AVISTA

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Via Electronic Filing

December 30, 2015

Public Utility Commission of Oregon
Attn: Filing Center
PO Box 2148
Salem, OR 97308-2148

RE: Docket No. UG-288 – Motion for Leave, Reply Testimony Replacement Pages and Affidavits

Enclosed for filing with the Commission are the following items in Docket No. UG-288:

- Motion For Leave to Admit Revised Testimony and Amend Post Hearing Brief
- Revised pages 9 & 19 of Exhibit 1000 Smith (Avista) (Nov 15)
- Revised pages 2-5 of Exhibit 1600 Falkner (Avista) (Nov 15)
- Revised pages 13-14 of Exhibit 1900 Ehrbar (Avista) (Nov 15)
- Revised pages 1-2 of Exhibit 1901 Ehrbar (Avista) (Nov 15)
- Revised pages 1,4,9,26, 27,76 of Avista Post-Hearing Brief (December 18, 2015)
- Affidavits of Avista witnesses Smith, Falkner and Ehrbar

Please direct any questions regarding this filing to Patrick Ehrbar at (509) 495-8620.

Sincerely,

David J. Meyer
Vice President and Chief Counsel for Regulatory
and Governmental Affairs

Enclosure

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.

I. CONTESTED ADJUSTMENTS

Q. Staff, CUB, and NWIGU proposed several adjustments, which were not resolved as part of the Stipulation. Please identify each of these adjustments and explain why Avista is rejecting their proposals.

A. Table No. 2 above lists the additional adjustments proposed by the Parties. Each of these adjustments, which are contested by Avista, are identified below.

A. Return on Equity and Capital Structure

Q. As part of the Stipulation, all Parties agreed to the Cost of Debt, however, Parties proposed adjustments to the Company's filed Return on Equity and Capital Structure. Please summarize each of the Parties proposed Cost of Capital after reflecting the agreed-upon cost of debt.

B. Bonus Depreciation

Q. NWIGU/CUB proposed an adjustment to reduce rate base and revenue requirement related to bonus depreciation and the associated Accumulated Deferred Federal Income Tax (ADFIT). Does the Company agree with this proposed adjustment?

A. No. NWIGU/CUB 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, which they state results in additional ADFIT. This adjustment reduces the Company's filed revenue requirement by approximately $805,000. 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.[1] Company witness Mr. Falkner provides revised Reply Testimony to address this issue.

Q. Does this conclude your Reply Testimony?

A. Yes.

[1] 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.

proposed is for the recognition of bonus depreciation[1] that may be available to Avista for 2015 and 2016[2] plant additions. This additional tax deduction was computed using 50% bonus depreciation on the 2015 and 2016 plant additions proposed by Avista.

Q. In the Company's originally-filed case, was bonus depreciation included for 2015 capital additions?

A. No. Bonus depreciation was not included for 2015 capital additions. Bonus depreciation had previously been enacted as a temporary measure to help stimulate the U.S. economy. It was originally scheduled to expire on December 31, 2008. However, due primarily to concerns about the economy, bonus depreciation in one form or another has been extended by Congress, by enacting annual "tax extender" bills to continue it and certain other popular tax breaks each year. Congress failed to pass a tax extender bill in 2013 and 50% bonus depreciation expired at the end of 2013. After that, Congress passed a tax extender package on December 16, 2014 which included a retroactive extension of 50% bonus depreciation through only the end of 2014. With the credit expired again, the Company has not incorporated any bonus depreciation for the 2015 capital additions in this case.~~, or for the 2015 calendar year quarterly estimated tax payments to the IRS.~~

Q. Please explain the tax payments to the IRS in 2015 as they relate to the 2015 bonus depreciation issue.

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[1] Bonus depreciation is a tax deduction a company is allowed to take on its federal tax return for capital investment the company made which reduces taxable income and therefore, reduces the amount of taxes a company pays to the IRS. Bonus depreciation acts similar to accelerated tax depreciation. Accelerated depreciation means that a company will record more depreciation in the early years of an asset's life and less depreciation in the later years, relative to book or regulatory depreciation. While this approach results in a timing difference, cumulative tax and book depreciation generally are equal over the course of an asset's life. A deferred tax liability or Accumulated Deferred Federal Income Tax ("ADFIT") is the amount of taxes currently saved by a company that will be repaid in the future due to a temporary timing difference between the "book" treatment of an asset on a company's financial records and the tax treatment based on Internal Revenue Code rules. ADFIT is a benefit that is passed back to customers by lowering rate base.

[2] The Company included approximately $2 million of capital investment for new customer hookups in calendar year 2016 on an AMA basis. These 2016 additions were included because the additional revenue associated with these new customers in 2016 is also reflected in the proposed revenue requirement.

A. Avista is required to estimate its 2015 Federal tax expense and make quarterly deposits of the estimated amount of tax expense so that by December 15, 2015, the entire 2015 estimated tax liability has been paid to the IRS. Avista estimates the amount of the tax liability using forecasted taxable income for the year. Taxable income is <u>generally</u> forecasted by using only known, approved tax deductions. ~~Therefore, Avista's 2015 estimated tax payments that have been paid to the IRS in 2015 do not include a bonus depreciation deduction for 2015.~~

Q. Since the credit has expired and is no longer available for the Company to use in 2015, what basis does Mr. Gorman use to include it?

