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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION FOR THE)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC AND)
NATURAL GAS SERVICE TO ELECTRIC)
AND NATURAL GAS CUSTOMERS IN THE)
STATE OF IDAHO)

CASE NO. AVU-E-10-01
CASE NO. AVU-G-10-01

DIRECT TESTIMONY
OF
WILLIAM E. AVERA

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

DIRECT TESTIMONY OF WILLIAM E. AVERA

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. William E. Avera, 3907 Red River, Austin, Texas,
4 78751.

5 **Q. In what capacity are you employed?**

6 A. I am the President of FINCAP, Inc., a firm
7 providing financial, economic, and policy consulting
8 services to business and government.

9 **Q. Please describe your educational background and**
10 **professional experience.**

11 A. A description of my background and
12 qualifications, including a resume containing the details
13 of my experience, is attached as Schedule 1 of Exhibit No.
14 3.

15 **A. Overview**

16 **Q. What is the purpose of your testimony in this**
17 **case?**

18 A. The purpose of my testimony is to present to the
19 Idaho Public Utilities Commission (the "Commission" or
20 "IPUC") my independent evaluation of the fair rate of
21 return on equity ("ROE") for the jurisdictional electric
22 and gas utility operations of Avista Corp. ("Avista" or
23 "the Company"). In addition, I also examined the
24 reasonableness of Avista's capital structure, considering

1 both the specific risks faced by the Company and other
2 industry guidelines.

3 **Q. Please summarize the information and materials**
4 **you relied on to support the opinions and conclusions**
5 **contained in your testimony.**

6 A. To prepare my testimony, I used information from
7 a variety of sources that would normally be relied upon by
8 a person in my capacity. I am familiar with the
9 organization, finances, and operations of Avista from my
10 participation in prior proceedings before the IPUC, the
11 Washington Utilities and Transportation Commission, and the
12 Oregon Public Utility Commission. In connection with the
13 present filing, I considered and relied upon corporate
14 disclosures, publicly available financial reports and
15 filings, and other published information relating to
16 Avista. I also reviewed information relating generally to
17 current capital market conditions and specifically to
18 current investor perceptions, requirements, and
19 expectations for Avista's utility operations. These
20 sources, coupled with my experience in the fields of
21 finance and utility regulation, have given me a working
22 knowledge of the issues relevant to investors' required
23 return for Avista, and they form the basis of my analyses
24 and conclusions.

1 **Q. What is the role of the rate of return on common**
2 **equity in setting a utility's rates?**

3 A. The ROE serves to compensate common equity
4 investors for the use of their capital to finance the plant
5 and equipment necessary to provide utility service.
6 Investors commit capital only if they expect to earn a
7 return on their investment commensurate with returns
8 available from alternative investments with comparable
9 risks. To be consistent with sound regulatory economics
10 and the standards set forth by the U.S. Supreme Court in
11 the *Bluefield*¹ and *Hope*² cases, a utility's allowed ROE
12 should be sufficient to: 1) fairly compensate the utility's
13 investors, 2) enable the utility to offer a return adequate
14 to attract new capital on reasonable terms, and 3) maintain
15 the utility's financial integrity.

16 **Q. How did you go about developing your conclusions**
17 **regarding a fair rate of return for Avista?**

18 A. I first reviewed the operations and finances of
19 Avista and industry-specific risks and capital market
20 uncertainties perceived by investors. With this as a
21 background, I conducted various well-accepted quantitative
22 analyses to estimate the current cost of equity, including
23 alternative applications of the discounted cash flow

¹ *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923).

² *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

1 ("DCF") model and the Capital Asset Pricing Model ("CAPM"),
2 as well as reference to expected earned rates of return for
3 utilities. Based on the cost of equity estimates indicated
4 by my analyses, the Company's ROE was evaluated taking into
5 account the specific risks and potential challenges for
6 Avista's utility operations in Idaho.

