BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

Docket No. UG-461

In the matter of the Application of	)	
AVISTA CORPORATION, DBA	)	TRIAL BRIEF OF
AVISTA UTILITIES for a General	)	AVISTA CORPORATION
Rate Revision	)	

Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), is filing tariff schedules, pursuant to ORS 757.205 and ORS 757.220, for a general rate revision for its natural gas customers in Oregon. This brief is submitted to meet the requirements of OAR 860-022-0019.

1.

Avista provides natural gas service in the State of Oregon and is a public utility subject to the Public Utility Commission of Oregon's jurisdiction under ORS 757.005(1)(a)(A). Avista provides natural gas distribution service in southwestern and northeastern Oregon. The Company also provides electric and natural gas service within a 30,000 square mile area of eastern Washington and northern Idaho. As of December 31, 2022, Avista supplied retail electric service to approximately 411,000 customers and retail natural gas service to 378,000 customers, including approximately 106,000 customers in Oregon who will be affected by the proposed rate revision. Avista's principal place of business is located in Spokane, Washington.

2.

Avista requests that all notices, pleadings, and correspondence regarding this filing be sent to the following:

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3.

The test year being used by the Company is the twelve-months ended September 30, 2022. For the twelve-months ended September 30, 2022, Avista's earned rate of return ("ROR") was 5.76% on a normalized basis. After accounting for all historical restating and forecasted adjustments, the ROR for the Company's Oregon jurisdictional operations for the twelve-months ended December 31, 2024 Test Year is 5.19%. Both are well below the previously approved authorized ROR of 7.05% for the Company and are not sufficient to provide Avista with a fair and reasonable return or allow the Company to attract capital at reasonable rates.

Avista's revised tariff schedules effect an increase on a billing basis (including natural gas costs) for Oregon retail customers of $10,991,000, or 7.4 percent[1], which would produce an overall rate of return of 7.59 percent and a return on equity of 10.25 percent. Pursuant to ORS 757.220, the revised schedules contain an effective date of April 1, 2023.

[1] The overall increase in total billed revenue, which includes natural gas costs and all other rate adjustments, is 7.4 percent. On a margin revenue basis, which excludes the cost of natural gas and all other rate components, the overall increase is 14.4 percent.

4.

A combination of capital additions and increases in general business expenses now require the Company to request an increase in overall base retail rates of $10,991,000. The Company used the cost of service results prepared by Company witness Mr. Anderson as a guide in the proposed spread of the requested increase to the various service schedules. As described in Company witness Mr. Miller's testimony, the Company is proposing to increase Schedule 410 rates by the same amount as the overall percentage increase in margin revenue. The Company is proposing to apply half of the overall percentage increase in margin revenue for Schedules 424 and 456, and no increase to Schedules 440 and 444. The remaining revenue requirement was applied to Schedule 420, which provides a reasonable level of movement toward unity.

5.

Avista's direct case consists of the testimony and exhibits of the following witnesses:

(a) Policy and Operations – Exhibit 100. **Mr. Dennis P. Vermillion**, President and Chief Executive Officer of Avista Corporation, will provide an overview of the Company. He starts by discussing the overall economic conditions facing Avista, and how those have impacted our operations, our cost management, and this general rate case. He will then summarize the Company's proposal in this filing, and address our continuing capital investment, which continues to be the primary driver behind the Company's most recent general rate cases. He discusses the Company's continued focus on communicating with customers, our overall customer satisfaction, and our customer support programs. Finally, he introduces the other Company witnesses who support this general rate case filing.

(b) Financial Overview, Capital Structure, and Overall Rate of Return – Exhibit 200. **Mr. Mark T. Thies**, Executive Vice President, Chief Financial Officer and Treasurer, provides a financial overview of Avista Corporation as well as explains the proposed capital structure, overall rate of return, and the Company's capital expenditures program. He provides information that shows:

1. Avista's plans call for a continuation of utility capital investments in generation, transmission, electric and natural gas distribution systems, and technology to preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. Capital expenditures of $475 million per year (system) are planned for the five-year period ending December 31, 2027. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms, on a sustainable basis.

2. Avista is proposing an overall rate of return of 7.59 percent, which includes a 50 percent common equity ratio, a 10.25 percent return on equity, and a cost of debt of 4.92 percent. We believe our proposed overall rate of return of 7.59 percent and the proposed capital structure provide a reasonable balance between safety and economy.

3. Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB and Baa2 from Moody's Investors Service. However, in November 2022, S&P revised their outlook on Avista to negative from stable and affirmed our 'BBB' issuer credit rating. S&P cited weaker financial measures due to higher expenses (inflation), customer refunds, rising interest rates and delayed recovery of purchased fuel costs as reasons for their revision. Avista must operate at a level that will support a solid investment grade corporate credit rating in order to access capital markets at reasonable rates. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

(c) Return on Equity – Exhibit 300. **Mr. Adrien M. McKenzie**, as President of Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the reasonableness of the Company's proposed overall capital structure and will testify in support of the proposed 10.25% return on equity. He determines that 10.25 percent is a reasonable estimate of investors' required ROE for Avista. The bases for his conclusion are summarized below:

- Based on the results of his analyses and giving less weight to extremes at the high and low ends of the range, he concludes that the cost of equity for the proxy group of natural gas utilities is in the **9.9 percent to 10.9 percent** range.

- Based on an accounting of the issuance costs specific to Avista's historical sales of common stock, his testimony supports a flotation cost adjustment of 6 basis points.
- After making a flotation cost adjustment, his recommended ROE range is **9.96** percent to **10.96 percent**.
- As reflected in the testimony of Mark T. Thies, Avista is requesting a fair ROE of 10.25 percent, which is below the 10.46 percent midpoint of his recommended range. Considering capital market expectations, the exposures faced by Avista, and the economic requirements necessary to maintain financial integrity and support additional capital investment even under adverse circumstances, it is his opinion that 10.25 percent represents a reasonable ROE for Avista.

(d) Gas Supply and Storage – Exhibit 400. **Mr. Kevin Holland**, Director of Energy Supply, describes Avista's natural gas resource planning process, and provide an overview of the Company's 2021 Natural Gas Integrated Resource Plan ("IRP").

(e) Revenue Requirement and Allocations – Exhibit 500. **Ms. Kaylene J. Schultz**, Manager of Regulatory Affairs, discusses the Company's overall revenue requirement proposal. She will explain the pro formed twelve-months ended December 31, 2024 Test Year operating results, including expense and rate base adjustments made to the actual twelve-months ended September 30, 2022 Base Year operating results and rate base. In addition, she will briefly introduce the pro forma capital investment adjustments and revenue load adjustment, while Company witnesses Ms. Benjamin and Mr. Miller provides a more in-depth discussions of these adjustments. Finally, she will provide an overview of the Company's system and jurisdictional allocation methodologies that have been in place for many years, as well as discuss any accounting method changes utilized by the Company since its last general rate case.

(f) Plant Additions – Exhibit 600. **Ms. Tia Benjamin**, Manager of Regulatory Affairs, describes the Company's restated twelve-month ended September 30, 2022 net plant, planned plant additions from October 1, 2022 through December 31, 2023, and twelve-month ending December 31, 2024 average-of-monthly-averages (AMA) for customer growth capital additions adjustments. She also discusses the Company's approach to Oregon capital plant investment, provides an update on software amortizable lives, and finally, the impact of including the effect of newly proposed depreciation rates, all of which is incorporated into the Company's proposed Oregon natural gas revenue requirement sponsored by Ms. Schultz.

(g) Depreciation Study – Exhibit 700. **Mr. John Spanos**, President of the firm Gannett Fleming Valuation and Rate Consultants, LLC, sponsors the depreciation study performed for Avista. He states that the depreciation rates as of December 31, 2021, appropriately reflect the rates at which the values of Avista's assets have been consumed over their useful lives to date. These rates are based on the most commonly used methods and procedures for determining depreciation rates. The life and net salvage parameters are based on widely used techniques and the depreciation rates are based on the average service life procedure and remaining life method. Therefore, the depreciation rates set forth in his Exhibit represent the calculated rates as of December 31, 2021. Ms. Benjamin reflects the results of his developed depreciation rates per the Depreciation Study within her capital adjustment.

