

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

Advice 21-08-G
Docket No. UG-433

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

TRIAL BRIEF OF
AVISTA CORPORATION

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, 2020, Avista supplied retail electric service to approximately 400,000 customers and retail natural gas service to 367,000 customers, including approximately 104,900 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 August 31, 2023. For the twelve-months ended December 31, 2020, Avista's earned rate of return ("ROR") was 6.11% 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 August 31, 2023 Test Year is 6.43%. Both are well below the previously approved authorized ROR of 7.24% 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 \$3,774,000, or 3.1 percent¹, which would produce an overall rate of return of 7.35 percent and a return on equity of 9.9 percent. Pursuant to ORS 757.220, the revised schedules contain an effective date of November 22, 2021.

4.

¹ The overall increase in total billed revenue, which includes natural gas costs and all other rate adjustments, is 3.1 percent. On a margin revenue basis, which excludes the cost of natural gas and all other rate components, the overall increase is 5.0 percent.

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 \$3,774,000. As described in Company witness Mr. Miller's testimony, the Company is proposing to spread the increase on a uniform percentage of margin basis, such that all schedules received the same overall increase. His testimony describes the proposed implementation of the new Tax Customer Credit Schedule 486 and the Deferred Tax Credit Schedule 487, that are also proposed to be spread on a uniform percentage basis. On a total billed revenue basis, after incorporating the proposed Tax Customer Credit Schedule 486 and Deferred Tax Credit Schedule 487 offsets, the Company is proposing no change to customer billed rates.

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 CEO of Avista Corporation, will provide an overview of the Company. He summarizes the Company's proposal in this filing, and addresses Avista's level of capital investment, which continues to be the primary driver behind the Company's most recent general rate cases. He discusses our ongoing focus on cost management and cost efficiencies which have been undertaken to help mitigate the overall rate request, as well as our continued focus on communicating with customers, our overall customer satisfaction, and our customer support programs. His testimony will also briefly explain the Company's customer support programs in place to assist our customers, as well as our communications initiatives to help customers better understand the changes in costs that are causing our rates to increase. Finally, he introduces the other Company witnesses who support this general rate case filing (which is replicated below).

(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:

- Avista's plans call for making significant utility capital investments in our electric and natural gas systems to preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. Capital expenditures of approximately \$445 million per year, on a system basis, are planned for the five-year period ending December 31, 2026. 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.
- We are proposing an overall rate of return of 7.35 percent, which includes a 50.0 percent common equity ratio, a 9.9 percent return on equity, and a cost of debt of 4.80 percent. We believe our proposed overall rate of return of 7.35 percent and proposed capital structure provide a reasonable balance between safety and economy.
- Avista's corporate credit rating from Standard & Poor's is currently BBB, and Baa2 from Moody's Investors Service. 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 9.9 percent return on equity. He also examines the reasonableness of the Company's requested capital structure, considering both the specific risks faced by Avista and other industry guidelines.

(d) Gas Supply and Storage – Exhibit 400. **Mr. Scott J. Kinney**, Director of Energy Supply, describes Avista's natural gas resource planning process, and provides 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 also explain the twelve-months ended August 31, 2023 test year operating results, including expense and rate base adjustments made to actual operating results and rate base.

(f) COVID-19 and Tax Credits – Exhibit 600. **Ms. Elizabeth M. Andrews**, Senior Manager of Revenue Requirements, summarizes the impact of the COVID-19 pandemic on Avista’s operations, and specifically, its non-effect on Avista’s historical test year utilized in this case. In addition, she will discuss the Company’s recommendation for returning the deferred Tax Customer Credit balance of \$21.9 million to its Oregon customers. The proposed amortization by the Company of “Tax Customer Credit” benefits, along with additional “Deferred Tax Credits” benefits discussed by Mr. Miller, through separate Tariff Schedule 486 “Tax Customer Credit” of \$3.019 million and Tariff Schedule 487 “Deferred Tax Credit” of \$755,000, for the two-year period, offset the Company’s Oregon base natural gas rate relief requested in its entirety. The result is no billed impact to customers.

(g) Capital Projects – Exhibit 700. **Mr. Justin A. Baldwin-Bonney**, Regulatory Affairs Analyst, covers the Company’s restated twelve-month ended December 31, 2020 net plant, planned plant additions from January 2021 through August 2022, and twelve-month ending August 31, 2023 average-of-monthly-averages (AMA) for customer growth capital additions adjustments, as well as discuss the Company’s approach to Oregon capital plant investment and provide updates on software amortizable lives.

(h) Load Forecast – Exhibit 800. **Dr. Grant D. Forsyth**, Chief Economist, describes the Company’s methodology used to generate the forecasts for customers, use-per-customer, and total load which are used in the Company’s twelve-months ended August 31, 2023 Test Year Revenue Load Adjustment.

(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 at 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. His testimony describes the proposed implementation of the new Tax Customer Credit Schedule 486 and the Deferred Tax Credit Schedule 487. On a total billed revenue basis, after incorporating the proposed Tax Customer Credit Schedule 486 and Deferred Tax Credit Schedule 487 offsets, the Company is proposing no change to customer billed rates.

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: October 21, 2021.

A handwritten signature in blue ink, appearing to read "David J. Meyer", is written over a horizontal line.