7 **B. Summary of Conclusions**

8 **Q. What are your findings regarding the 10.9 percent**
9 **ROE requested by Avista?**

10 A. Based on the results of my analyses and the
11 economic requirements necessary to support continuous
12 access to capital under reasonable terms, I determined that
13 10.9 percent is a conservative estimate of investors'
14 required ROE for Avista. The bases for my conclusion are
15 summarized below:

- 16 • In order to reflect the risks and prospects
17 associated with Avista's jurisdictional utility
18 operations, my analyses focused on a proxy group of
19 seventeen other utilities with comparable
20 investment risks. Consistent with the fact that
21 utilities must compete for capital with firms
22 outside their own industry, I also referenced a
23 proxy group of comparable risk companies in the
24 non-utility sector of the economy;
- 25 • Because investors' required return on equity is
26 unobservable and no single method should be viewed
27 in isolation, I applied both the DCF and CAPM
28 methods, as well as the comparable earnings
29 approach, to estimate a fair ROE for Avista;
- 30 • Based on my evaluation of the strength of the
31 various methods, I concluded that the cost of
32 equity for the proxy groups of utilities and non-
33 utility companies is in the **10.9 percent to 12.5**

1 percent range, or 11.1 percent to 12.7 percent
2 after incorporating an adjustment to account for
3 the impact of common equity flotation costs;

4 • Because Avista's requested ROE of 10.9 percent
5 falls at the very bottom of my "bare bones" cost of
6 equity range, it represents a conservative estimate
7 of investors' required rate of return.

8 Q. What other evidence did you consider in
9 evaluating your ROE recommendation in this case?

10 A. My recommendation is reinforced by the following
11 findings:

- 12 • The reasonableness of a 10.9 percent minimum ROE
13 for Avista is supported by the need to consider the
14 Company's credit standing, which remains relatively
15 weak:
- 16 o The pressure of funding significant capital
17 expenditures of \$420 million³ in the next two
18 years, given that the Company's rate base is
19 \$2.1 billion, coupled with increased operating
20 risks, heighten the uncertainties associated
21 with Avista;
 - 22 o Because of Avista's reliance on hydroelectric
23 generation and increasing dependence on
24 natural gas fueled capacity, the Company is
25 exposed to relatively greater risks of power
26 cost volatility, even with the Power Cost
27 Adjustment Mechanism ("PCA");
 - 28 o Given that Avista's credit ratings already
29 fall at the very bottom of the investment
30 grade scale, and considering the potential for
31 continued regulatory lag, an inadequate rate
32 of return imposed in this proceeding would
33 further pressure the Company's financial
34 flexibility and credit standing;
 - 35 o My conclusion that a 10.9 percent ROE for
36 Avista is a conservative estimate of
37 investors' required return is also reinforced
38 by the Company's relatively greater risks as
39 compared with the proxy groups, the greater

³ Excluding investment for federal stimulus projects involving "smart grid".

1 uncertainties associated with Avista's
2 relatively small size, and the economic
3 reality that Avista's actual returns have
4 fallen systematically short of the allowed
5 ROE.

6 • Sensitivity to financial market and regulatory
7 uncertainties has increased dramatically and
8 investors recognize that constructive regulation is
9 a key ingredient in supporting utility credit
10 standing and financial integrity; and,

11 • Providing Avista with the opportunity to earn a
12 return that reflects these realities is an
13 essential ingredient to support the Company's
14 financial position, which ultimately benefits
15 customers by ensuring reliable service at lower
16 long-run costs.

17 • Regulatory support, including a reasonable ROE,
18 will be a key driver in securing additional
19 progress towards continued improvement in the
20 Company's financial health. Further strengthening
21 Avista's financial integrity is imperative to
22 ensure that the Company has the capability to
23 maintain an investment grade rating while
24 confronting potential challenges associated with
25 funding infrastructure development necessary to
26 meet the needs of its customers.

27 **Q. What is your conclusion as to the reasonableness**
28 **of the Company's capital structure?**

29 A. Based on my evaluation, I concluded that a common
30 equity ratio of 50.0 percent represents a reasonable basis
31 from which to calculate Avista's overall rate of return.
32 This conclusion was based on the following findings:

33 • Avista's requested capitalization is consistent
34 with the Company's need to strengthen its credit
35 standing and financial flexibility as it seeks to
36 raise additional capital to fund significant system
37 investments and meet the requirements of its
38 service territory;

39 • Avista's proposed common equity ratio is entirely
40 consistent with the range of common equity ratios

1 maintained by the proxy group of utilities. It is
2 also in-line with the 48.3 percent and 49.7 percent
3 average equity ratios for the proxy utilities,
4 based on year-end 2009 data and near-term
5 expectations, respectively;

6 • My conclusion is reinforced by the investment
7 community's focus on the need for a greater equity
8 layer to accommodate higher operating risks and the
9 pressures of funding significant capital
10 investments. This is reinforced by the need to
11 consider the impact of uncertain capital markets
12 conditions, as well as off-balance sheet
13 commitments such as purchased power agreements,
14 which carry with them some level of imputed debt.