(h) Load Forecast – Exhibit 800. **Dr. Grant D. Forsyth**, Chief Economist, describes the inflationary pressures facing the Company. Second, his testimony will describe the methodology used to generate the forecasts for customers, use-per-customer, and total load. The results of his forecast are used in the Company's twelve-months ended December 31, 2024 Test Year Load Forecast sponsored by Mr. Miller.

(i) Long-Run Incremental Cost of Service – Exhibit 900. **Mr. Joel C. Anderson**, Regulatory Analyst, presents the natural gas cost of service study prepared for this filing. The results of the long-run incremental cost study indicate that at current rates, on a relative margin-to-cost basis, residential customers are paying slightly less than their relative cost of service, and small commercial customers are paying less than their relative cost of service. All other schedules including interruptible, large general, seasonal, and transportation customer groups exceed their relative cost of service to varying degrees. The results of this study were provided to Mr. Miller for consideration in the development of the proposed rates.

(j) Rate Spread, Rate Design, and Certain Adjustments – Exhibit 1000. **Mr. Joseph D. Miller**, Senior Manager of Rates and Tariffs, discusses the Company's Test Year Revenue Load Adjustment, and then covers the spread of the proposed annual margin/revenue increase among the Company's natural gas service schedules, as well as the application of the increase to the rates within each of the schedules.

(k) Meter Changeout Program – Exhibit 1100. **Mr. Jeffrey A. Webb**, Natural Gas Engineering and Measurement Manager, provides an overview of the Company's Periodic Meter Changeout (PMC) Program—including the procedures, accuracy tolerances, and timing of this natural gas meter testing—as well as an explanation of the "installation constant adjustment" used by the Company to correct a predictable accuracy drift on a subset of its natural gas meters.

6.

The following exhibits are attached pursuant to OAR 860-022-0019:

(a) Exhibit A. The information required by OAR 860-022-0019(1)(a)-(f).

(b) Exhibit B. From Ms. Schultz's Exhibit 501, page 1, which shows the results of operations for Avista's Oregon jurisdiction before and after the proposed rate change, as required by OAR 860-022-0019(1)(g).

(c) Exhibit C. This exhibit shows the effect of the proposed rate change on each class of customers as required by OAR 860-022-0019(1)(h). Exhibit C also contains information required by OAR 860-022-0030(1). Specifically, the exhibit shows, for each tariff schedule, the total number of customers on the respective schedules, the total annual margin revenue derived under the existing schedule, and the amount of estimated margin revenue derived from applying the proposed rate revisions. For each tariff schedule, the exhibit also shows the average monthly customer use and resulting bills (on a margin revenue basis) under both existing rates and proposed rates.

7.

Avista Corporation respectfully requests that the Commission issue an order granting the rate relief requested in this filing and approving the proposed tariff schedules.

DATED: February 28, 2023.

/s/ David J. Meyer
David J. Meyer
Vice President and Chief Counsel for Regulatory and Governmental Affairs
Avista Corporation

EXHIBIT A

INFORMATION REQUIRED BY OAR 860-013-0075(1)(b)(A)-(F)

A. The dollar amount of total base revenues, excluding natural gas costs, which would be collected under the proposed rates is $87,498,000.

B. The dollar amount of revenue change requested is $10,991,000.

C. The percentage change in base revenues requested is 14.4 percent, and the overall change in billed revenues is 7.4 percent.

