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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-E-16-03
OF AVISTA CORPORATION FOR THE)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE) DIRECT TESTIMONY
TO ELECTRIC CUSTOMERS IN THE) OF
STATE OF IDAHO) SCOTT L. MORRIS
_____)

FOR AVISTA CORPORATION

(ELECTRIC)

1 I. INTRODUCTION

2 **Q. Please state your name, employer and business**
3 **address.**

4 A. My name is Scott L. Morris and I am employed as
5 the Chairman of the Board, President and Chief Executive
6 Officer of Avista Corporation (Company or Avista), at 1411
7 East Mission Avenue, Spokane, Washington.

8 **Q. Would you please briefly describe your educational**
9 **background and professional experience?**

10 A. Yes. I am a graduate of Gonzaga University with
11 a Bachelors degree and a Masters degree in organizational
12 leadership. I have also attended the Kidder Peabody School
13 of Financial Management.

14 I joined the Company in 1981 and have served in a number
15 of roles including customer service manager. In 1991, I was
16 appointed general manager for Avista Utilities' Oregon and
17 California natural gas utility business. I was appointed
18 President and General Manager of Avista Utilities, an
19 operating division of Avista Corporation, in August 2000.
20 In February 2003, I was appointed Senior Vice-President of
21 Avista Corporation, and in May 2006, I was appointed as
22 President and Chief Operating Officer. Effective January 1,
23 2008, I assumed the position of Chairman of the Board,
24 President, and Chief Executive Officer.

1 I am a member of the Gonzaga University board of
2 trustees, a member of Edison Electric Institute board of
3 directors, a member of the American Gas Association, and
4 immediate past chair of the Washington Roundtable. On
5 January 1, 2011, I was appointed to the Federal Reserve Bank
6 of San Francisco, Seattle Branch board of directors and
7 currently serve as chair. I also serve on the board of
8 trustees of Greater Spokane Incorporated.

9 **Q. What is the scope of your testimony in this**
10 **proceeding?**

11 A. I will summarize the Company's rate request in this
12 filing, and provide some context for why there is a continuing
13 need for retail rate increases, not just for Avista, but for
14 the electric utility industry in general. I will provide an
15 overview of changes underway at Avista which are designed to
16 meet current and future customer expectations, our
17 communications initiatives to help customers better
18 understand the changes in costs that are causing rates to
19 increase, and briefly explain the Company's customer support
20 programs in place to assist our customers. Finally, I will
21 introduce each of the other witnesses providing testimony on
22 the Company's behalf.

1 A table of contents for my testimony is as follows:

2	<u>Description</u>	<u>Page</u>
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12

13 **Q. Are you sponsoring any Exhibits in this**
14 **proceeding?**

15 A. Yes. I am sponsoring Exhibit No. 1 which is
16 comprised of two schedules. Schedule 1 includes an overview
17 of Avista and its utility and subsidiary operations, as well
18 as a diagram of Avista's corporate structure. Schedule 2
19 includes a map showing Avista's electric and natural gas
20 service areas.

1 II. SUMMARY OF ELECTRIC RATE REQUESTS

2 Q. What are the primary factors driving the Company's
3 need for its requested electric increase in 2017?

4 A. The primary factor (approximately 77%) driving the
5 Company's proposed electric revenue increase in 2017 is an
6 increase in net plant investment. As an example, we are
7 currently in the process of upgrading the Company's 100 year
8 old hydroelectric facilities along the Spokane River (i.e.,
9 Nine Mile Falls, Post Falls and Little Falls generating
10 facilities), as discussed by Company witness Mr. Kinney.
11 Later in my testimony I will introduce other Company
12 witnesses that explain the continuing investment in
13 transmission, distribution, technology and our office
14 facilities, among other things.

15 Net power supply expenses also contribute
16 (approximately 12%) to the proposed revenue increase in
17 2017, mainly due to the expiration of a capacity sales
18 agreement with Portland General Electric on December 31,
19 2016, and the inclusion of the Palouse Wind Project in base
20 rates, as discussed by Company witness Mr. Johnson.

21 Finally, a portion of the proposed increase
22 (approximately 11%) is related to net increases in operation
23 and maintenance (O&M) and administrative and general (A&G)
24 expenses for Avista's electric operations compared to

1 current authorized levels, mainly due to increased labor and
2 benefits.

3 **Q. Please provide an overview of Avista's electric**
4 **rate request in this filing.**

5 A. Avista is proposing an overall increase in
6 electric revenue of \$15.4 million or 6.3% on a base and
7 billed basis. The Company's request is based on a proposed
8 rate of return of 7.78% with a common equity ratio of 50.0%
9 and a 9.9% return on equity. Details of the changes in
10 costs related to the proposed revenue increase are
11 summarized by Company witness Ms. Andrews. Mr. Ehrbar will
12 provide details of the proposed rate spread and rate design
13 for each electric rate schedule. A summary of the proposed
14 increase by rate schedule is shown in Table No. 1.

