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IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE TO ELECTRIC CUSTOMERS IN THE STATE OF IDAHO	)))))))	CASE NO. AVU-E-19-04

DIRECT TESTIMONY OF DONN ENGLISH IN SUPPORT OF THE STIPULATION AND SETTLEMENT

IDAHO PUBLIC UTILITIES COMMISSION

OCTOBER 31, 2019

Q. Please state your name and business address for the record.

A. My name is Donn English. My business address is 11331 W. Chinden Blvd., BLDG 8, STE 201-A, Boise, Idaho 83714.

Q. By whom are you employed and in what capacity?

A. I am employed by the Idaho Public Utilities Commission as a Program Manager overseeing the Accounting and Audit Department in the Utilities Division.

Q. What is your educational background and professional experience?

A. I graduated from Boise State University in 1998 with a Bachelor of Business Administration ("BBA") degree in Accounting. Following my graduation, I accepted a position as a Trust Accountant with a pension administration, actuarial, and consulting firm in Boise. In 1999, I was promoted to Pension Administrator. In May of 2001, I became a designated member of the American Society of Pension Professionals and Actuaries ("ASPPA"). I was the first person in Idaho to receive the Qualified 401(k) Administrator certification and was also one of approximately ten people in Idaho who have earned the Qualified Pension Administrator certification. In 2001, I was promoted to a Pension Consultant.

I was hired by the Idaho Public Utilities

Commission as a Staff Auditor in 2003. In 2016, I became the Audit Team Lead, and in 2018 I was promoted to Program Manager of Accounting and Audit Department. At the Commission, I have audited a number of utilities including electric, water, and natural gas companies, and provided comments and testimony in numerous cases that dealt with general rates, tax issues, pension issues, depreciation and other accounting issues, and other regulatory policy decisions. In 2004, I attended the 46th Annual Regulatory Studies Program at the Institute of Public Utilities at Michigan State University sponsored by the National Association of Regulatory Utility Commissioners ("NARUC"). Since then I have regularly attended NARUC conferences and meetings, Society of Regulatory Financial Analysts ("SURFA") meetings, and other regulatory training opportunities. I am the Commission's representative on the NARUC Subcommittee of Accounting and Finance.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to describe Avista Corporation's ("Avista" or "Company") Application to increase its rates and charges for electric service in Idaho, describe the proposed comprehensive settlement reached by all parties in this case, and explain Staff's support for the proposed agreement.

Q. How is your testimony organized?

A. My testimony is subdivided under the following headings:

Background

Q. Please describe Avista's original filing.

A. Avista made its original filing on June 10, 2019, requesting authority to increase its electric base rates in Idaho by $5.255 million or 2.1%, effective January 1, 2020. The requested increase was based on a 2018 test year, with proforma adjustments through 2020. Rate base was presented on a 2019 proforma end of period basis. The Company proposed a capital structure of 50/50 and a return on common equity ("ROE") of 9.9%.

Based on the different cost-of-service methodologies filed, the Company proposed no increase for General Service Schedules 11/12 and Street and Area Light Schedules 41-49, resulting in a 30% movement towards unity. Large General Service customers (Schedules 21/22), Extra Large General Service customers (Schedules 25 and 25P), and

Pumping customers (Schedules 31/32) would receive 75% of the overall base revenue increase. The remaining revenue requirement was proposed to be spread to Residential Service Schedule 1, resulting in a 34% movement towards unity. Table No. 1 below illustrates the proposed revenue spread and relative rates of return ("ROR") for the customers classes.

