) and bonus depreciation was $2.02 million (SIT of $1.22 million and $.8 million Bonus Depreciation). The Company's revised litigation position reflects the tax benefit in 2015 related to the third- and fourth-quarter bonus tax depreciation benefit, and the incremental tax benefit of the Repairs Deduction for 2015, resulted in tax payments being approximately 53% lower than they otherwise would have been. The $294,000 reflects the difference between the revenue requirements of $1.647 (SIT of $1.22 million and $.427 million Bonus Depreciation) million and the agreed-upon SIT adjustment in the Stipulation of $1.353.

Essentially, the foregoing table provides a road map for a discussion of the remaining revenue requirement issues in this proceeding. These issues are briefly summarized below.

A. Return on Equity and Capital Structure.

While the parties agreed in the Partial Settlement Stipulation to a cost of debt of 5.515%,[8] they otherwise differed on their recommended returns on equity and capital structure. The Company proposes a 50% common equity capital structure and an ROE of 9.9%. It does so through the Direct and Reply Testimony of Mr. Mark Thies, Senior Vice President and Chief Financial Officer, of the Company[9] and Mr. Adrien McKenzie, Vice President of Financial Concepts and Applications.[10] Staff, through Witness Muldoon, proposes a 49.86% common equity capital structure and an ROE of 9.11%.[11] Finally, NWIGU and CUB jointly propose a

[8] (See Partial Settlement Stipulation at ¶4)
[9] (AVISTA/200 and AVISTA/1100, Thies/2-8)
[10] (AVISTA/300 and AVISTA/1200)
[11] (STAFF/200, Muldoon/1, lines 13-15)

testimony supporting a 7 percent EROA for post-retirement medical, and therefore their proposal should be rejected.

H. Bonus Depreciation.

NWIGU/CUB proposed an adjustment to reduce rate base and revenue requirement related to bonus depreciation and the associated Accumulated Deferred Federal Income Tax.[34] As such, they proposed to remove $7.541 million of rate base for ADFIT related to the recognition of bonus depreciation and the additional tax depreciation for 2015 and 2016 plant additions. This would reduce the Company's final revenue requirement by approximately $805,000.[35] The Company presented the Reply Testimony of Mr. Don Falkner, Director of Tax, who addressed the proposed Bonus Depreciation Adjustment of NWIGU and CUB, explaining why it is not appropriate to reduce rate base, because Avista has not had the full benefit of lower tax payments to the IRS during 2015, nor will it before new rates go into effect in this case.[36]

I. Remaining Non-Revenue-Requirement Issues: Rate Spread.

CUB takes issue with the Company's Long-Run Incremental Cost of Service Study (LRIC), as well as the Company's proposed spread of the annual margin/revenue increase among the Company's natural gas service schedules.[37] Ultimately, CUB asserts that no schedule should receive a rate decrease while other schedules bear an increase. The Company presented the Reply Testimony of Mr. Joseph Miller, Senior Regulatory Analyst[38] and Mr. Patrick Ehrbar, Manager of Rates and Tariffs,[39] who provided support for the Company's LRIC Study and its proposed spread of rates. Not one – but three separate LRIC studies (Company/Staff/NWIGU)

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[34] (ADFIT) (NWIGU-CUB/100, Gorman 66-68)

[35] Mr. Gorman's total proposal related to state income tax (SIT) and bonus depreciation was $2.02 million (SIT of $1.22 million and $0.805 million Bonus Depreciation). The $667,000 in Table 2 above reflects the difference between the $2.02 million and the agreed-upon SIT adjustment in the Stipulation of $1.353 million.

[36] (AVISTA/1600)

[37] (See CUB/100, McGovern-Jenks 19-35)

[38] (AVISTA/1800)

[39] (AVISTA/1900)

As explained by Company Witness Falkner,[104] in its originally-filed case bonus depreciation was not included for 2015 capital additions, because currently there was no federal approval of bonus tax depreciation for the 2015 tax year at the time. Accordingly, the Company did not incorporate any bonus depreciation for the 2015 capital additions in this case.~~, or for the 2015 calendar year quarterly estimated tax payments.~~[105] Avista is required to estimate its 2015 federal tax expense and make quarterly deposits so that by December 15, 2015, the entire 2015 estimated tax liability has been paid.[106] Taxable income is generally forecasted by using only known, approved tax deductions. ~~additions – it does not include the effect of tax provisions that have not been approved, such as a possible bonus depreciation deduction for 2015.[107]~~

Mr. Gorman, however, includes [emphasis in original] bonus depreciation based on his assumption that the bonus depreciation tax provision will be extended and available for Avista to use for its 2015 capital additions. Even if [emphasis in original] Mr. Gorman is correct, it is still not appropriate to reduce rate base by the full benefit of bonus tax depreciation, because Avista has not otherwise had the full benefit of lower tax payments to the IRS during 2015. As explained above, Avista is required to estimate its 2015 federal tax expense and make quarterly payments during 2015~~; and indeed, Avista has already made three of its four tax deposits~~. For the first two quarters of 2015, Avista did not reflect any benefit of bonus tax depreciation in its quarterly payments. For the third-quarter of 2015, however, given the relatively high likelihood that bonus tax depreciation would be approved by Congress, Avista reflected a partial benefit of bonus tax depreciation in its third quarter (September 15, 2015) payment to the IRS.[108] For the fourth-quarter (December 15, 2015) payment to the IRS Avista reflected a higher estimated benefit of bonus tax depreciation, for the same reasons explained earlier. Congress approved bonus tax depreciation on December 20, 2015. The tax benefit in 2015 related to the third- and fourth-quarter bonus tax depreciation benefit, and the incremental tax benefit of the Repairs Deduction for 2015, resulted in tax payments being approximately 53%

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reduces the amount of taxes the Company pays. Bonus depreciation is similar to accelerated tax depreciation in that regard.