15 **Table No. 1 - Electric Rate Increase by Rate Schedule**

<u>Rate Schedule</u>	<u>Increase in Base Rates</u>	<u>Increase in Billing Rates</u>
Residential Schedule 1	7.8%	7.7%
General Service Schedules 11/12	4.6%	4.5%
Large General Service Schedules 21/22	5.7%	5.6%
Ex. Lrg. General Service Schedule 25	4.8%	4.7%
Clearwater Paper Schedule 25P	4.5%	4.5%
Pumping Service Schedules 31/32	7.6%	7.5%
Street & Area Lights Schedules 41-49	<u>8.3%</u>	<u>8.2%</u>
Overall	<u>6.3%</u>	<u>6.3%</u>

22

1 **III. THIS CASE REFLECTS PURPOSEFUL CHANGES DESIGNED**
2 **TO MEET CURRENT AND FUTURE CUSTOMER NEEDS AND EXPECTATIONS**

3 **Q. What steps is Avista taking to meet the needs and**
4 **expectations of its customers, both now and into the future?**

5 A. Avista continues to partner with its customers and
6 other stakeholders to change and adapt its operations, and
7 its utility infrastructure, to meet the needs and
8 expectations of not only our customers, but all of our
9 stakeholders. We are continuing to build on the recent
10 advancements in products, services and changes in our
11 operations.

12 As we progress through 2016 and into 2017 and beyond,
13 we will continue to transition from the more traditional
14 electric and natural gas utility selling kilowatt-hours and
15 therms at a price, to a utility that increasingly partners
16 with its customers and other industry stakeholders to
17 provide more energy-related services and information.

18 Avista's 2015 Electric Integrated Resource Plan
19 includes a preferred energy resource strategy of energy
20 efficiency, upgrades to our existing generation facilities,
21 and new natural gas-fired generation. Our future also
22 includes increased emphasis on new renewable energy
23 resources such as solar and demand response.

1 Since 2002 we have offered customers the opportunity to
2 purchase blocks of power from wind, solar and biomass
3 renewable resources. Today, we have added access to
4 information about solar installation for homes and
5 businesses. We have developed a "solar concierge" page on
6 our website that helps customers determine if solar is a
7 cost-effective alternative for them.

8 In developing our 2015 Electric IRP, Avista retained a
9 consultant to study the near-term and long-term potential
10 for commercial and industrial demand response through means
11 such as direct load control, curtailment of energy by
12 customer choice, and critical peak pricing. Our utility
13 future will involve an increased partnership with our
14 customers behind the meter on energy efficiency, distributed
15 generation at the customer's premise, and demand response
16 programs, among others.

17 However, to enable this future we must have the
18 foundational tools and technology in place to facilitate it.
19 Part of this foundation is the recently completed customer
20 care and billing system (Project Compass) that went into
21 service in February 2015.¹ This new system will enable
22 timely access to information for the Company as well as our

¹ Avista received the "Expanding Excellence Award" for best customer information system implementation from CS Week in April 2016.

1 customers, and will facilitate the offering of future
2 products, services and pricing options for our customers,
3 and will enable and support future utility operations that
4 have less impact on our environment.

5 Some of the recent advancements and improvements for
6 our customers are summarized below. These are just the
7 beginning of what is to come as we partner with our customers
8 and our other stakeholders in developing an energy future
9 where we use energy efficiently and minimize the impact on
10 our environment.

11 **Proposed Payment by Bank Card Without a Per-Transaction**
12 **Fee:** The Company received approval of a program in all
13 of its jurisdictions (Idaho, Washington and Oregon) to
14 allow all residential customers to pay their electric
15 and natural gas bills with a bank card without a per-
16 transaction fee. Currently when customers use a debit
17 card or credit card to pay their bill, they are charged
18 a transaction fee by the payment vendor of \$3.50 for
19 each payment. Under the program, all residential
20 customers will have the opportunity to pay their
21 monthly bills by debit card or credit card without the
22 individual per-transaction fee. Additional payment
23 options such as these generally lead to fewer credit
24 collections and fewer calls to our customer service
25 call center for assistance. Customers that self-serve,
26 pay on time, and are satisfied with the options they
27 have are the least expensive to serve, which is a
28 benefit to all customers. Giving customers options to
29 pay by the method of their choice without incurring
30 additional fees will lead to more satisfied customers
31 and ultimately savings for all customers. We expect to
32 implement this payment opportunity in October 2016.

33
34 **HVAC Filter Replacement Program:** This program is
35 designed to educate customers on the value of replacing
36 filters, and offer choices to customers to make it more
37 convenient for them to remember to replace their

1 filters. In addition to extending the life of a
2 furnace, improved operating performance results in
3 reduced energy usage, which results in lower energy
4 bills. This program was launched in August of 2015,
5 and it is available to all Avista customers in Idaho,
6 Washington, and Oregon. Through the filter program,
7 customers have three convenience options: 1) Receiving
8 an e-mail reminder from Avista on a periodic basis to
9 replace their filter, 2) receiving an e-mail reminder
10 with promotional codes from manufacturers and vendors
11 for discounts on filter purchases, and 3) the
12 opportunity to order filters directly from a vendor,
13 for delivery to their home or business on a schedule
14 chosen by the customer. In the first five months of
15 the program, 1,447 customers signed up for this
16 program.²
17