Table No. 1 - Proposed Rate Spread and Relative ROR

Rate Schedule	Increase in Base Rates	Proposed Relative ROR
Residential Schedule 1	3.4%	0.88
Gen. Service Schedules 11/12	0.0%	1.36
Lg. Gen. Service Schedules 21/22	1.5%	1.06
Extra Lg. Gen. Service Sch. 25	1.5%	0.90
Clearwater Papwer Sch. 25P	1.5%	0.95
Pumping Service Schedules 31/32	1.5%	0.96
Street & Area Lights Sch. 41-49	0.0%	1.38
Overall	**2.1%**	**1.00**

Q. How was the case processed after the Company's filing was received?

A. The Commission issued a notice of filing and established an intervention deadline. Intervenor status was granted to Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC, the Community Action Partnership Association of Idaho, Inc. ("CAPAI"), the Idaho Conservation League, Inc. ("ICL"), and Walmart, Inc. A procedural schedule was approved by the Commission and a settlement conference was held on October 1, 2019. A comprehensive Settlement was reached by all parties, and the Motion to Approve the Stipulation and Settlement was filed with the Commission on October 15, 2019.

Settlement Overview

Q. Would you please describe the terms of the Settlement?

A. The proposed Stipulation and Settlement ("Settlement") specifies a *decrease* in electric base revenues of $7.188 million (2.84%) on December 1, 2019. It also specifies a 50/50 debt to equity capital structure, a 5.2% cost of debt, and a 9.5% return on common equity. The overall return is 7.35%.

Besides specifying capital structure, return on equity, and the cost of debt, the Settlement also specifies a variety of expense and investment adjustments. The revenue requirement adjustments fall primarily into three categories: 1) update 2019 pro forma expense and investment with known, actual amounts; 2) modify or update miscellaneous test year expenses; and 3) lengthen amortization periods for deferred accounts. The revenue requirement is further adjusted by continuing the Palouse Wind Purchase Power Agreement ("PPA") expense recovery through the Power Cost Adjustment ("PCA") mechanism rather than through base rates.

The revenue decrease will be spread to the customer classes in varying amounts to move towards cost-of-service parity. The decrease by customer class and relative ROR for each class is shown in Table No. 2 below:

Table No. 2 - Stipulated Rate Spread and Relative ROR

Rate Schedule	Increase in Base Rates	Stipulated Relative ROR
Residential Schedule 1	-1.0%	0.86
Gen. Service Schedules 11/12	-8.4%	1.35
Lg. Gen. Service Schedules 21/22	-4.5%	1.05
Extra Lg. Gen. Service Sch. 25	-1.0%	0.92
Clearwater Papwer Sch. 25P	-1.0%	0.99
Pumping Service Schedules 31/32	-1.6%	1.00
Street & Area Lights Sch. 41-49	0.0%	1.67
Overall	**-2.8%**	**1.00**

The Settlement also provides additional funding for energy efficiency projects in Idaho, and increases the annual funding for the Company's Low Income Weatherization Program from the currenly approved $800,000 to $850,000 per year.

Q. Are there any other provisions included in the Settlement?

A. Yes. The Settlement also specifies the new level of base power supply revenues, expenses, retail load, and the Load Change Adjustment Rate resulting from the stipulated revenue requirement for purposes of the monthly PCA mechanism calculations. It also specifies the new level of baseline values for the electric fixed costs adjustment ("FCA") mechanism.

Staff Investigation

Q. What type of investigation did Staff conduct to evaluate the Company's rate increase request?

A. Staff's approach prior to the settlement conference was to extensively review the Company's Application and associated testimony and workpapers, identify adjustments to its revenue requirement request, and prepare to file testimony for a fully-litigated proceeding. Three Staff auditors were assigned to the case and began reviewing the 2018 results of operations before the Company filed its Applicaton in June of 2019. After the filing, the auditors reviewed the capital budgets, capital spending trends, operations and maintenance ("O&M") expenses and trends, and verified all of the Company's calculations and assumptions with regards to the overall revenue requirement. The auditors spent two weeks on-site at Avista's corporate headquarters in Spokane, Washington, interviewing Company personnel, reviewing thousands of transactions, selected samples and performed transaction testing in accordance with standard audit practices. The auditors reviewed the Company's labor expense, incentive plans, and employee benefits to insure the appropriate level of expenditure.