15 II. RISKS OF AVISTA

16 Q. What is the purpose of this section?

17 A. As a predicate to my capital market analyses,
18 this section examines the investment risks that investors
19 consider in evaluating their required rate of return for
20 Avista.

21 A. Operating Risks

22 Q. How does Avista's generating resource mix affect
23 investors' risk perceptions?

24 A. Because over 40 percent of Avista's total energy
25 requirements are provided by hydroelectric facilities, the
26 Company is exposed to a level of uncertainty not faced by
27 most utilities. While hydropower confers advantages in
28 terms of fuel cost savings and diversity, reduced
29 hydroelectric generation due to below-average water
30 conditions forces Avista to rely more heavily on wholesale
31 power markets or more costly thermal generating capacity to

1 meet its resource needs. As Standard & Poor's Corporation
2 ("S&P") has observed:

3 A reduction in hydro generation typically
4 increases an electric utility's costs by
5 requiring it to buy replacement power or run more
6 expensive generation to serve customer loads.
7 Low hydro generation can also reduce utilities'
8 opportunity to make off-system sales. At the
9 same time, low hydro years increase regional
10 wholesale power prices, creating potentially a
11 double impact - companies have to buy more power
12 than under normal conditions, paying higher
13 prices.⁴

14 Investors recognize that volatile energy markets,
15 unpredictable stream flows, and Avista's reliance on
16 wholesale purchases to meet a significant portion of its
17 resource needs can expose the Company to the risk of
18 reduced cash flows and unrecovered power supply costs. S&P
19 noted that Avista, along with Idaho Power Company, "face
20 the most substantial risks despite their PCAs and cost-
21 update mechanisms,"⁵ and concluded that Avista's "chief
22 risk is the electric utility's exposure to replacement
23 power costs, particularly in low water years."⁶ Fitch
24 Ratings Ltd. ("Fitch") concluded, "Avista's earnings and
25 cash flows are adversely affected when hydroelectric
26 generation production falls below levels factored into

⁴ Standard & Poor's Corporation, "Pacific Northwest Hydrology And Its Impact On Investor-Owned Utilities' Credit Quality," *RatingsDirect* (Jan. 28, 2008).

⁵ *Id.*

⁶ Standard & Poor's Corporation, "Avista Corp.," *RatingsDirect* (Aug. 21, 2009).

1 commission -approved rates due to lower-than-projected
2 streamflows."⁷

3 Additionally, Avista has become increasingly reliant
4 on natural gas fired generating capacity to meet base-load
5 needs. Given the significant price fluctuations
6 experienced in energy markets discussed subsequently,
7 increasing reliance on natural gas heightens Avista's
8 exposure to fuel cost volatility.

9 **Q. Does Avista anticipate the need to access the**
10 **capital markets going forward?**

11 A. Most definitely. Avista will require capital
12 investment to meet customer growth, provide for necessary
13 maintenance and replacements of its natural gas utility
14 systems, as well as fund new investment in electric
15 generation, transmission and distribution facilities. As
16 discussed by Company witness Mr. Thies, planned capital
17 additions for 2010-2011 alone total approximately \$420
18 million, with \$1.2 billion in expenditures being expected
19 through 2014. This represents a substantial investment
20 given Avista's rate base was \$2.1 billion as of year-end
21 2009.

22 Continued support for Avista's financial integrity and
23 flexibility will be instrumental in attracting the capital

⁷ Fitch Ratings, Ltd., "Avista Corp.," *Global Power U.S. Credit Analysis* (Jul. 31, 2009).

1 necessary to fund these projects in an effective manner.
2 Avista's reliance on purchased power to meet shortfalls in
3 hydroelectric generation magnifies the importance of
4 strengthening financial flexibility, which is essential to
5 guarantee access to the cash resources and interim
6 financing required to cover inadequate operating cash
7 flows, as well as fund required investments in the utility
8 system.