18 **Solar Concierge Web Page:** Avista's solar concierge web
19 page on avistautilities.com is dedicated to assist
20 customers who may be interested in generating renewable
21 energy from the sun. This page provides information to
22 help guide customers through the process, starting by
23 using the Company's "solar estimator." By using the
24 solar estimator, customers can take the first step
25 toward understanding solar savings potential, based on
26 their rooftop characteristics, electricity use and
27 available tax credits and incentives. They can then
28 compare options side-by-side to understand how
29 different scenarios impact costs in the near-term and
30 long-term. Ultimately, this page will help them make
31 an informed decision.
32

33 **Battery Electricity Storage at Schweitzer Engineering**
34 **Laboratories:** Avista's Energy Storage project is part
35 of the Company's investment into research that will
36 improve power system reliability by addressing one of
37 the biggest challenges facing the energy industry - how
38 to integrate power generated from intermittent
39 renewable sources such as wind and solar into the
40 electrical grid. The 1 MW, 3.2 MWh large-scale battery
41 storage system uses batteries in a real-world setting
42 at Schweitzer Engineering Laboratories in Pullman and
43 went online in 2015. Batteries such as this one provide

² As of April 2016, 733 customers have requested an email reminder without coupons, 676 customers requested email reminders with coupons and 38 customers have signed up to receive filters direct from the vendor. (733+676+38=1,447)

1 the capability to store power generated by renewable
2 sources when it's abundant, for example when the wind
3 is blowing, and distribute energy when it's needed,
4 regardless of weather patterns.

5 **Electric Vehicle (EV) Charging Equipment Pilot:** In April
6 2016, the Washington Commission approved Avista's two-
7 year pilot program making funding available to install
8 AC Level 2 Electric Vehicle Supply Equipment (EVSE) as
9 a means to better understand Electric Vehicle (EV)
10 charging at home, at work and in public areas, i.e.,
11 what is needed, what is effective, and how it may affect
12 the grid in the future. The pilot will help Avista
13 better understand how to maximize the benefits of EVs
14 for all our customers in the years ahead, as well as
15 supporting a cleaner environment through the increased
16 use of EVs. By installing a limited number of EVSE in
17 beneficial workplace and public areas, we will also
18 help support greater EV adoption in our service
19 territory and pave the way for effective long-term
20 programs. In addition to the Level 2 EVSE
21 installations, Avista will install DC Fast Charging
22 EVSE at seven locations as part of the pilot program.

23
24 **Mobile Outreach Van:** Avista offers many opportunities
25 throughout the year for customers to attend energy
26 fairs and workshops to learn more about energy
27 assistance, energy efficiency and the resources
28 available to them. But some of our more vulnerable
29 customers have a hard time getting to an event to access
30 these resources. So to ensure that we are reaching as
31 many customers who need our help as we can, Avista
32 created the Energy Resource Team van. The van is fully
33 loaded with energy efficiency items such as rope caulk,
34 V-seals and coil cleaners, as well as informational
35 materials about bill options, assistance and
36 efficiency. A laptop resides with the van, so employees
37 can demonstrate our many online tools in action. In
38 2015 the van expanded outreach efforts to 6,596
39 individuals through 69 events throughout our North
40 Idaho and Eastern Washington service territory.

41
42 **Q. As Avista invests in new technology and develops**
43 **new programs to enable new products, services and**

1 **opportunities for its customers to the future, how will this**
2 **affect investment in the existing utility infrastructure?**

3 A. The Company will continue to invest in the
4 facilities we use every day to deliver energy to our
5 customers in order to maintain reliable service. In some
6 instances we have what we refer to as asset management plans,
7 which are designed to determine the efficient life cycle of
8 the assets. These asset management plans assess the useful
9 life of the particular assets and the appropriate time to
10 replace the assets, balanced against the operations and
11 maintenance costs associated with maintaining assets that
12 are toward the end of their useful life. These asset
13 management plans allow the Company to systematically replace
14 the assets over time in a manner that optimizes the value of
15 the assets, while still maintaining reliable service to
16 customers. Company witness Ms. Rosentrater describes some
17 of these asset management plans in more detail.

18 We believe the current reliability of our system is
19 satisfactory and is meeting the needs and expectations of
20 our customers and other stakeholders. Much of our continuing
21 investment in utility infrastructure is related to
22 maintaining the current level of reliability, through
23 maintaining and upgrading our existing facilities.

1 As we systematically replace our utility assets over
2 time we are replacing structures and equipment that were
3 installed many years ago (in many cases 50 to 70 years ago),
4 when the cost of installation was very low as compared to
5 the cost to replace them today. And the cost to customers
6 of these older facilities embedded in retail rates is very
7 low.

8 The retail rates set by the Commission for customers
9 are cost-based, i.e., the retail rates reflect the actual
10 costs associated with the assets serving customers, whether
11 they were installed last year, or 70 years ago. The new
12 facilities replacing the old ones, in many cases, provide a
13 continuation of the same service, such as an old wood pole
14 and transformer being replaced with a new pole and
15 transformer. Therefore, as utility structures and equipment
16 are replaced, retail rates must go up to reflect today's
17 higher costs of the new facilities.

