

DAVID J. MEYER  
VICE PRESIDENT AND CHIEF COUNSEL FOR  
REGULATORY & GOVERNMENTAL AFFAIRS  
AVISTA CORPORATION  
P.O. BOX 3727  
1411 EAST MISSION AVENUE  
SPOKANE, WASHINGTON 99220-3727  
TELEPHONE: (509) 495-4316  
FACSIMILE: (509) 495-8851  
DAVID.MEYER@AVISTACORP.COM

**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	)	KAREN K. SCHUH
	)	

---

FOR AVISTA CORPORATION

(ELECTRIC)

1 I. INTRODUCTION

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

4 A. My name is Karen K. Schuh. I am employed by Avista  
5 Corporation as a Senior Regulatory Analyst in the State and  
6 Federal Regulation Department. My business address is 1411 East  
7 Mission, Spokane, Washington.

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

10 A. I graduated from Eastern Washington University in  
11 1999 with a Bachelor of Arts Degree in Business Administration,  
12 majoring in Accounting. After spending six years in the public  
13 accounting sector, I joined Avista in January of 2006. Since  
14 2006, I have worked in various positions within the Company in  
15 the Finance Department (Plant Accounting and Resource  
16 Accounting) and joined the State and Federal Regulation  
17 Department as a Regulatory Analyst in 2008. Currently, as a  
18 Senior Regulatory Analyst, I am responsible for, among other  
19 things, preparing the capital pro forma adjustments in  
20 determination of revenue requirements for all jurisdictions.

21 **Q. What is the scope of your testimony?**

22 A. My testimony and schedules in this proceeding will  
23 cover the Company's planned capital investments in utility  
24 plant for the 2016 and 2017 time period, and explain details of

1 the Company's planned investment in general plant. Company  
2 witness Ms. Andrews has included adjustments to reflect these  
3 investments in her electric revenue requirement for the 2017  
4 rate year.

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

6	<u>Description</u>	<u>Page</u>
7	I. Introduction	1
8	II. Capital Additions from January 2016	
9	through December 2017	3
10	III. Capital Planning and Review	5
11	IV. Capital Additions Detail	13
12	V. Capital Adjustments	22

13

14 **Q. Are you sponsoring any exhibits?**

15 A. Yes. I am sponsoring Exhibit No. 10, Schedules 1  
16 through 4 which were prepared by me or under my direction. This  
17 Exhibit has been included to provide supporting information for  
18 the capital investment described in this testimony. Schedule 1  
19 shows actual and planned capital expenditures from 2011 through  
20 2020. Schedule 2 depicts the increases in costs of transmission  
21 substations, transmission equipment, distribution substations,  
22 and distribution equipment that the utility industry has  
23 experienced over the past fifty years. Schedule 3 lists and  
24 describes the capital projects included in this case. Schedule

1 4 includes business cases, including cover sheets and other  
2 project justification information relating to each of the  
3 projects included in this case.

4

5 **II. CAPITAL ADDITIONS FROM January 1, 2016**

6 **THROUGH DECEMBER 31, 2017**

7 **Q. How were the capital additions through the 2017 rate**  
8 **year developed in this case?**

9 A. As in prior rate cases, Avista started with rate base  
10 for the historical test year, which, for this case, is the  
11 average-of-monthly-averages ("AMA") for the twelve months ended  
12 December 31, 2015, and made the following adjustments as  
13 described below:

14 **(1) 2015 Plant In Service** - The 2015 AMA plant in service  
15 balance is adjusted to a 2017 AMA balance. This is  
16 done by first walking forward the accumulated  
17 depreciation ("AD") and accumulated deferred federal  
18 income taxes ("ADFIT") to a 2015 end-of-period ("EOP")  
19 balance, then to a 2016 EOP balance, and finally,  
20 to a 2017 AMA balance.

1           **(2) 2016 Capital Additions** - This adjustment adds capital  
2           additions to plant in service during 2016,<sup>1</sup> including  
3           the AD, depreciation expense and ADFIT associated  
4           with these additions, on a 2016 EOP basis. Also  
5           included is an adjustment for the impact of asset  
6           retirements in 2016.<sup>2</sup> This adjustment also includes  
7           annualizing depreciation expense on the plant-in-  
8           service at December 31, 2015. Next, these additions  
9           are carried forward to a 2017 AMA basis by extending  
10          AD, and ADFIT balances.

11          **(3) 2017 Capital Additions** - This adjustment adds the  
12          capital additions to plant in service during 2017 on  
13          an AMA basis. This adjustment includes the  
14          depreciation expense, AD and ADFIT associated with  
15          these additions. This also includes an adjustment for  
16          the impact of asset retirements in 2017.<sup>3</sup>

17          The specific capital additions are identified later in my  
18          testimony. In addition, the plant tables depicting the electric

---

<sup>1</sup> For each of the adjustments for the periods 2015 AMA to 2015 EOP, 2016 EOP and 2017 AMA, distribution-related capital expenditures associated with connecting new customers to the Company's system were excluded. The Pro Forma adjustments do not include the increase in revenues from growth in the number of customers from the historical test year to the 2017 rate year, and therefore, the growth in plant investment associated with customer growth should also be excluded.