9 **Q. Is the potential for energy market volatility an**
10 **ongoing concern for investors?**

11 A. Yes. In recent years utilities and their
12 customers have had to contend with dramatic fluctuations in
13 energy costs due to ongoing price volatility in the spot
14 markets, and investors recognize the prospect of further
15 turmoil in energy markets. Moody's Investors Service
16 ("Moody's") has warned investors of ongoing exposure to
17 "extremely volatile" energy commodity costs, including
18 purchased power prices, which are heavily influenced by
19 fuel costs,⁸ and Fitch noted that rapidly rising energy
20 costs created vulnerability in the utility industry.⁹

⁸ Moody's Investors Service, "Storm Clouds Gathering on the Horizon for the North American Electric Utility Sector," *Special Comment* at 6 (Aug. 2007).

⁹ Fitch Ratings Ltd., "Staying Afloat: Downstream Liquidity in the Energy and Power Sectors," *Oil & Gas / Global Power Special Report* (June 16, 2008).

1 For example, the utility industry and its customers
2 have had to contend with dramatic fluctuations in gas costs
3 due to ongoing price volatility in the spot markets. Fitch
4 has highlighted the challenges that fluctuations in energy
5 prices can have for utilities and noted that:

6 The sharp run-up and subsequent collapse of
7 natural gas prices in 2008 is emblematic of the
8 extreme price volatility that characterizes the
9 commodity and is likely to persist in the
10 future.¹⁰

11 Moody's concluded that natural gas "remains highly
12 volatile," and warned that such price fluctuations "could
13 have a significant impact on a utility's liquidity
14 profile."¹¹

15 While expectations for significantly lower energy
16 prices reflect weaker fundamentals affecting current load
17 and fuel prices, investors recognize the potential that
18 such trends could quickly reverse. As Fitch recently
19 noted, "uncertainty regarding fuel prices, in particular
20 natural gas costs, has made planning for the future even
21 more problematic."¹² Besides discouraging potential
22 customers from choosing natural gas, causing certain
23 existing users to substitute alternative fuels, and leading

¹⁰ Fitch Ratings, Ltd., "U.S. Utilities, Power and Gas 2009 Outlook," *Global Power North American Special Report* (Dec. 22, 2008).

¹¹ Moody's Investors Service, "Carbon Risks Becoming More Imminent for U.S. Electric Utility Sector," *Special Comment* (March 2009).

¹² Fitch Ratings, Ltd., "Electric Utility Capital Spending: The Show Will Go On," *Global Power U.S. and Canada Special Report* (Oct. 14, 2009).

1 to decreased customer usage, volatile natural gas prices
2 have increased the risks of investing in natural gas
3 distribution utilities and placed additional pressure on
4 their bond ratings. The rapid rise in customers' bills
5 that can result from higher wholesale energy prices has
6 also heightened investor concerns over the implications for
7 regulatory uncertainty. Moody's concluded that political
8 risks associated with "growing consumer intolerance for
9 steadily increasing rates" was a key longer-term challenge
10 for utilities that would be intensified by prolonged
11 unemployment.¹³

12 **Q. What other financial pressures impact investors'**
13 **risk assessment of Avista?**

14 A. Investors are aware of the financial and
15 regulatory pressures faced by utilities associated with
16 rising costs and the need to undertake significant capital
17 investments. As Moody's observed:

18 Utilities remain exposed to large, long-term
19 capital investment challenges, volatile commodity
20 prices and legal judgments that can wreak havoc
21 on even the strongest liquidity profiles.¹⁴

22 Similarly, S&P noted that cost increases and capital
23 projects, along with uncertain load growth, were a

¹³ Moody's Investors Service, "U.S. Electric Utilities Face Challenges Beyond Near-Term," *Industry Outlook* (Jan. 2010).

¹⁴ *Id.*

1 significant challenge to the utility industry.¹⁵ Fitch
2 echoed this assessment, concluding:

3 The combination of high capital expenditures and
4 relatively weak electricity demand will continue
5 to pressure credit quality and require base rate
6 increases in 2010 and beyond.¹⁶

7 While providing the infrastructure necessary to meet
8 the energy needs of customers is certainly desirable, it
9 imposes additional financial responsibilities on Avista.
10 As noted earlier, the Company's plans include electric
11 utility capital expenditures of approximately \$420 million
12 just over the 2010-2011 period, and Moody's has noted that
13 Avista "is continuing its high level of investment."¹⁷
14 Investors are aware of the challenges posed by rising costs
15 and burdensome capital expenditure requirements, especially
16 in light of Avista's relatively weak credit standing and
17 ongoing capital market and economic uncertainties.