18 At the same time our costs of facilities are increasing,
19 our sales of electricity year-over-year are growing at a
20 relatively slow pace. This low load growth is due, at least
21 in part, to continuing advancements in the efficiency of
22 end-use equipment, appliances and other devices, which
23 results in lower energy usage by customers. In addition,
24 Avista continues to run its successful energy efficiency

1 programs, which encourage and assist our customers to use
2 less energy in their homes and businesses. Avista's energy
3 efficiency programs include not only our direct incentive
4 programs that help fund energy efficiency measures for
5 customers, and engineering assistance to help design and
6 implement energy efficient measures, but also extensive
7 education and information to encourage customers to take
8 steps to use energy more efficiently.

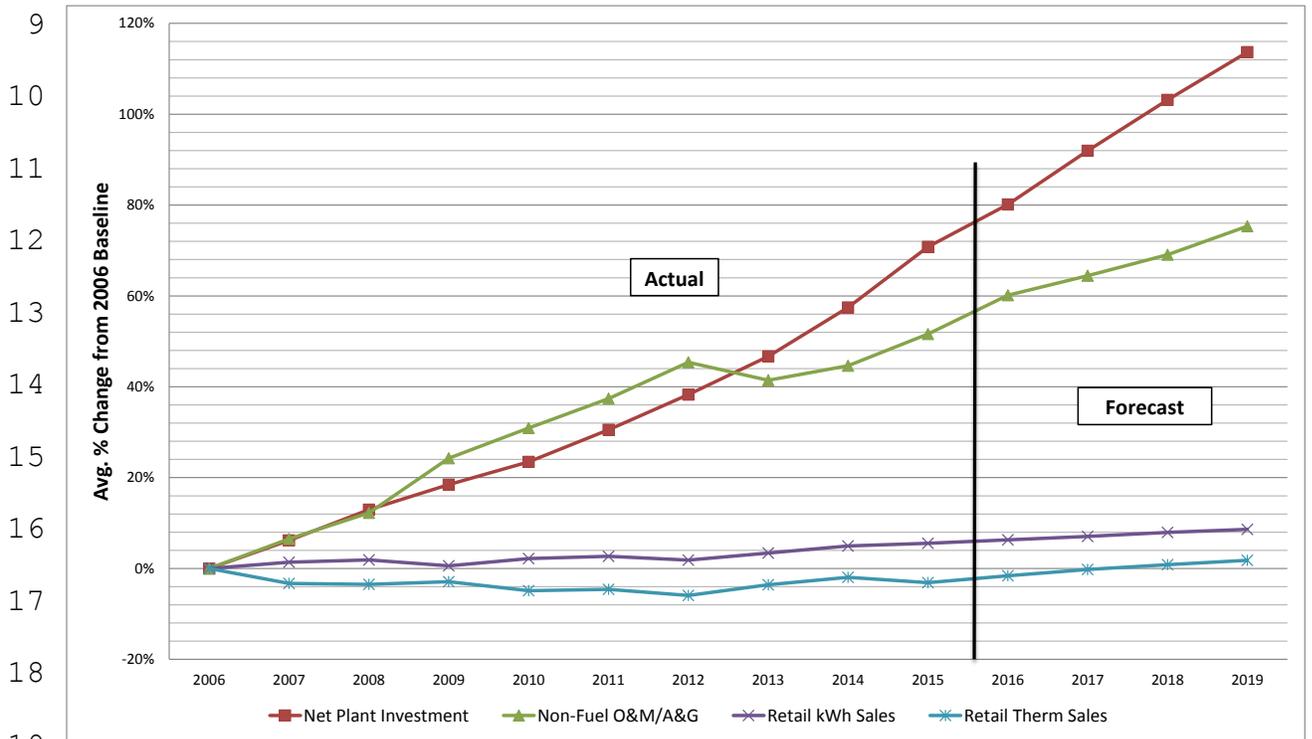
9 In the long-term, this investment in energy efficiency
10 is absolutely the right thing to do and will allow us to
11 avoid building or acquiring new, higher-cost generating
12 resources in the future. However, it also contributes to
13 lower revenue growth to cover the investments necessary to
14 maintain a safe, reliable utility system to serve our
15 customers.

16 Avista's annual customer growth, and total sales
17 growth, is currently approximately 1%, and it is expected to
18 continue at or near this level for the foreseeable future.
19 Net plant investment and operating expenses, however, are
20 growing at a faster pace. Avista's obligation to serve all
21 customers with safe, reliable service, and maintain a high
22 level of customer satisfaction, demands continued investment
23 in facilities, as well as utility operating expenses
24 necessary to accomplish these objectives.

1 Q. How does Avista's growth in net plant investment
2 and operating expenses compare with the growth in sales,
3 both for the recent historical period as well as expectations
4 for the future?

5 A. The graph in Illustration No. 1 below shows actual
6 information for the period 2006 to 2015, and forecast
7 information for 2016 to 2019.

8 Illustration No. 1



20 The red line on the graph shows the actual growth in
21 net utility plant investment (electric and natural gas
22 combined) through 2015, and the expected growth for 2016
23 through 2019. The purple and blue lines on the graph show
24 the changes in retail kilowatt-hour (kWh) sales and retail

1 therm sales, respectively, for the same time period. The
2 graph shows that net plant investment is growing at a much
3 faster pace than sales. The green line on the graph shows
4 that non-fuel operations and maintenance (O&M) expenses and
5 administrative and general (A&G) expenses are also growing
6 at a faster pace than sales.

