



Avista Corp.

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Via Electronic Filing

May 18, 2020

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem, OR 97301

RE: UG 389 – Joint Testimony in Support of the Partial Settlement Stipulation

Enclosed for electronic filing with the Commission is the Joint Testimony in Support of the Partial Settlement Stipulation in Docket No. UG-389. Affidavits of Witnesses will be filed at the conclusion of this proceeding.

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

Sincerely,

/s/ David J. Meyer

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

Enclosure

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 389

STAFF/AVISTA/AWEC/CUB EXHIBIT 100

**Joint Testimony in Support of Partial Settlement
Stipulation**

May 18, 2020

1 **Q. Please state your names and positions.**

2 A. My name is Marianne Gardner. I am employed by the Public Utility
3 Commission of Oregon (“PUC”) as the Program Manager, Rates and Accounting in the Rates,
4 Finance and Audit Division of the Utility Program. I am a graduate of Oregon State
5 University with a Masters of Business Administration and a graduate of Montana State
6 University with a Bachelor of Science in Accounting. I have approximately 22 years of
7 professional accounting experience, including cost accounting, public accounting, and non-
8 profit accounting. My responsibilities include research, analysis, and recommendations on a
9 range of cost, revenue and policy issues for electric and natural gas utilities. In this docket, I
10 am the Revenue Requirements Summary Witness for Staff.

11 My name is Annette M. Brandon. I am employed by Avista Utilities (“Company”) as
12 a Manager of Regulatory Affairs in the Regulatory Affairs Department. I am a 2002 graduate
13 of Eastern Washington University with a Bachelor of Arts Degree in Business Administration
14 – Professional Accounting. I started with Avista in January 1999 as a Budget Analyst in the
15 Company’s Transmission department. I spent three years in the Company’s Tax Department
16 before moving to Resource Accounting for the next eight years. In this role, I was primarily
17 responsible for accounting for natural gas and associated budgeting and reporting
18 requirements. I joined the Regulatory Affairs department as a Regulatory Analyst in 2012 and
19 was promoted to my current role in 2013. My primary responsibilities relate to oversight of
20 the purchase gas cost adjustment filings, Power Supply including general rate case
21 adjustments, monthly/annual reporting, key contact for the Company’s compensation and
22 benefits programs, and revenue requirement for Oregon.

1 My name is William Gehrke. I am an Economist with the Oregon Citizens’ Utility
2 Board (“CUB”). As one of CUB’s economists, my responsibilities include the review of
3 utility and telecommunications filings in Oregon on behalf of residential customers. In this
4 particular docket, I am representing residential customers’ concerns arising from Avista’s
5 General Rate Case filing.

6 My name is Bradley G. Mullins, and I am an Independent Energy and Utilities
7 Consultant representing large energy consumers before state regulatory commissions. I am
8 appearing in this matter on behalf of the Alliance of Western Energy Consumers (“AWEC”),
9 a non-profit trade association of commercial and industrial electric and gas users in the states
10 of Oregon, Idaho and Washington.

11 Hereafter, Staff, the Company, CUB and AWEC will collectively be referred to as the
12 “Parties.”

13 **Q. What is the purpose of your joint testimony?**

14 A. The purpose of our joint testimony is to describe and support the Partial
15 Settlement Stipulation, filed on May 18, 2020, between Commission Staff, CUB, AWEC, and
16 the Company in Docket No. UG-389 (the “Stipulation”), which resolved all issues related to
17 the Cost of Capital for the general rate increase filed on March 13, 2020. The Stipulation is
18 the product of settlement discussions, open to all parties to the UG-389 Docket.

1 **Q. Have you prepared any Exhibits?**

2 A. Yes. The Parties' Exhibit No. Joint Testimony/101 is the Partial Settlement
3 Stipulation ("Stipulation") filed with the Commission on May 18, 2020.