18 **Q. What other considerations affect investors'**
19 **evaluation of Avista?**

20 A. Utilities are confronting increased environmental
21 pressures that could impose significant uncertainties and
22 costs. In early 2007 S&P cited environmental mandates,
23 including emissions, conservation, and renewable resources,

¹⁵ Standard & Poor's Corporation, "Industry Economic And Ratings Outlook," *RatingsDirect* (Feb. 2, 2010).

¹⁶ Fitch Ratings Ltd., "U.S. Utilities, Power, and Gas 2010 Outlook," *Global Power North America Special Report* (Dec. 4, 2009).

¹⁷ Moody's Investors Service, "Credit Opinion: Avista Corp.," *Global Credit Research* (Aug. 13, 2009).

1 as one of the top ten credit issues facing U.S. utilities.¹⁸
2 Similarly, Moody's noted that "the prospect for new
3 environmental emission legislation - particularly
4 concerning carbon dioxide - represents the biggest emerging
5 issue for electric utilities,"¹⁹ while Fitch observed that
6 "the structure, timing and implementation is still
7 uncertain."²⁰

8 Compliance with evolving standards will undoubtedly
9 require significant capital expenditures, with S&P recently
10 concluding, "Although we expect the cap-and-trade program
11 to be economywide and affect a variety of sectors, it will
12 disproportionately affect the power sector."²¹ S&P recently
13 emphasized that because of uncertainty over the details and
14 timing of future limits on CO₂ emissions, existing ratings
15 do not fully reflect the impact of carbon risks.²²

16 **Q. Would investors consider Avista's relative size**
17 **in their assessment of the Company's risks and prospects?**

18 A. Yes. A firm's relative size has important
19 implications for investors in their evaluation of
20 alternative investments, and it is well established that

¹⁸ Standard & Poor's Corporation, "Top Ten Credit Issues Facing U.S. Utilities," *RatingsDirect* (Jan. 29, 2007).

¹⁹ Moody's Investors Service, "U.S. Investor-Owned Electric Utilities," *Industry Outlook* (Jan. 2009).

²⁰ Fitch Ratings, Ltd., "U.S. Utilities, Power and Gas 2009 Outlook," *Global Power North America Special Report* (Dec. 22, 2008).

²¹ Standard & Poor's Corporation, "The Potential Credit Impact Of Carbon Cap-And-Trade Legislation On U.S. Companies," *RatingsDirect* (Sep. 14, 2009).

²² *Id.*

1 smaller firms are more risky than larger firms. With a
2 market capitalization of approximately \$1.1 billion, Avista
3 is one of the smallest publicly traded electric utilities
4 followed by Value Line, which have an average
5 capitalization of approximately \$6.7 billion.²³

6 The magnitude of the size disparity between Avista and
7 other firms in the utility industry has important practical
8 implications with respect to the risks faced by investors.
9 All else being equal, it is well accepted that smaller
10 firms are more risky than their larger counterparts, due in
11 part to their relative lack of diversification and lower
12 financial resiliency.²⁴ These greater risks imply a higher
13 required rate of return, and there is ample empirical
14 evidence that investors in smaller firms realize higher
15 rates of return than in larger firms.²⁵ Common sense and
16 accepted financial doctrine hold that investors require
17 higher returns from smaller companies, and unless that
18 compensation is provided in the rate of return allowed for
19 a utility, the legal tests embodied in the *Hope* and
20 *Bluefield* cases cannot be met.

²³ www.valueline.com (retrieved Mar. 5, 2010).

²⁴ It is well established in the financial literature that smaller firms are more risky than larger firms. See, e.g., Eugene F. Fama and Kenneth R. French, "The Cross-Section of Expected Stock Returns", *The Journal of Finance* (June 1992); George E. Pinches, J. Clay Singleton, and Ali Jahankhani, "Fixed Coverage as a Determinant of Electric Utility Bond Ratings", *Financial Management* (Summer 1978).