A. On July 21, 2015 the Senate Finance Committee voted to extend more than 50 expired tax provisions, including the 50% bonus depreciation. While Congress and the President have until December 31, 2015 to approve, Mr. Gorman is speculating that the bonus depreciation tax provision will be approved and available for Avista to use on 2015 capital additions.

Q. If we were to accept the assumption that bonus depreciation will be approved for 2015[3], should Avista accept Mr. Gorman's adjustment to ADFIT?

A. No. It is not appropriate to reduce rate base <u>for the full benefit of bonus depreciation</u> because Avista has not had the <u>full</u> benefit of lower tax payments to the IRS during 2015. As explained earlier, Avista is required to estimate its 2015 Federal tax expense and make quarterly deposits to the IRS during 2015. Avista has already made three of its four tax deposits. <u>For the first two quarters of 2015, Avista did not reflect any benefit of bonus tax</u>

[3] Bonus depreciation is also a deduction from taxable income on the Oregon state income tax (SIT) return. The Company agreed, for settlement purposes, to remove the state income taxes it had pro formed in this case. While the Company has agreed to factor in bonus depreciation for 2015 (even though Congress has not approved it) for the SIT calculation, other factors were also considered, like the amount of tax credits that will be available to offset SIT expense in the rate year.

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.[4] The final quarterly deposit ~~will be~~ was made on ~~by~~ December 15, 2015, and also reflected a higher estimated benefit of bonus tax depreciation. ~~If~~ Because Congress and the President approved the bonus depreciation deduction ~~in late~~ on December 20, 2015, Avista will have made ~~all of~~ its estimated tax payments without including the full benefit of bonus depreciation. Because Avista has already made these payments, it is already incurring a carrying cost on these payments.

~~Going forward, if~~ Because bonus depreciation ~~is~~ was ultimately approved for 2015, the Company can make a refund request from the IRS in 2016, but the Company ~~would~~ will not receive any refund until mid-March 2016, at the earliest. The Company has not had the full benefit of lower tax payments to the IRS during 2015 nor will it before rates are in effect in this case. The Company did not pro form 2016 capital additions (except the capital to hookup new customers) in this case because they would not be in service before rates are in effect. And Commission Staff and other parties have opposed rate base additions [emphasis in original] after the date new retail rates go into effect. Therefore, it would be inconsistent and not appropriate to reduce rate base [emphasis in original] for the full benefit of 2015 bonus depreciation, because the benefit would be received, if it is received at all, after rates

[4] 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.

Accumulated Deferred Federal Income Taxes

are in effect from this case.[5]

Q. Does this conclude your pre-filed, direct testimony?

A. Yes it does.

[5] 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% 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 have been provided to the parties along with this reply testimony.

Accumulated Deferred Federal Income Taxes

A. First, such a proposal is arbitrary in nature, and is not based on a cost of service/LRIC study. The effects of such a spread would actually move Schedule 456 from 1.66 to 1.74 on a relative margin-to-cost ratio (using the Company's originally-filed revenue requirement) – even further away from unity. If one were to apply CUB's rate spread to the Company's original revenue requirement, the overall margin increase for Schedule 456 would be $739,000, or 21.8%, versus a margin reduction of $231,000, or 7.0% proposed by Avista. Schedule 456 as shown in three independent LRIC studies filed in this case is deserving of a revenue reduction.

In addition, CUB's proposed rate spread is unclear as to whether the "3 times" increase is on a billing or margin basis. CUB simply fails to provide a level of detail and specificity that Avista believes the Commission should have in order to evaluate their proposal. As such, CUB's rate spread should be rejected.

Q. Given the positions of the Parties, what is the Company's rate spread proposal in its Reply testimony?

A. The Company's filed rate spread proposal is informed by its LRIC results as well as the results from the other LRIC studies, and is reasonable and appropriate. The Company continues to support the same level of revenue decreases for Schedules 424, 444, and 456. Further, Schedule 440 should receive no rate change as originally filed. For Schedules 410 and 420, a pro-rata allocation based on the Company's proposed 50% movement towards unity should be used for purposes of spreading the revised natural gas revenue requirement of ~~$6.7~~ $6.4 million. Page 1 of Exhibit No. 1901 shows the spread of the revised revenue requirement to each service schedule, and Page 2 shows the proposed rates, incorporating the agreed-upon basic charges contained in the Partial Settlement Stipulation.

Q. Did the terms of the proposed Partial Settlement Stipulation affect the Company's rate spread proposal in its Reply testimony?

A. No, the terms of the proposed Partial Settlement Stipulation did not affect the Company's rate spread proposal. However, it should be noted that the revenue reductions related to the 7.0% margin reduction for Schedule 424, 444, and 456 are slightly different than what was included in the Company's original filing. In the Partial Settlement Stipulation in this case, the Parties accepted Staff's load forecast. That load forecast affects 2016 "Present Revenues". Because the agreed-upon "Present Revenue" is now slightly different from what the Company filed as "Present Revenue", the 7.0% margin reduction from present revenue results in a slightly different revenue decrease for those schedules.