<sup>2</sup> The 2015 test year and the adjustment from AMA 2015 to EOP 2015 capture the impacts of retirements for 2015. The adjustment to capital rate base for 2016 and 2017 includes reducing rate base and depreciation expense for the impact of retirements.

<sup>3</sup> Id.

1 Pro Forma adjustments from the 2015 AMA test period through the  
2 2017 AMA rate period are shown later in my testimony at Table  
3 Nos. 6 and 7.

4

5

**III. CAPITAL PLANNING AND REVIEW**

6

**Q. Please describe Avista's capital planning process.**

7

A. Avista utilizes a comprehensive capital planning and

8 budgeting process. Capital expenditure assessment and cross-

9 Company prioritization enables the allocation of limited

10 resources to the highest impact projects and programs. The

11 Company also employs a systematic review process to adjust

12 course as necessary. The capital planning and budgeting process

13 at Avista begins with engineers and subject matter experts

14 performing studies and gathering data about our assets to

15 determine the type and level of work that is needed to keep our

16 system operating in a safe, reliable and efficient manner. The

17 identified work is then prioritized at the department level for

18 the ensuing five-year period.

19 For each project or program that meets a departmental

20 screening, a business case is completed and submitted for

21 consideration of funding. A business case is a summary document

22 that provides a description of the capital project or program

23 as well as additional information and support. Components of a

24 business case generally include: the project description,

1 project alternatives, cost summary, an assessment score,  
2 justification for the project (e.g., mandatory, resource  
3 requirements, etc.), milestones, and key performance  
4 indicators. An assessment score for each business case is  
5 calculated, which is comprised of a business risk assessment  
6 with a risk analysis using mitigated enterprise risk management  
7 definitions, a financial assessment focusing on customer  
8 internal rate of return (IRR) as the key proxy for  
9 attractiveness, a strategic assessment which is a dimension  
10 aimed at evaluating alignment with corporate initiatives, and  
11 project/program risk to quantify the level of certainty around  
12 the projected costs and timeline. The assessment score is one  
13 data point that is considered when prioritizing capital  
14 funding. Other considerations include, but are not limited to,  
15 the availability/utilization of crews, compliance requirements,  
16 work efficiency, safety, reliability, and partial funding  
17 versus an "all or nothing" approach. Business cases, cover  
18 sheets and other project justification information relating to  
19 each of the projects included in this rate case, have been  
20 provided in Exhibit No. 10, Schedule 4.

21 Completed business cases are submitted to the Capital  
22 Planning Group ("CPG"). The CPG is a group of internal director  
23 level employees that represent the capital intensive areas of

1 the Company<sup>4</sup>. The CPG meets monthly to review the submitted  
2 business cases and prioritize funding to limit the total capital  
3 spending to the level set by Company officers. Due to the large  
4 amount of funding requests and the limitation of the capital  
5 budget, some program requests are scaled back, some projects  
6 may not get funding, and some activities may be deferred or  
7 delayed.

8 Once funding is prioritized for the coming five-year  
9 period, the CPG meets with Company officers to review all  
10 business case submissions and the funding prioritization. The  
11 Company officers provide feedback and ultimately approve a  
12 capital budget that is then reviewed with the Finance Committee  
13 of the Board of Directors ("FC") for their approval of the  
14 spending for the first year of the five-year plan. The five-  
15 year capital plan is reviewed with the FC to keep them apprised  
16 of the longer-term capital spending plan. The status of the  
17 planned versus actual capital spend is reviewed with the FC at  
18 least twice a year in accordance with their calendar of reviews  
19 and actionable items.

---

<sup>4</sup> The CPG group currently includes: The Director of IT and Security, Director of Generation Production and Substation Support, Director of Electrical Engineering, Director of Natural Gas, Director of Transmission and West Electric Operations, Director of Environmental Affairs, and Director of Customer and Shared Services.