7 Because annual costs are growing at a faster pace than
8 sales, it is necessary to increase retail rates over time so
9 that total revenues are sufficient to cover operating costs
10 and provide a fair rate of return on investment for
11 investors. These are the circumstances facing not just
12 Avista, but many investor-owned and consumer-owned utilities
13 across the country, and it is the primary reason Avista has
14 requested an electric revenue increase through this filing.

15 **Q. Does the Company critically evaluate the need for**
16 **new plant investment to ensure that the investments are**
17 **necessary?**

18 A. Yes. Each year the departments across the Company
19 assess the near-term needs to maintain and upgrade the
20 utility infrastructure and technology necessary to continue
21 to provide safe, reliable service to customers, as well as
22 maintain a high level of customer satisfaction. The
23 departments develop business cases for specific projects and
24 programs that explain and support the need for the capital

1 investment. These business cases are submitted to a Capital
2 Planning Group that meets on a regular basis to review and
3 prioritize all proposed utility capital investment projects.

4 After taking into consideration a number of factors,
5 senior management of Avista establishes a proposed capital
6 budget amount for each year of the next five years, which is
7 presented to the Finance Committee of the Board of
8 Directors³. These factors include, but are not limited to,
9 the total capital investment requests of the departments
10 submitted to the Capital Planning Group, the urgency of the
11 projects, the opportunities and risks associated with
12 delaying the projects to a later date, and the overall bill
13 impact to customers associated with the annual capital
14 budgets ultimately approved. These five-year capital budget
15 amounts are revisited each year to ensure that capital
16 dollars are dedicated to the highest priority projects.

17 In recent years Avista has chosen to not fund all of
18 the capital investment projects proposed by the various
19 departments in the Company, driven, in part, by the Company's
20 desire to mitigate the retail rate impacts to customers.
21 The decision to delay funding certain projects is made only

³ The Finance Committee is presented with a five-year plan, but approves the plan for only the next operating year.

1 in cases where the Company believes the amount of risk
2 associated with the delay is reasonable and prudent.

3 As a result of this constrained capital spend level,
4 capital projects must be prioritized so that the dollars
5 flow where they are most needed. As unexpected, high-
6 priority capital projects arise, the capital projects for
7 the year must be reprioritized to limit the total spend to
8 the amount established by the Company and approved by the
9 Finance Committee of the Board. This can cause some projects
10 to be delayed so that higher-priority projects can be
11 completed.

12 In addition, some scheduled capital projects will
13 encounter unexpected delays due to such things as permitting
14 issues, delays in receipt of materials and equipment, etc.
15 A delay in one project may allow another project to be
16 accelerated in time as part of managing the availability of
17 our workforce and to continue to make progress on projects
18 next in the "queue" that need to be done. This
19 reprioritization occurs within the Capital Planning Group,
20 which is charged with ensuring that the total capital spend

1 for the year stays within the limit approved by the Finance
2 Committee of the Board.⁴

3 **Q. Is Avista continuing to take steps to manage the**
4 **growth in its operating costs?**

5 A. Yes. Avista is continuing to identify and
6 implement measures to control its costs. With regard to
7 utility operating expenses, following the elimination of the
8 defined benefit pension plan for non-union new hires
9 beginning in 2014, and the transition away from providing
10 medical coverage for non-union retirees,⁵ the Company
11 continues to monitor its compensation and benefits practices
12 to ensure that they are competitive with those offered by
13 other similar utilities. Avista continues to design a
14 portion of all employees' compensation as pay-at-risk, which
15 is dependent on achieving cost-saving targets each year for
16 O&M and A&G. In addition, Avista's asset management
17 programs, that I mentioned earlier, are designed, in part,
18 to focus on capital projects that will decrease O&M costs.

19 As Avista continues to work to control costs, it is
20 also experiencing a continuing increase in various

⁴ If circumstances indicate the capital spend for a year will exceed the level previously approved by the Finance Committee of the Board, the additional capital spend is presented to the Finance Committee for approval.

⁵ These changes for the bargaining unit will be subject to future negotiations.

1 compliance and reporting requirements. These requirements
2 involve, among other things, monitoring, inspecting,
3 testing, reporting, adding redundancy, and increasing
4 security - both physical security and cyber security. The
5 requirements are driven by, among other things, North
6 America Electric Reliability Corporation (NERC) requirements
7 related to electric reliability, Federal Energy Regulatory
8 Commission (FERC) requirements related to assuring the
9 existence of competitive wholesale markets, environmental
10 requirements to ensure we are being good stewards of the
11 environment, and requirements to ensure full and fair
12 disclosure of financial and accounting information.
13 Compliance with these important requirements involve people
14 and systems, which is putting upward pressure on our O&M
15 costs.

16 **Q. Is Avista mindful of the impact on retail rates**
17 **for customers as it maintains its existing utility**
18 **infrastructure, manages its operating costs, and moves**
19 **forward to provide more energy-related services and**
20 **information to meet the future needs and expectations of its**
21 **customers?**

22 A. Yes. As we operate our utility business we are
23 mindful of how increasing costs affect our retail rates, and
24 the effects that can have on our retail customers. All of

1 the stakeholders in our utility business, whether it be
2 customers, investors, regulators and other stakeholders,
3 hold the same core interests in common, which include the
4 provision of safe, reliable energy service at the lowest
5 reasonable cost, while providing a fair rate of return on
6 investment for shareholders. Our decision-making
7 incorporates a balancing of the competing interests of
8 maintaining a reliable system, preparing for the future, and
9 limiting price increases to customers.