5 Background

6 **Q. Please describe the background behind the Company's original general**
7 **rate case filing.**

8 A. On March 13, 2020, Avista filed revised tariff schedules to effect a general rate
9 increase for Oregon retail customers of \$6,777,000, or 6.8% of its annual revenues. The filing
10 was suspended by the Commission on March 16, 2020, per its Order No. 20-086.

Pursuant to Administrative Law Judge Allen J. Arlow's Prehearing Conference Notice
of Telephone Prehearing Conference Memorandum of April 3, 2020, a telephone settlement
conference was held on May 8, 2020.

14 As a result of the settlement discussions, the Parties have agreed to settle all issues in
15 this Docket concerning the Cost of Capital, including Capital Structure, Long-Term Debt Cost
16 and Return on Equity and subject to the approval of the Commission.

17 **Q. What is the Company's position with respect to the need for additional**
18 **rate relief?**

A. The Company explained in its original filing that its need for additional rate relief is due primarily to increases in total rate base, including net plant investment (including return on investment, depreciation and taxes, offset by the tax benefit of interest), and increases in Operations and Maintenance (“O&M”), and administration and general (“A&G”) expenditures. Over 67% (or approximately \$4.5 million) of the Company’s need for additional

1 rate relief relates to increases in total rate base, including changes in net plant investment
2 (including return on investment, depreciation and taxes¹, offset by the tax benefit of interest),
3 representing an increase of approximately \$31.9 million in additional net rate base for the
4 Oregon jurisdiction over the current authorized amount.²

5 The remaining 33% (or approximately \$2.3 million) of the Company's requested
6 revenue requirement relates to an increase in Operations and Maintenance ("O&M") and
7 administrative and general ("A&G") expenditures. These rate base and expense-related
8 revenue requirement increases are net of the change in retail revenues since our last rate case
9 filed in 2019.

10 **Q. How many data requests has Avista responded to, and the general issues**
11 **explored.**

12 A. Avista has so far responded to 194 data requests, including 123 that were
13 provided along with the Company's filed case. The data requests covered a broad range of
14 topics including, but not limited to, cost of capital, capital additions, employee wages and
15 benefits, federal and state income taxes, working capital, operating and maintenance costs and
16 various administrative and general related expenses. In Avista's view, discovery to-date has
17 been comprehensive and productive.

¹ The largest portion of the overall increase in taxes are associated with the inclusion of the new Corporate Activity Tax ("CAT Tax") as described in adjustment 3.03, increasing the Company's proposed revenue requirement by approximately \$1.1 million.

² The authorized amounts for this analysis includes rate base authorized for rates that were effective January 15, 2020.

Terms of the Partial Settlement Stipulation

Q. What revenue requirement adjustments to Avista's originally-filed case are included in the Stipulation (Exhibit No. Joint Testimony/101)?

A. Table No. 1, at page 2 of the Stipulation, is reproduced below, and provides a summary of the adjustments to Avista's originally-filed case:

Table No. 1 – Summary of Adjustments to Revenue Requirement and Rate Base

	Revenue Requirement	Rate Base
	\$6,777	\$304,664
Cost of Capital		
Adjusts return on equity to 9.40%, long-term debt cost to 5.07%, with a common stock equity component of 50%, and overall Cost of Capital of 7.24%.	(1,092)	-
Total Adjustments:	(\$1,092)	\$0
	\$5,685	\$304,664

Q. What is the basis of the Stipulation relating to the Cost of Capital Adjustment?

A. The Company's originally-filed requested cost of capital was as follows:

AVISTA PROPOSED COST OF CAPITAL			
	Capital	Cost	Weighted
Long Term Debt	50.000%	5.10%	2.550%
Common Equity (ROE)	50.000%	9.90%	4.950%
Total	100.00%		7.50%