[104] (AVISTA/1600, Falkner/2, lines 6-16)

[105] (Ibid.)

[106] (AVISTA/1600, Falkner/3 line 3)

~~[107] (Id. at page 3, lines 1-6)~~

[108] It was an oversight on the part of the Company's Tax Department, at the time Reply Testimony was filed, to fail to note that a partial benefit had, in fact, been reflected in the third-quarter payment.

lower than they otherwise would have been. Therefore, if the Commission approves a rate base reduction as proposed by Mr. Gorman, related to bonus tax depreciation, it should be 53% of Mr. Gorman's $7.5 million rate base reduction or approximately $3.9 million. This results in a further reduction in the Company's revenue requirement from $6.741 to $6.447 million, which is reflected in the revised pages of the Reply testimony of Ms. Smith and Mr. Ehrbar. Workpapers showing this calculation were provided to the parties. ~~Finally, if~~ Because bonus depreciation ~~is~~ was ultimately approved for 2015, the Company can make a refund request from the IRS in 2016, however, the Company ~~would still~~ will not receive any refund until mid-March 2016, at the earliest, as explained by Mr. Falkner. Accordingly, the Company has not had the full benefit of lower tax payments to the IRS during 2015, nor will it have such a benefit before rates are placed into effect in this case.

Ironically, Commission Staff and other parties have opposed rate base additions after the date new retail rates go into effect in this case, and yet they argue that it is appropriate to reduce rate base for bonus depreciation, even though the benefit would not be received ~~(if it is received at all)~~ until after rates go into effect in this case.[109] [emphasis in original]

III. STAFF IMPROPERLY REDUCES THE COMPANY'S PENSION EXPENSE BY IMPUTING A HIGHER EXPECTED RETURN ON ASSETS (EROA)

Staff proposes to reduce the Company's pension expense by $348,000, in order to reflect the difference between using a 7% Expected Return On Assets (EROA) and the 5.3% EROA utilized by the Company.[110] In so doing, Staff questions the Company's "de-risking," whereby the Company shifted the asset allocation from 31% fixed income to 58% fixed income in May of 2014.

The Company has presented the Reply Testimony of Ms. Shelly J. Heier, who is employed by Verus Advisory, Inc., as President, Chief Operating Officer, and Senior Consultant. Verus provides investment consulting services to institutional investors, including public and corporate defined benefit plans, endowments, foundations and health care institutions.[111] Verus (previously known as Wurts & Associates, Inc.) advises approximately 130 clients with aggregate assets of $118 billion.

The purpose of Ms. Heier's testimony is to provide the Commission with an independent evaluation of Avista's pension investment strategy, demonstrating that it is prudent and reasonable and in the best interests of its customers, thereby supporting the 5.3% EROA

109 (Id. at page 4)
110 (STAFF/800, Bahr/11-12)
111 (AVISTA/1300, Heier/1, lines 6-10)

Finally, the Company disagrees with CUB's arbitrary proposal whereby "no customer gets any more than three times the increase of any other class."[320] Mr. Ehrbar testified to the arbitrary nature of such a proposal, noting that it is not based on a cost of service/LRIC Study.[321] Indeed, the effects of such a rate spread would actually move Schedule 456 from 1.66 to 1.74 on a relative margin-to-cost ratio – even further away [emphasis in original] from unity, as explained by Mr. Ehrbar.[322]

By way of summary, the following table provides the spread of the Company's revised revenue requirement (~~$6.7~~ $6.4 million) for each service schedule.[323/324]

Table No. 4: (Table Revised on 12/30/15)

Rate Schedule	Reply Revenue Request	Revenue % Change (Margin)	Revenue % Change (Revenue)
Residential Schedule 410	$4,500	13.1%	6.9%
General Service Schedule 420	$2,215	16.4%	7.3%
Large General Service Schedule 424	($46)	-7.0%	-1.3%
Interruptible Service Schedule 440	$0	0.0%	0.0%
Seasonal Service Schedule 444	($3)	-7.0%	-1.5%
Transportation Service Schedule 456	($219)	-7.0%	-6.9%
Overall	**$6,447**	**12.3%**	**6.1%**

[320] (CUB/100, p.43, lines 6-8)
[321] (AVISTA/1900, Ehrbar/13, lines 1-2)
[322] (Id. at p. 13, lines 2-4)
[323] (AVISTA/1900, Ehrbar/14, lines 15-20)
[324] It is Avista's expectation that further rate decreases would not be necessary in the near future for certain schedules, were the Commission to approve the Company's rate spread proposal in this case. Such an approval will allow the Company to make meaningful progress toward moving all schedules toward unity. Additional progress can be made through the application of either greater or lesser rate (including zero) increases in future proceedings. (AVISTA/1900, Ehrbar/14, line 23 - /15, line 4)