10 Unlike other businesses, Avista has a legal obligation
11 to provide safe and reliable service to every customer that
12 requests service from the Company. When a new customer
13 requests service, we must hook them up even if the cost to
14 serve that customer results in increased costs to all other
15 customers. Likewise, if the facilities serving an existing
16 customer are deteriorating and need repair, we must repair
17 or replace them so that the customer continues to receive
18 safe, reliable service.

19 Without the obligation to serve, we could consider
20 refusing to hook up new customers in order to avoid increased
21 costs to our existing customers, or no longer serve some of
22 the more remote, more costly areas to provide service, which
23 would allow us to avoid further investment, and reduce labor
24 and other operating costs.

1 Unregulated businesses have the opportunity to shut
2 down aging facilities or under-producing retail outlets,
3 eliminate product lines, and cut back on investment and
4 maintenance. As an example, on January 14, 2016 Walmart
5 announced plans to close 269 underperforming retail stores
6 of which 154 stores are in the United States. In their news
7 release they explained that:

8 Closing stores is never an easy decision, but it
9 is necessary to keep the company strong and
10 positioned for the future, Doug McMillon,
11 Walmart's president and chief executive, said in
12 a statement.

13 It's important to remember that we'll open well
14 more than 300 stores around the world next year,
15 he said. So we are committed to growing, but we
16 are being disciplined about it.

17 On January 6, 2016, Macy's Department store announced
18 the closure of its downtown Spokane Washington store. The
19 historic Macy's store in Spokane, the largest retailer in
20 downtown, closed in March this year. The Cincinnati-based
21 Macy's announced plans in September to close 35 to 40
22 underperforming stores.

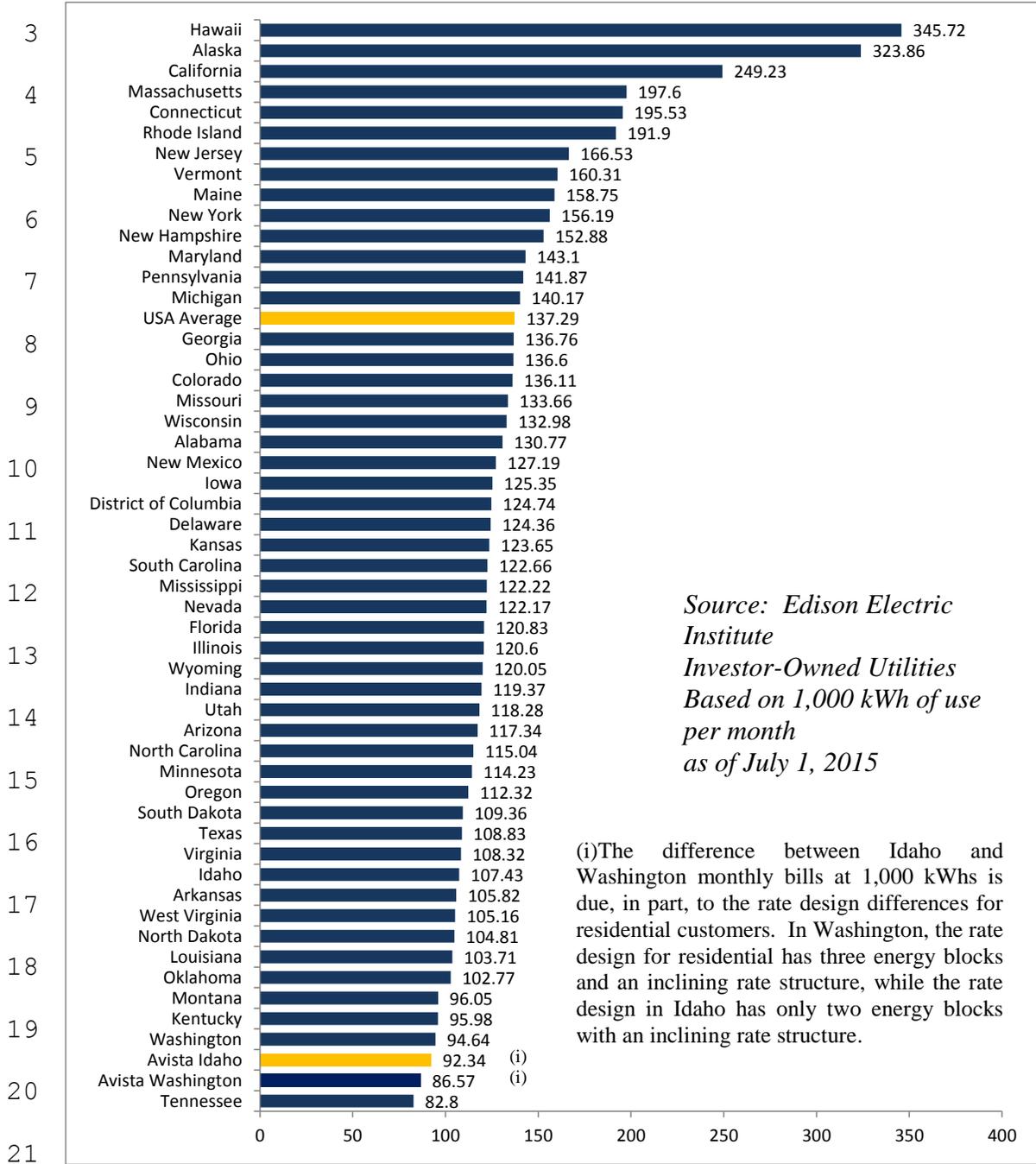
23 In contrast, Avista has an obligation to continue to
24 serve all existing customers with safe, reliable service, as
25 well as hook up new customers that request service.