The auditors worked with ten other technical staff from the Utilities Division, consisting of engineers, utility analysts, and consumer investigators, to determine the prudence of capital additions and verify in-service dates. Staff reviewed both completed and proposed Company investments, evaluated expenditures including pension, salaries, and operation and maintenance expenses, investigated power supply modeling, weather normalization, class cost-of-service methodologies, and compared rate design alternatives. In total, Staff submitted over 150 production requests to the Company as part of its comprehensive investigation. In addition to audit work on-site, other Staff also conducted on-site investigations.

Q. How did Staff prepare for the settlement conference?

A. Staff prepared for the settlement conference by preparing for testimony as in a litigated case. In developing its revenue requirement proposal, Staff identified 28 adjustments to the Company's requested revenue requirement totaling $14.35 million. Staff developed its revenue requirement proposal and established positions on various issues for presentation at the settlement conference on October 1, 2019, while simultaneously preparing direct testimony to file on November 5, 2019, should the case be litigated.

Settlement Evaluation

Q. How did Staff determine that the overall Settlement was reasonable?

A. In every settlement evaluation, Staff and other parties must determine if the agreement is a better overall outcome than could be expected at hearing. All of the 28 revenue requirement adjustments identified by Staff were incorporated either totally or partially in the Settlement. Rather than an increase of $5.255 million as proposed by the Company, the Settlement specified an electric revenue decrease of $7.188 million. Other parties, made up of customer groups and low income representatives, agreed with Staff in support of the Settlement.

Q. Does Staff support the proposed Settlement as reasonable?

A. Yes. After a comprehensive review of the Company's Application, thorough audit of the Company's books and records, and extensive negotiations with the parties to the case, Staff supports the proposed Settlement. The Settlement offers a reasonable balance between the Company's opportunity to earn a return and affordable rates for customers. Several of Staff's primary goals after evaluation of revenue requirement have been met with this Settlemetn. It provides additional funding for energy efficiency projects and the Company's low income weatherization program. Not all cost-of-service allocation concerns or different methods addressed by other parties are included in this Settlement. However, it does properly address cost-of-service differentials raised by the various parties, including Staff, by distributing the rate decrease base on cost causation principles to bring customer classes closer to parity. Staff believes that the Settlement, supported by all parties to the case, is in the public interest, is fair, just and reasonable, and should be approved by the Commission.

Revenue Requirement

Q. What type of revenue requirement adjustments were proposed by Staff and included in the Settlement?

A. The adjustments proposed by Staff covered a broad range of revenue and cost categories. Besides a reduction in ROE, the adjustments generally fall into the three previously identified categories: 1) update 2019 pro forma expense and investment with known, actual amounts; 2) modify or update miscellaneous test year expenses; and 3) lengthen amortization periods for deferred accounts.

Q. Please explain why Staff believes the 9.5% ROE is reasonable.

A. The Stipulation reflects an ROE of 9.5% based on a capital structure of 50% equity and 50% debt. The Company originally proposed a 9.9% ROE. The 9.5% ROE is consistent with the Company's currently authorized ROE, and also with the most recent Commission decision for Intermountain Gas Company in Order No. 33757. It is also consistent with authorized returns granted for other electric and gas utilities operating in the Northwest. The 40 basis point reduction in ROE from the Company's proposal reduced the Company's requested revenue requirement by approximately $2.2 million. The 9.5% ROE allows Avista to attract new capital from the market to fund new capital investments and refinance maturing debt issuances.

Q. Will you please explain other revenue requirement adjustments proposed by Staff and accepted by the parties?

A. Yes. While Table No. 1 of the Settlement provides a line by line calculation of the revenue requirement, and the Settlement further provides a summary of each adjustment, I will highlight a few of the major adjustments. The first adjustments proposed by Staff related to the timing of expenses and investments. The Company proposed a test year based on a 2018 base year with proforma expenses through 2020, and capital investments through 2019. Staff verified the proforma expense amounts with actual expenses as they became available. Additionally, Staff investigated the in-service dates of proposed capital projects to confirm they would be in-service and used and useful prior to the end of 2019. By removing capital projects not completed in 2019 from the Company's request, Idaho jurisdictional rate base was reduced by $9,070,000 which reduced the Idaho electric revenue requirement by approximately $1.5 million.