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 \$79,034,000.
- B. The dollar amount of revenue change requested is \$3,774,000.
- C. The percentage change in base revenues requested is 5.0 percent, and the overall change in billed revenues is 3.1 percent, before tax credits that result in a 0.0 percent overall change in billed revenues.
- D. The forecasted test year proposed is twelve-months ended August 31, 2023.
- E. The requested overall rate of return is 7.35 percent and the requested return on equity is 9.9 percent.
- F. The rate base proposed in this filing is \$315,957,000.

**AVISTA UTILITIES
OREGON JURISDICTION
NATURAL GAS
TWELVE MONTH TEST YEAR ENDED AUGUST 31, 2023**

Line No.	Description	PRESENT RATES			WITH PROPOSED RATES	
		Per Results of Operations Report <i>a</i>	Total Adjustments <i>b</i>	Restated 12 ME 08.31.23 AMA Test Year <i>c</i>	Proposed Revenues & Related Exp <i>d</i>	Proposed Total (AMA) <i>e</i>
1	OPERATING REVENUES					
2	Total General Business	\$95,473	(\$23,603)	\$71,870	3,774	\$75,644
3	Total Transportation	2,659	659	3,318	-	3,318
4	Other Revenues	40,133	(40,061)	72	-	72
5	Total Operating Revenues	138,265	(63,005)	75,260	3,774	79,034
6						
7	OPERATING EXPENSES					
8	Gas Purchased	68,760	(68,760)	0	-	0
9	Operation and Maintenance	15,272	(2,364)	12,908	-	12,908
10	Uncollectible Accounts	1,102	(848)	254	7	261
11	Administration & General	12,880	101	12,981	-	12,981
12	OPUC & ERSA Commission Fees	645	(265)	380	19	399
13	Total Operation & Maintenance	98,659	(72,136)	26,523	26	26,549
14						
15	DEPRECIATION, AMORTIZATION, TAXES					
16						
17	Municipal Occupation & License Tax	1,769	(1,768)	1	-	1
18	Franchise Fees - Conversion Factor	2,022	(431)	1,591	80	1,671
19	R&P Property Tax	4,435	970	5,405	-	5,405
20	State Income Tax	0	0	0	-	0
21	OR Corp. Activity Tax (CAT)	800	0	800	-	800
22	Depreciation & Amortization	11,361	7,106	18,467	-	18,467
23	Total Operating Expenses	119,046	(66,259)	52,787	106	52,893
24						
25	OPERATING INCOME BEFORE FIT/SIT	19,219	3,254	22,473	3,668	26,141
26						
27	INCOME TAXES					
28	Current Federal Income Taxes	(2,282)	683	(1,599)	770	(829)
29	Debt Interest	0	37	37	-	37
30	Deferred Federal Income Taxes	3,578	62	3,640	-	3,640
31	State Income Taxes	70	0	70	-	70
32	Total Income Taxes	1,366	782	2,148	770	2,918
33						
34	NET OPERATING INCOME	\$17,853	\$2,472	\$20,325	2,898	\$23,223
35						
36						
37	RATE BASE					
38	Utility Plant in Service	\$507,430	\$58,073	\$565,503	-	\$565,503
39	Accumulated Depreciation and Amortization	(146,923)	(26,549)	(173,472)	-	(173,472)
40	Accumulated Deferred FIT	(76,202)	(12,609)	(88,811)	-	(88,811)
41	Net Utility Plant	284,305	18,915	303,220	-	303,220
42						
43	Inventory	2,352	0	2,352	-	2,352
44	Working Capital	4,073	4,838	8,911	-	8,911
45	Regulatory Asset - AFUDC	1,478	0	1,478	-	1,478
46	Rate Base-Regulatory Liability-Nonplant Exc	(4)	0	(4)	-	(4)
47						
48	TOTAL RATE BASE	\$292,204	\$23,753	\$315,957	-	\$315,957
49						
50	RATE OF RETURN	6.11%		6.43%		7.35%

EXHIBIT B

Avista Utilities
Docket No. UG-433
Rate Spread Summary
Oregon - Natural Gas
Pro Forma 12 Months Ended August 31, 2023

	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	94,663	54,219,249	48	\$48,603	\$42.97	5.0%	\$2,445	\$2.16	\$51,049	\$45.13
2	General Service	420	12,020	29,021,461	201	20,769	\$143.86	5.0%	\$1,045	\$7.24	21,814	\$151.10
3	Large General Service	424	93	4,539,621	4,050	690	\$615	5.0%	\$35	\$31	724	\$646
4	Interruptible Service	440	38	15,153,934	33,407	1,772	\$3,906	5.0%	\$89	\$197	1,861	\$4,103
5	Seasonal Service	444	3	216,390	6,602	37	\$1,138	5.0%	\$2	\$57	39	\$1,196
6	Transportation Service	456	31	37,340,974	100,379	3,142	\$8,447	5.0%	\$158	\$424	3,300	\$8,871
7	Special Contract	447	2	6,663,690	277,654	175	\$7,312	0.0%	\$0	\$0	175	\$7,312
8	Total		106,850	147,155,320		\$75,188		5.0%	\$3,774		\$78,963	

EXHIBIT C