²⁵ See for example Rolf W. Banz, "The Relationship Between Return and Market Value of Common Stocks", *Journal of Financial Economics* (September 1981) at 16.

1 **B. Implications of Attrition**

2 **Q. What causes attrition?**

3 A. Attrition is the deterioration of actual return
4 below the allowed return that occurs when the relationships
5 between revenues, costs, and rate base used to establish
6 rates (e.g., using a historical test year without adequate
7 adjustments) do not reflect the actual costs incurred to
8 serve customers during the period that rates are in effect.
9 For example, if external factors are driving costs to
10 increase more than revenues, then the rate of return will
11 fall short of the allowed return even if the utility is
12 operating efficiently. Similarly, when growth in the
13 utility's investment outstrips the rate base used for
14 ratemaking, the earned rate of return will fall below the
15 allowed return through no fault of the utility's
16 management. These imbalances are exacerbated as the
17 regulatory lag increases between the time when the data
18 used to establish rates is measured and the date when the
19 rates go into effect.

20 **Q. Why is it necessary to address the impact of**
21 **attrition?**

22 A. Investors are concerned with what they can expect
23 in the future, not what they might expect in theory if a
24 historical test year were to repeat. To be fair to
25 investors and to benefit customers, a regulated utility
26 must have an opportunity to actually earn a return that

1 will maintain financial integrity, facilitate capital
2 attraction, and compensate for risk. In other words, it is
3 the end result in the future that determines whether or not
4 the *Hope* and *Bluefield* standards are met. S&P observed
5 that its risk analysis focuses on the utility's ability to
6 consistently earn a reasonable return:

7 Notably, the analysis does not revolve around
8 "authorized" returns, but rather on actual earned
9 returns. We note the many examples of utilities
10 with healthy authorized returns that, we believe,
11 have no meaningful expectation of actually
12 earning that return because of rate case lag,
13 expense disallowances, etc.²⁶

14 Similarly, Moody's concluded, "we evaluate the framework
15 and mechanisms that allow a utility to recover its costs
16 and investments and earn allowed returns. We are less
17 concerned with the official allowed return on equity,
18 instead focusing on the earned returns and cash flows."²⁷

19 **Q. Has the investment community recognized the risks**
20 **associated with attrition and lag in its evaluation of**
21 **Avista?**

22 A. Yes. As discussed in the testimony of Mr. Thies,
23 Avista is experiencing regulatory lag. S&P confirmed that
24 attrition has acted as a drag on Avista's finances:

25 Regulatory lag has been a consistent issue for
26 Avista's utilities, with the utility operations ...

²⁶ Standard & Poor's Corporation, "Assessing U.S. Utility Regulatory Environments," *RatingsDirect* (Nov. 7, 2008).

²⁷ Moody's Investors Service, "Electric Utilities Face Challenges Beyond Near-Term," *Industry Outlook* (Jan. 2010).

1 collectively unable to earn the company's
2 authorized return on equity (ROE) on a
3 consolidated basis. On a consolidated basis,
4 average earned ROE over the past three years has
5 been just under 7%, based on Standard & Poor's
6 Ratings Services' calculations.²⁸

7 Similarly, Value Line recently noted that the effects of
8 regulatory lag were hampering Avista's ability to earn its
9 allowed ROE, which is expected to be an ongoing issue for
10 the Company.²⁹

11 **Q. What are the ways to deal with attrition?**

12 A. For many utilities, the widespread adoption of
13 pass-through clauses for fuel, purchased power, and other
14 costs that were rising rapidly in the late 1970's and early
15 1980's helped to partially offset the impact of attrition.
16 The use of future test years and other forward-looking
17 adjustments and mechanisms is also useful in ameliorating
18 the impact of attrition, as is accelerated depreciation and
19 inclusion of CWIP in rate base, particularly where
20 financing an expensive generating plant addition is
21 undermining a utility's financial indicators. Many
22 jurisdictions have developed methods to attenuate
23 regulatory lag, such as allowing interim rates, putting
24 rates into effect subject to refund, as well as

²⁸ Standard & Poor's Corporation, "Summary: Avista Corp.,"
RatingsDirect (Feb. 18, 2010).

²⁹ The Value Line Investment Survey at 2232 (Feb. 5, 2010).