Updating 2019 expenses with actual amounts reduced the Idaho electric revenue requirement by another $1.15 million.

Q. Would you please explain how the Settlement treats employee labor and benefits?

A. Yes. The Company proposed to include in its Idaho electric revenue requirement proforma labor expenses through 2020 for non-executive employees, and increased labor expense through 2019 for its executives. The parties agreed to only include the scheduled 2020 wage increases for the Company's union employees because that wage increase is a contractual obligation under the Company's collective bargaining agreements. All other 2020 wage increases were removed. Additionally, the 2019 wage increase for the Company's executives was also removed from the revenue requirement. The effect of the agreed upon labor adjustments reduced the Company's requested revenue requirement by $306,000.

The Company also included in its request incentive payments for its employees and executives. Consistent with prior Commission treatment, Staff proposed and the parties agreed to remove executive incentives in their entirety from the Company's revenue requirement. For non-executive incentive payments, the parties agreed to include only the operating portion of the incentives at the

2018 target level, as opposed to the 6-year average proposed by the Company. The effect of the agreed upon level of incentives reduced the Company's requested revenue requirement by $438,000.

The Company also proformed employee benefits through 2020 in its original request. Staff proposed and the parties agreed to remove the 2020 matching contributions to the Company's 401(k) and use the 2018 test year level of matching contributions plus a 3% labor escalator for 2019. The Company's pension contributions were estimated to decrease in 2020. To remain consistent with Staff's policy on excluding 2020 labor and benefits, the parties agreed to accept the higher 2019 pension contribution. The overall effect of the adjustments to the Company's employee benefits increased the Company's requested revenue requirement by $86,000.

Q. Please explain the treatment of the Palouse Wind and Rattlesnake Flats Wind PPAs.

A. Both the Palouse Wind and Rattlesnake Flats PPAs have been removed from base rates and the costs associated with the PPAs will be reflected in the PCA subject to the current sharing (90% customer, 10% Company). The Palouse Wind PPA was executed in 2011, and has never been included in base rates. In every previous settlement agreement in Avista's rate cases since its execution, the expenses associated with the PPA have been included in the PCA and subject to sharing.

The Rattlesnake Flats Wind PPA is expected to deliver power beginning in December 2020. The capital investments necessary for this project to be integrated have been excluded from the Company's revenue requirement and will be addressed in the Company's next general rate case. For purposes of this case, the parties agree that any expenses associated with the Rattlesnake Flats Wind PPA will be included in the PCA and subject to sharing. The effect of excluding these two PPAs from base rates reduces the Company's requested revenue requirement by approximately $4.3 million.

Q. Will you please explain the miscellaneous adjustment listed in the Settlement?

A. The miscellaneous adjustment reflects the net change in operating expenses for items Staff discovered during its audit. Those items consist of 1) the reclassification of non-utility flights and fixed costs associated with the Company's private jet, as well as the expired lease expense; 2) the amortization of the 2018 intervenor funding over a two-year period; 3) removal of other miscellaneous administrative and general ("A&G") expenses that should have been charged below-the-line; and 4) and agreed upon expense adjustment that increases revenue requirement by $600,000. The net effect of the miscellaneous adjustments increases the Company's requested revenue requirement by $451,000.

Allocations and Rate Design

Q. Please explain the cost-of-service methodologies included in the Company's Application.

A. The Company's original Application in this case included a Base Case electric cost-of-service study where production costs are classified to energy and demand based on a the system load factor. Transmission costs are classified 100% demand and allocated by the average of the 12 monthly coincident peaks. This methodology is consistent with the cost-of-service studies filed in the last four Idaho general rate cases (Case Nos. AVU-E-12-08, AVU-E-15-05, AVU-E-16-03, and AVU-E-17-01) and reflects the methodology that was accepted in the Stipulation and Settlement in Case No. AVU-E-10-01.