D. The forecasted test year proposed is twelve-months ended December 31, 2024.

E. The requested overall rate of return is 7.59 percent and the requested return on equity is 10.25 percent.

F. The rate base proposed in this filing is $351,283,000.

AVISTA UTILITIES
OREGON JURISDICTION
NATURAL GAS
TWELVE MONTH TEST YEAR ENDED DECEMBER 31, 2024

		PRESENT RATES			WITH PROPOSED RATES	
Line No.	Description	Per Results of Operations Report	Total Adjustments	Restated 12 ME 12.31.2024 AMA Test Year	Proposed Revenues & Related Exp	Proposed Total (AMA)
		a	*b*	*c*	*d*	*e*
1	OPERATING REVENUES					
2	Total General Business	$118,901	($45,171)	$73,730	10,991	$84,721
3	Total Transportation	2,937	(160)	2,777	-	2,777
4	Other Revenues	49,329	(49,289)	40	-	40
5	Total Operating Revenues	171,167	(94,620)	76,547	10,991	87,538
6						
7	OPERATING EXPENSES					
8	Gas Purchased	95,332	(95,332)	0	-	0
9	Operation and Maintenance	11,759	1,984	13,743	-	13,743
10	Uncollectible Accounts	247	40	287	40	327
11	Administration & General	13,671	591	14,262	-	14,262
12	OPUC & ERSA Commission Fees	868	(456)	412	59	471
13	Total Operation & Maintenance	121,877	(93,173)	28,704	99	28,803
14						
15	DEPRECIATION, AMORTIZATION, TAXES					
16						
17	Municipal Occupation & License Tax	2,247	(2,247)	0	-	0
18	Franchise Fees - Conversion Factor	2,611	(944)	1,667	239	1,906
19	R&P Property Tax	5,017	469	5,486	-	5,486
20	State Income Tax	0	0	0	-	0
21	OR Corp. Activity Tax (CAT)	776	0	776	-	776
22	Depreciation & Amortization	18,826	1,348	20,174	-	20,174
23	Total Operating Expenses	151,354	(94,546)	56,808	338	57,146
24						
25	OPERATING INCOME BEFORE FIT/SIT	19,813	(74)	19,739	10,653	30,392
26						
27	INCOME TAXES					
28	Current Federal Income Taxes	(1,153)	(15)	(1,168)	2,237	1,069
29	Debt Interest	0	(119)	(119)	-	(119)
30	Deferred Federal Income Taxes	2,707	3	2,710	-	2,710
31	State Income Taxes	70	0	70	-	70
32	Total Income Taxes	1,624	(131)	1,493	2,237	3,730
33						
34	NET OPERATING INCOME	$18,189	$58	$18,247	8,416	$26,662
35						
36						
37	RATE BASE					
38	Utility Plant in Service	$552,735	$57,930	$610,665	-	$610,665
39	Accumulated Depreciation and Amortization	(163,333)	(22,944)	(186,277)	-	(186,277)
40	Accumulated Deferred FIT	(68,105)	(109)	(68,214)	-	(68,214)
41	Net Utility Plant	321,297	34,877	356,174	-	356,174
42						
43	Inventory	3,561	0	3,561	-	3,561
44	Working Capital	7,260	787	8,047	-	8,047
45	Regulatory Asset - AFUDC	1,342	0	1,342	-	1,342
46	Rate Base-Regulatory Liability-Nonplant Exc	0	0	0	-	0
47	Regulatory Liability-Customer Tax Credit	(17,841)	0	(17,841)	-	(17,841)
48						
49	TOTAL RATE BASE	$315,619	$35,664	$351,283	$0	$351,283
50						
51	RATE OF RETURN	5.76%		5.19%		7.59%

EXHIBIT B

Avista Utilities
Docket No. UG-461
Rate Spread Summary
Oregon - Natural Gas
Pro Forma 12 Months Ended December 31, 2024

	Type of Service	Schedule Number	Avg. No. of Customers	Annual Therms	Avg. Use per Customer per Month	Distribution Revenue at Pres. Rates ($000's)	Distribution Avg. Bill Under Pres. Rates	Distribution Revenue Percentage Increase	Distribution Revenue Increase ($000's)	Avg. Increase per Customer per Month	Distribution Revenue at Prop. Rates ($000's)	Avg. Bill Under Prop. Rates
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	Residential	410	95,573	53,622,452	47	$49,336	$43.19	14.4%	$7,087	$6.20	$56,425	$49.39
2	General Service	420	12,089	29,265,544	202	21,493	$148.33	17.0%	$3,662	$25.27	25,154	$173.60
3	Large General Service	424	103	4,914,668	3,958	764	$615	7.2%	$55	$44	819	$660
4	Interruptible Service	440	43	17,982,806	34,874	2,101	$4,074	0.0%	$0	$0	2,101	$4,074
5	Seasonal Service	444	3	199,640	6,526	34	$1,125	0.0%	$0	$0	34	$1,125
6	Transportation Service	456	30	29,953,424	83,204	2,600	$7,223	7.2%	$187	$519	2,787	$7,742
7	Special Contract	447	2	6,456,760	269,032	178	$7,396	0.0%	$0	$0	178	$7,396
8	Total		107,843	142,395,295		$76,506		14.4%	$10,991		$87,498	

EXHIBIT C