Q. What are the effects of the revised revenue requirement for each service schedule?

A. Table No. 4 below provides the revised revenue requirement for each service schedule:

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%**

Q. Is it the Company's expectation that further rate decreases would be necessary in future general rate case proceedings for some rate schedules?

A. No, the Company does not expect to request further rate decreases for certain schedules in the near future, if the Commission approves the Company's rate spread proposal

Revised: 12/30/2015

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG-288

PATRICK D. EHRBAR
Exhibit No. 1901

Rate Spread and Rate Design

Revised: 12/30/2015

Avista Utilities
Proposed Revenue Increase by Schedule
Oregon - Gas
Pro Forma 12 Months Ended December 31, 2016
(000s of Dollars)

Line No.	Type of Service	Schedule Number	Distribution Revenue Under Present Rates	Proposed GRC Increase	Distribution Revenue Under Proposed Rates	Therms (000s)	**Distribution Revenue Percentage Increase**	Billed Revenue Under Present Rates (1)	Proposed GRC Increase	Billed Revenue Under Proposed Rates	**Billed Revenue Percentage Increase**
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Residential	410	$34,352	$4,500	$38,852	48,035	**13.1%**	$65,254	$4,500	$69,754	**6.9%**
2	General Service	420	13,509	2,215	15,724	26,415	**16.4%**	30,343	$2,215	$32,558	**7.3%**
3	Large General Service	424	651	(46)	605	4,331	**-7.0%**	3,411	($46)	$3,365	**-1.3%**
4	Interruptible Service	440	460	0	460	3,951	**0.0%**	2,293	$0	$2,293	**0.0%**
5	Seasonal Service	444	45	(3)	42	265	**-7.0%**	214	($3)	$211	**-1.5%**
6	Transportation Service	456	3,127	(219)	2,908	37,221	**-7.0%**	3,177	($219)	$2,958	**-6.9%**
7	Special Contract	447	213	0	213	0	**0.0%**	213	$0	$213	**0.0%**
8	Total		$52,357	$6,447	$58,804	120,217	**12.3%**	$104,905	$6,447	$111,352	**6.1%**

(1) Does not include the effects of the November 1, 2015 rate changes.

Type of Service	Schedule Number	Original Proposed General Increase	Percentage of Total Increases	Reply Spread 6.447 Million	Revenue Spread Rationale
Residential	410	$5,924	67.01%	$4,500	Pro-rata allocation of original increase
General Service	420	$2,917	32.99%	$2,215	Pro-rata allocation of original increase
Large General Service	424	-$48		-$46	7% distribution revenue reduction
Interruptible Service	440	$0		$0	No increase or decrease
Seasonal Service	444	-$3		-$3	7% distribution revenue reduction
Transportation Service	456	-$233		-$219	7% distribution revenue reduction
Special Contract	447	$0		0	No increase or decrease
Total		$8,557		$6,447	

Revised: 12/30/2015

Avista Utilities
Comparison of Present & Proposed Gas Rates
Oregon - Gas

Present Base Rates	Change	Proposed Base Rates
Residential Service Schedule 410		
$8.00 Customer Charge	$1.00/month	$9.00 Customer Charge
All Therms - $0.54073/Therm	$0.07186/therm	All Therms - $0.61259/Therm
General Service Schedule 420		
$14.00 Customer Charge	$3.00/month	$17.00 Customer Charge
All Therms - $0.43901/Therm	$0.06835/therm	All Therms - $0.50736/Therm
Large General Service Schedule 424		
$50.00 Customer Charge	$0.00/month	$50.00 Customer Charge
All Therms - $0.13887/Therm	-$0.01051/therm	All Therms - $0.12836/Therm
Interruptible Service Schedule 440		
All Therms - $0.11652/Therm	$0.00000/therm	All Therms - $0.11652/Therm
Seasonal Service Schedule 444		
All Therms - $0.17155/Therm	-$0.01201/therm	All Therms - $0.15954/Therm
Transportation Service Schedule 456		
$275.00 Customer Charge	$0.00/month	$275.00 Customer Charge
1st 10,000 Therms - $0.14978/Therm	-$0.01090/therm	1st 10,000 Therms - $0.13888/Therm
Next 20,000 Therms - $0.09014/Therm	-$0.00656/therm	Next 20,000 Therms - $0.08358/Therm
Next 20,000 Therms - $0.07409/Therm	-$0.00539/therm	Next 20,000 Therms - $0.06870/Therm
Next 200,000 Therms - $0.05799/Therm	-$0.00422/therm	Next 200,000 Therms - $0.05377/Therm
Over 250,000 Therms - $0.02942/Therm	-$0.00214/therm	Over 250,000 Therms - $0.02728/Therm

Schedule 456 Monthly Minimum Charge
18,750 @ $0.08358 = $1,567.31