26 **Q. How do Avista's retail rates compare to other**
27 **utilities in the Northwest and across the country?**

1 A. Edison Electric Institute periodically prepares a
2 comparison of residential electric bills for investor-owned
3 utilities across the country. Illustration No. 2 below
4 provides a comparison of an Avista residential customer's
5 monthly bill in Idaho and Washington with utility bills in
6 other states. The chart shows that Avista's residential
7 customers' rates are among the lowest in the Country.

8

1 **Illustration No. 2 - Average Residential Monthly Electric**
 2 **Bill**



22 Our relatively low retail rates are due in large part
 23 to a history of our Company aggressively pursuing the
 24 acquisition and preservation of a diversified portfolio of

1 low cost resources for the benefit of our customers. This
2 portfolio includes hydroelectric, wood-waste fired, gas-
3 fired baseload, gas-fired peakers, and coal-fired
4 generation, together with long-term purchases of power and
5 an aggressive energy efficiency program. Our low rates are
6 also a result of Avista's efforts to control its operating
7 costs in order to keep retail rates as low as reasonably
8 possible.

9

10 **IV. COMMUNICATIONS WITH CUSTOMERS**

11 **Q. How is Avista communicating with its customers to**
12 **explain what is driving increased costs for the Company?**

13 A. The Company proactively communicates with its
14 customers in a number of ways: customer forums, one-on-one
15 customer interactions through field personnel and account
16 representatives, bill inserts, social media, media contacts,
17 group presentations, and through our employees' involvement
18 in community, business and civic organizations, to name a
19 few. We believe our communications are helping our
20 customers, and the communities we serve, better understand
21 the issues faced by the Company, such as increased
22 infrastructure investment, environmental mitigation and
23 security, all of which have led to higher costs for our
24 customers.

1 i.e., customers who have contact with Avista through the
2 Contact Center and/or work performed through an Avista
3 construction office. This rating reflects a positive
4 experience for customers who have contacted Avista related
5 to the customer service or field service they received.
6 These results can be achieved only with very committed and
7 competent employees.

8

9

VI. CUSTOMER SUPPORT PROGRAMS

10 **Q. Please summarize briefly the customer support**
11 **programs that Avista provides for its customers in Idaho.**

12 A. Avista Utilities offers a number of programs for
13 its Idaho customers, such as energy efficiency programs,
14 Project Share for emergency assistance to customers, the
15 Customer Assistance Referral and Evaluation Service (CARES)
16 program, level pay plans, and payment arrangements. Some of
17 these programs will serve to mitigate the impact on customers
18 of the proposed rate increases.

19 In the 2014/2015 heating season, 9,177 Idaho customers
20 received approximately \$2,287,424 in various forms of energy
21 assistance (Federal LIHEAP program, Project Share, and local

1 community funds).⁶ Some of the key programs that we offer
2 or support are as follows:

- 3
4 1. **Project Share.** Project Share is a voluntary program
5 allowing customers to donate funds that are
6 distributed through community action agencies to
7 customers in need. In the 2015/2016 heating season,
8 Avista Utilities' customers, employees and Avista
9 Corp donated \$458,405 on a system-wide basis, of
10 which \$143,573 was directed to Idaho Community Action
11 Agencies.
12
- 13 2. **Comfort Level Billing.** The Company offers the option
14 for all customers to pay the same bill amount each
15 month of the year by averaging their annual usage.
16 Under this program, customers can avoid
17 unpredictable winter heating bills.
18
- 19 3. **CARES Program.** CARES provides assistance to
20 customers through access to specially trained
21 (CARES) representatives who provide referrals to
22 area agencies and churches for help with, among other
23 things, housing, utilities, and medical assistance.
24

25 These programs and the partnerships we have formed with
26 community action agencies have been invaluable to customers
27 who often have nowhere else to go for help. Company witness
28 Ms. Rosentrater provides additional detail in her testimony
29 related to these and other programs designed to assist
30 customers.

⁶ The 2015/2016 heating season runs through September 30, 2016.

1 **VII. OTHER COMPANY WITNESSES**

2 Q. Would you please provide a brief summary of the
3 testimony of the other witnesses representing Avista in this
4 proceeding?

5 A. Yes. The following additional witnesses are
6 presenting direct testimony on behalf of Avista:

7 Mr. Mark Thies, Senior Vice President and Chief
8 Financial Officer, will provide a financial overview of the
9 Company and will explain the proposed capital structure,
10 overall rate of return, and Avista's credit ratings.
11 Additionally, he will summarize Avista's capital
12 expenditures program.