As filed, this adjustment would have revised the Company requested cost of capital to a capital structure comprised of 50% common stock equity and 50% long-term debt, with a return on equity (ROE) of 9.90%, and cost of debt of 5.10%. On settlement, however, the Parties have agreed to a revised cost of debt of 5.07% that reflects the most recent financings of the Company, which lowers the overall cost of debt from the 5.10% included in the original filing. The 9.40% ROE, combined with the 50% equity layer, is a negotiated rate that the

Parties support as reasonable. It also reflects a continuation of the currently authorized ROE of 9.4% and the capital structure comprised of 50% common stock equity and 50% long-term debt. This combination of capital structure and capital costs produces an overall rate of return of 7.24%, as shown in the table below:³

AGREED-UPON COST OF CAPITAL			
	Capital Structure	Debt Cost	Weighted Cost
Long Term Debt	50.00%	5.07%	2.54%
Common Equity	50.00%	9.40%	4.70%
Total	100.00%		7.24%

The result of this adjustment decreases the Company's requested revenue requirement by \$1,092,000. In their respective individual statements, that follow, each party will add their perspective on why they agreed to this cost of capital settlement. Note that the rounding for both Cost of LT Debt 5.07 percent and of overall Rate of Return (ROR) 7.24 percent is a result of settlement discussions and intentionally rounded to two digits.

Statements of the Parties⁴

Statement of Avista

Q. Does Avista support the Partial Settlement Stipulation which resolves all Cost of Capital issues in this case?

A. Yes. The Partial Settlement strikes a reasonable balance between the interests of Avista's customers and the Company related to Cost of Capital issues in this proceeding. The Partial Settlement Stipulation was a compromise among differing interests and represents

³ The agreed-upon capital structure (50/50), as well as the Common Equity of 9.4%, represents a continuation of the currently approved Cost of Capital per UG-366.

⁴ The Statements provided by each Party represent their views only as it relates to the Settlement, and should not be construed as being the views of the Parties collectively.

1 give-and-take. It does not, however, resolve all issues in this proceeding, the remainder of
2 which will be addressed in Staff and intervenors testimony to be filed on July 21, 2020 and the
3 Company's rebuttal to be filed thereafter. For these reasons, the Partial Settlement is in the
4 public interest and should be approved by the Commission.

5 **Q. Is the agreed-upon ROE and capital structure the same as what the**
6 **Commission recently approved in Docket No. UG-366?**

7 A. Yes it is.

8 **Statement of CUB**

9 **Q. Please explain why CUB believes the settlement is in the public interest.**

10 A. CUB supports the Stipulation as a reasonable compromise that furthers the
11 public interest because the revenue requirement adjustments captured herein strike a
12 reasonable balance between the interests of Avista's customers and the Company. CUB
13 believes that a 9.4 percent ROE is appropriate for the Company and reflects current market
14 conditions. Further, CUB retaining a 9.4 percent ROE is reasonable given the current
15 economic uncertainty and hardships faced by residential customers in Avista's service
16 territory.

17 **Statement of AWEC**

18 **Q. Please explain why AWEC believes the settlement is in the public interest.**

19 A. AWEC believes the Stipulation is in the public interest and recommends the
20 Commission approve the Stipulation because the best interests of Avista's natural gas
21 customers are served by the underlying fair compromise on Cost of Capital issues. While the
22 signing parties may each hold different positions on the individual components of the
23 Stipulation, AWEC supports the Stipulation because it results in the reasonable ROR and

1 decreases the original gas revenue requirement increase of \$6.777 million by \$1.092 million—
2 which results in a revenue requirement increase request of \$5.685 million, before consideration
3 of other adjustments that will be proposed by Staff, CUB and AWEC in testimony. AWEC
4 supports the Stipulation as an overall result that is a fair compromise between Avista and its
5 customers.

6 For the reasons set forth above, AWEC believes the Stipulation is in the public interest
7 and should be approved by the Commission.