The Company also provided three alternative cost-of-service scenarios. The first alternative scenario starts with the Base Case but incorporates the classification of Distribution Land and Land Rights (FERC Plant Account 360) as related to other distribution plant in FERC Plant Accounts 361 though 367. The second alternative scenario modified the coincident peak allocation factor which is used on all demand-related production and transmission costs to reflect the average of the seven highest monthly peaks during the test period. The third alternative scenario also modified the coincident peak allocation factor by using all twelve monthly peaks, but the demand values were weighted by the marginal cost-of-power in each month.

Q. Were there any similarities in the different cost-of-service scenarios presented by the Company?

A. Yes. Each cost-of-service scenario presented by the Company illustrated an under-recovery of assigned costs by the Residential class (Schedule 1) and the Extra Large General Service classes (Schedule 25 and 25P). General Service Schedules 11 and 12, along with Larger General Service Schedules 21 and 22, were shown to be over-recovering their assigned costs.

Q. Do the parties agree on any specific cost-of-service methodology for this case?

A. No. The parties do not agree on any particular cost-of-service methodology for this case. However, the parties generally agree with the representations presented in the multiple scenarios provided by the Company that certain customer classes do not recover all of their costs, while other classes recover more than their assigned costs. In recognition that certain rate schedules are well above their relative cost-of-service, the Parties agree that

General Service Schedules 11 and 12, and Large General Service Schedules 21 and 22 will receive a revenue decrease above the overall base rate change in order to move these schedules closer to cost-of-service parity. The remaining schedules will still receive a revenue decrease, but the decrease will be below the overall percentage base rate change. The rate decreases by Customer Schedule are shown on page 10 of the Settlement.

Energy Efficiency

Q. Please explain the Settlement as it relates to energy efficiency.

A. First, the Settlement increases the annual amount funded by the Company for its Low Income Weatherization Assistance Program admininstered by the Lewiston Community Action Partnership. The currently authorized level of funding is $800,000. The Settlement increases the level of funding to $850,000.

The Settlement also stipulates that Avista will establish an Energy Efficiency Assistance Fund ("EEAF") to provide additional funding for projects that are not otherwise fully funded through existing energy efficiency incentives, or do not otherwise qualify for traditional energy efficiency funding. The EEAF will be funded with a deferred liability owed to customers related to the Allowance for Funds Used During Construction ("AFUDC")

Equity Tax Deferral addressed in Case Nos. AVU-E-19-02 and AVU-G-19-01, as ordered by Commission Order No. 34326. This deferral balance is approximately $800,000. Avista will also contribute an additional $800,000 in below-the-line dollars as a matching contribution to the EEAF.

The funding will be disbursed as directed by the EEAF Advisory Group, a new committee of stakeholders tasked with determining which existing or new programs should receive this additional funding to address energy efficiency, weatherization, conservation, and low-income needs in Avista's Idaho service territory. This committee will initially consist of representatives from Avista, Commission Staff, Clearwater, Idaho Forest Group, ICL, and the Lewiston Community Action Partnership.

Other Terms and Conditions

Q. Are there terms and conditions described in the Settlement?

A. Yes. The new level of power supply revenues, expeneses, retail load, and the Load Change Adjustment Rate resulting from the new December 1, 2019 stipulated revenue requirement for purposes of the PCA mechanism are detailed in Appendix A to the Settlement. Additionally, the new level of baseline values for the electric FCA mechanism resulting from the stipulated revenue requirement are detailed in Appendix B.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31st DAY OF OCTOBER 2019, SERVED THE FOREGOING **DIRECT TESTIMONY OF DONN ENGLISH IN SUPPORT OF THE STIPULATION AND SETTLEMENT,** IN CASE NO. AVU-E-19-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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