13 Mr. Adrien McKenzie, as Vice President of Financial
14 Concepts and Applications (FINCAP), Inc., has been retained
15 to present testimony with respect to the Company's cost of
16 common equity. He concludes that:

- 17 • In order to reflect the risks and prospects
18 associated with Avista's jurisdictional utility
19 operations, his analyses focused on a proxy group of
20 16 other utilities with comparable investment risks;
- 21 • Because investors' required return on equity is
22 unobservable and no single method should be viewed
23 in isolation, he applied the DCF, CAPM, ECAPM, and
24 risk premium methods to estimate a fair ROE for
25 Avista, as well as referencing the expected earnings
26 approach;
- 27 • Based on the results of these analyses, and giving
28 less weight to extremes at the high and low ends of
29 the range, he concluded that the cost of equity for

1 the proxy group of utilities is in the 9.5 percent
2 to 10.7 percent range, or 9.62 percent to 10.82
3 percent after incorporating an adjustment to account
4 for the impact of common equity flotation costs; and,
5 • As reflected in the testimony of Mr. Thies, Avista
6 is requesting a fair ROE of 9.9 percent, which falls
7 below the 10.22 percent midpoint of his recommended
8 range. Considering capital market expectations, the
9 exposures faced by Avista, and the economic
10 requirements necessary to maintain financial
11 integrity and support additional capital investment
12 even under adverse circumstances, it is his opinion
13 that 9.9 percent represents a reasonable ROE for
14 Avista.

15 Mr. Scott Kinney, Director of Power Supply, will
16 provide an overview of Avista's resource planning and power
17 supply operations. This includes summaries of the Company's
18 generation resources, the current and future load and
19 resource position, and future resource plans. He will
20 provide an overview of the Company's risk management policy.
21 Mr. Kinney will address hydroelectric and thermal project
22 upgrades, followed by an update on recent developments
23 regarding hydro licensing.

24 Mr. Clint Kalich, Manager of Resource Planning & Power
25 Supply Analyses, will describe the Company's use of the
26 AURORA_{XMP} dispatch model, or "Dispatch Model." He will
27 explain the key assumptions driving the Dispatch Model's
28 market forecast of electricity prices. The discussion
29 includes the variables of natural gas, Western Interconnect
30 loads and resources, and hydroelectric conditions. Further,

1 he will describe how the model dispatches its resources and
2 contracts to maximize customer benefit and tracks their
3 values for use in pro forma calculations. Finally, Mr.
4 Kalich will present the modeling results provided to Company
5 witness Mr. Johnson for his power supply pro forma adjustment
6 calculations.

7 Mr. William Johnson, Wholesale Marketing Manager, will
8 identify and explain the proposed normalizing and pro forma
9 adjustments to the 2015 test period power supply revenues
10 and expenses, and describe the proposed level of expense and
11 Load Change Adjustment Rate (LCAR) for Power Cost Adjustment
12 (PCA) purposes, using the pro forma costs proposed by the
13 Company in this filing.

14 Ms. Heather Rosentrater, Vice President of Energy
15 Delivery, will provide an overview of the Company's electric
16 energy delivery facilities, the Company's distribution
17 capital investment for the period January 2016 through the
18 2017 rate year, as well as various Asset Management programs.
19 Finally, she will summarize Avista's customer support
20 programs in Idaho.

21 Mr. Bryan Cox, Director, Transmission Operations,
22 describes Avista's transmission revenues and expenses for the
23 2017 rate year. Mr. Cox will also discuss Avista's

1 transmission capital expenditures for the period January 2016
2 through the 2017 rate year.

3 Mr. Jim Kensok, Vice President and Chief Information
4 and Security Officer, will describe the costs associated
5 with Avista's Information Service/Information Technology
6 ("IS/IT") programs and projects. These costs include the
7 capital investments for a range of systems used by the
8 Company, including Next Generation Radio Refresh, Technology
9 Refresh to Sustain Business process, Avistautilities.com WEB
10 replacement, and several more important applications.

11 Ms. Karen Schuh, Senior Regulatory Analyst, will
12 summarize Avista's planned capital investments in utility
13 plant for the 2016 and 2017 time period, and explain the
14 Company's planned investment in general plant (e.g., office
15 facilities).

16 Ms. Elizabeth Andrews, Senior Manager of Revenue
17 Requirements, will cover accounting and financial data in
18 support of the Company's electric rate request and the need
19 for the proposed increase in rates for 2017. She will
20 explain pro forma operating results, including expense and
21 rate base adjustments made to actual operating results and
22 rate base. In addition, Ms. Andrews incorporates the Idaho
23 share of the proposed adjustments of other witnesses in this
24 case.

1 Ms. Tara Knox, Senior Regulatory Analyst, will cover
2 the Company's electric revenue normalization adjustment to
3 the test year results of operations, the proposed Load Change
4 Adjustment Rate to be used in the Power Cost Adjustment
5 mechanism, and the electric cost of service study performed
6 for this proceeding.

7 Mr. Patrick Ehrbar, Senior Manager of Rates and
8 Tariffs, discusses the spread of the proposed electric
9 revenue increases among the Company's electric general
10 service schedules. In addition, his testimony will also
11 describe the changes to the rates within the Company's
12 electric service schedules, and discuss the proposed change
13 to the residential basic charge.

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

15 **A.** Yes it does.