8 **Statement of Staff**

9 **Q. Please explain why Staff believes the settlement is in the public interest.**

10 A. Staff believes that the Partial Stipulation is in the public interest because of the
11 fair compromise reached by the Parties on specific rate cases items including ROE, LT Debt
12 and Capital Structure. Based on Staff's modeling and analysis each component of Cost of
13 capital is reasonable, generating an overall Rate of Return (ROR) that is reasonable. The
14 recommendations in this stipulation are reasonable for when rates go into effect in this rate
15 case. Furthermore, the new base revenue increase request reflective of this settlement is subject
16 to further adjustment in the broader general rate case.

17 **Q. Will Staff provide separate detailed Testimony in Support for this**
18 **Stipulation's Cost of Capital elements and overall Cost of Capital?**

19 A. Yes. Staff will provide additional Testimony in Support on or before July 21,
20 2020 that will further explain and support the agreements reached in this Partial Stipulation.
21 This will provide space for Staff to share modeling results and provide more detail than is
22 appropriate for this summary. This additional Staff testimony in support will illuminate but
23 not detract or contradict recommendations herein.

1 **Q. Does each component of Cost of Capital accurately reflect reasonable**
2 **values supported by Staff analysis?**

A. Yes, the stipulated values for balanced 50 percent equity, 50 percent LT Debt Capital Structure; 9.40 percent ROE, 5.07 percent Cost of LT Debt, and overall 7.24 percent ROR are accurate reflections of Staff analysis.

7 Conclusion

8 **Q. Do the Parties agree that the Stipulation provided as Exhibit No. Joint**
9 **Testimony/101 is in the public interest and results in an overall fair, just and reasonable**
10 **outcome?**

11 A. Yes, the Parties do.

12 **Q. What do the Parties recommend regarding the Stipulation?**

13 A. We recommend that the Commission adopt the Stipulation in its entirety.

14 **Q. Does this conclude your joint testimony?**

15 A. Yes.

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 389

EXHIBIT 101

Partial Settlement Stipulation

May 18, 2020

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 389

In the Matter of)	
AVISTA CORPORATION, dba AVISTA)	PARTIAL SETTLEMENT STIPULATION
UTILITIES)	
)	
Request for a General Rate Revision.)	

This Partial Settlement Stipulation (“Stipulation”) is entered into for the purpose of resolving several, but not all, issues in this Docket.

PARTIES

The Parties to this Stipulation are Avista Corporation (“Avista” or the “Company”), the Staff of the Public Utility Commission of Oregon (“Staff”), the Oregon Citizens’ Utility Board (“CUB”), and the Alliance of Western Energy Consumers (“AWEC”) (collectively, “Parties”). These Parties represent all who intervened and appeared in this proceeding.

BACKGROUND

1. On March 13, 2020, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of \$6,777,000, or 6.8% of its annual revenues. The filing was suspended by the Commission on March 16, 2020, per its Order No. 20-086.

2. Pursuant to Administrative Law Judge Allen J. Arlow’s Prehearing Conference Notice of Telephone Prehearing Conference Memorandum of April 3, 2020, a telephonic settlement conference was held on May 7, 2020.

3. As a result of the settlement discussions, the Parties have agreed to settle all issues in this Docket concerning the Cost of Capital, including Capital Structure, Long-Term Debt Cost and Return on Equity, subject to the approval of the Commission.

TERMS OF PARTIAL SETTLEMENT STIPULATION

4. Adjustments to Revenue Requirement:

The Parties support reducing Avista's requested revenue requirement to reflect the adjustment to the Cost of Capital discussed below. The adjustments reached in this partial settlement amount to a total reduction in Avista's revenue requirement increase request from \$6.777 million to a base revenue increase request of \$5.685 million. The new base revenue increase request is subject to further adjustment.

This Stipulation represents the settlement of the revenue requirement issues resulting from the Cost of Capital in the Company's filing. The Parties support the adjustments to Avista's revenue requirement request shown in Table No. 1 below:

Table No. 1 – Summary of Adjustments to Revenue Requirement and Rate Base

	Revenue Requirement	Rate Base
	\$6,777	\$304,664
Cost of Capital		
Adjusts return on equity to 9.40%, long-term debt cost to 5.07%, with a common stock equity component of 50%, and overall Cost of Capital of 7.24%.	(1,092)	-
Total Adjustments:	(\$1,092)	\$0
	\$5,685	\$304,664

The following information provides an explanation for each of the adjustments in Table No. 1 above.

Rate of Return (-\$1,092,000): This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 7.24% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 9.40%, and a long-term debt cost of 5.07%. This combination of capital structure and capital costs is shown in the schedule below.¹

AGREED-UPON COST OF CAPITAL			
	Capital Structure	Debt Cost	Weighted Cost
Long Term Debt	50.00%	5.07%	2.54%
Common Equity	50.00%	9.40%	4.70%
Total	100.00%		7.24%

5. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just and reasonable outcome, and will serve to reduce the number of contested adjustments in this case.

6. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. Without the written consent of all Parties, evidence of conduct or statements, including but not limited to term sheets or other documents created solely for use in settlement conferences in this Docket, are not admissible in the instant or any subsequent proceeding unless independently discoverable or offered for other purposes allowed under ORS 40.190. Nothing in this paragraph precludes a party from stating as a factual matter what the Parties agreed to in this Stipulation or in the Parties' testimony supporting the Stipulation.

7. Further, this Stipulation sets forth the entire agreement between the Parties and supersedes any and all prior communications, understandings, or agreements, oral or written, between the Parties pertaining to the subject matter of this Stipulation.

¹ The agreed-upon capital structure (50/50) and cost of equity (9.4%) represent a continuation of currently-approved levels approved in UG-366.

1 8. This Stipulation will be offered into the record in this proceeding as evidence
2 pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this
3 proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the
4 Stipulation at any hearing held, or, in a Party's discretion, to provide a representative at the hearing
5 authorized to respond to the Commission's questions on the Party's position as may be appropriate.

6 9. If this Stipulation is challenged by any other party to this proceeding, the Parties to
7 this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem
8 appropriate to respond fully to the issues presented, including the right to raise issues that are
9 incorporated in the Settlement embodied in this Stipulation. Notwithstanding this reservation of
10 rights, the Parties agree that they will continue to support the Commission's adoption of the terms
11 of this Stipulation.

12 10. The Parties have negotiated this Stipulation as an integrated document. If the
13 Commission rejects all or any material portion of this Stipulation, or imposes additional material
14 conditions in approving this Stipulation, any Party disadvantaged by such action shall have the
15 rights provided in OAR 860-001-0350(9) and shall be entitled to seek reconsideration or appeal of
16 the Commission's Order.

17 11. By entering into this Stipulation, no Party shall be deemed to have approved,
18 admitted, or consented to the facts, principles, methods, or theories employed by any other Party
19 in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any
20 provision of this Stipulation is appropriate for resolving the issues in any other proceeding.

21 12. This Stipulation may be executed in counterparts and each signed counterpart shall
22 constitute an original document. Given the circumstances surrounding physical access to facsimile
23 or other forms of signature due to the COVID-19 epidemic, the Parties further agree that any

electronically-generated Party signatures are valid and binding to the same extent as an original signature.

13. This Stipulation may not be modified or amended except by written agreement among all Parties who have executed it.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: /s/ David J. Meyer
David J. Meyer

By: _____
Johanna Riemenschneider

Date: May 18, 2020

Date: _____

ALLIANCE OF WESTERN ENERGY
CONSUMERS

OREGON CITIZENS' UTILITY BOARD

By: _____
Chad M. Stokes

By: _____
Michael P. Goetz

Date: _____

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____
David J. Meyer

By: /s/ Johanna Riemenschneider
Johanna Riemenschneider

Date: _____

Date: May 15, 2020

ALLIANCE OF WESTERN ENERGY
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Date: May 15, 2020

Date: _____