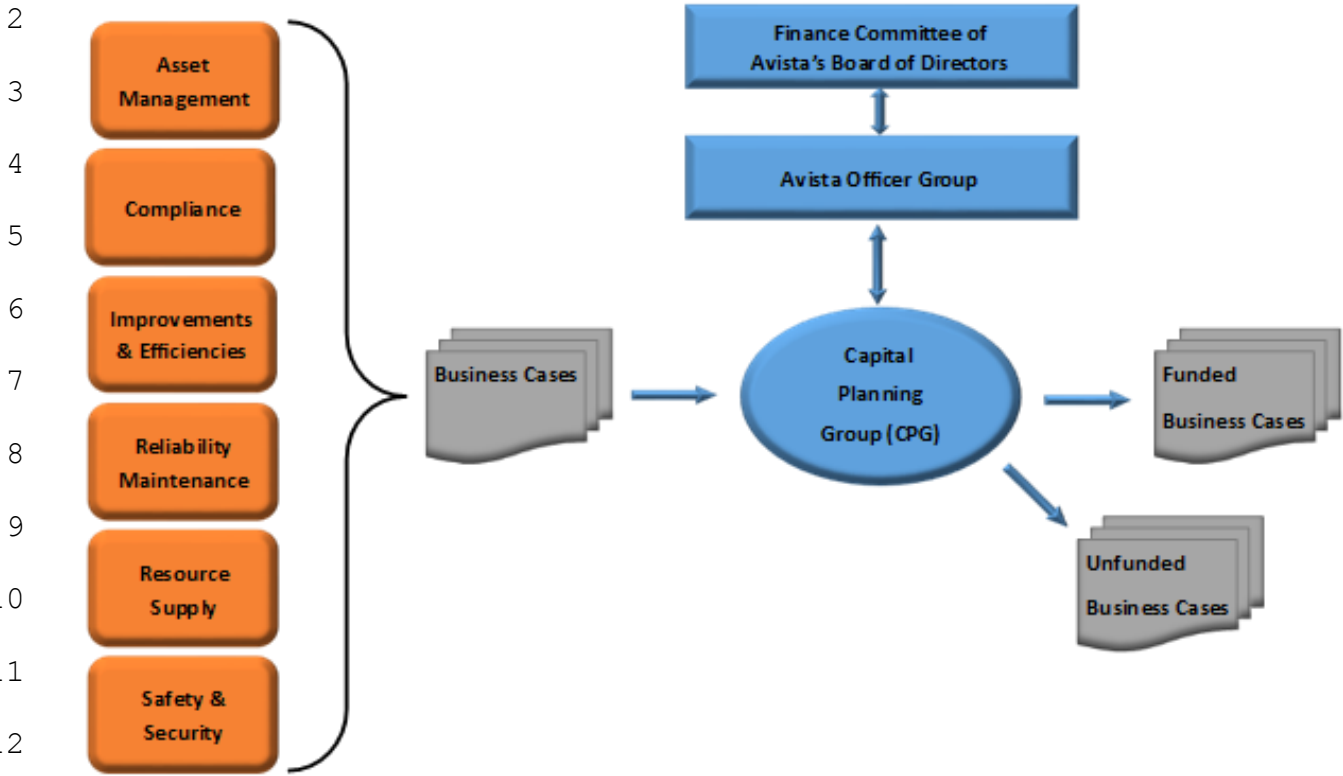


1           During the year, the CPG meets monthly to review the status  
2 of the capital projects and programs, and approve or decline  
3 new business cases and spending adjustments to current projects  
4 and programs as well as monitoring the overall capital spend.  
5 As a result of the constrained capital spend level, capital  
6 projects must be prioritized so that the dollars flow where  
7 they are most needed. As unexpected, high-priority capital  
8 projects arise, the capital projects for the year must be  
9 reprioritized to limit the total spend to the amount established  
10 by the Company and approved by the FC. This can cause some  
11 projects to be delayed so that higher-priority projects can be  
12 completed.<sup>5</sup> There were \$54 million of unfunded projects in 2013,  
13 and \$55 million of unfunded projects in 2014. Illustration No.  
14 1 below (also appearing in Mr. Thies' testimony) depicts the  
15 capital planning process described above.

---

<sup>5</sup> If circumstances indicate the capital spend for a year will exceed the level previously approved by the FC of the Board, the additional capital spend is presented to the FC for approval.

1 **Illustration No. 1:**



13

14 **Q. What actions are being taken to provide continuous**  
15 **improvement to the capital planning process?**

16 A. A group of employees with financial and operational  
17 knowledge have been directed to review each submitted business  
18 case for completeness and validity prior to the request being  
19 submitted to the CPG for approval. In order to allow for ample  
20 time to review business case funding submissions, a strict  
21 adherence to submission deadlines has been adopted. Prior to  
22 submittal to the CPG for funding decisions, each business case  
23 will be required to have director level support to ensure that

1 department level prioritization has occurred. Additional  
2 improvements will come through educating project and program  
3 managers on the importance of accurately planning the monthly  
4 capital spend and transfers to plant. Further, the business  
5 case document will be refined as the capital planning process  
6 continues to mature and develop, and the Company will have a  
7 continued focus on project management best practices.

8 **Q. What is driving the significant investment in new**  
9 **utility plant?**

10 A. As Company witnesses Mr. Thies, Ms. Rosentrater, Mr.  
11 Kinney, Mr. Kensok and Mr. Cox explain in their testimony, it  
12 is necessary to add or upgrade generation facilities and  
13 transmission and distribution facilities, due in part to asset  
14 management programs, compliance with state and federal  
15 requirements, improvements and efficiencies, reliability,  
16 maintenance, resource supply, and safety and security.

17 A significant factor in the growth in net plant investment  
18 and rate base is the cost today of new utility equipment and  
19 facilities, as compared to the cost of the older facilities  
20 that are now being replaced. Some of the facilities we are  
21 replacing or upgrading were installed 40-60 years ago, or even  
22 before that time. The cost to replace these facilities today  
23 is many times more expensive than when they were installed  
24 decades ago.

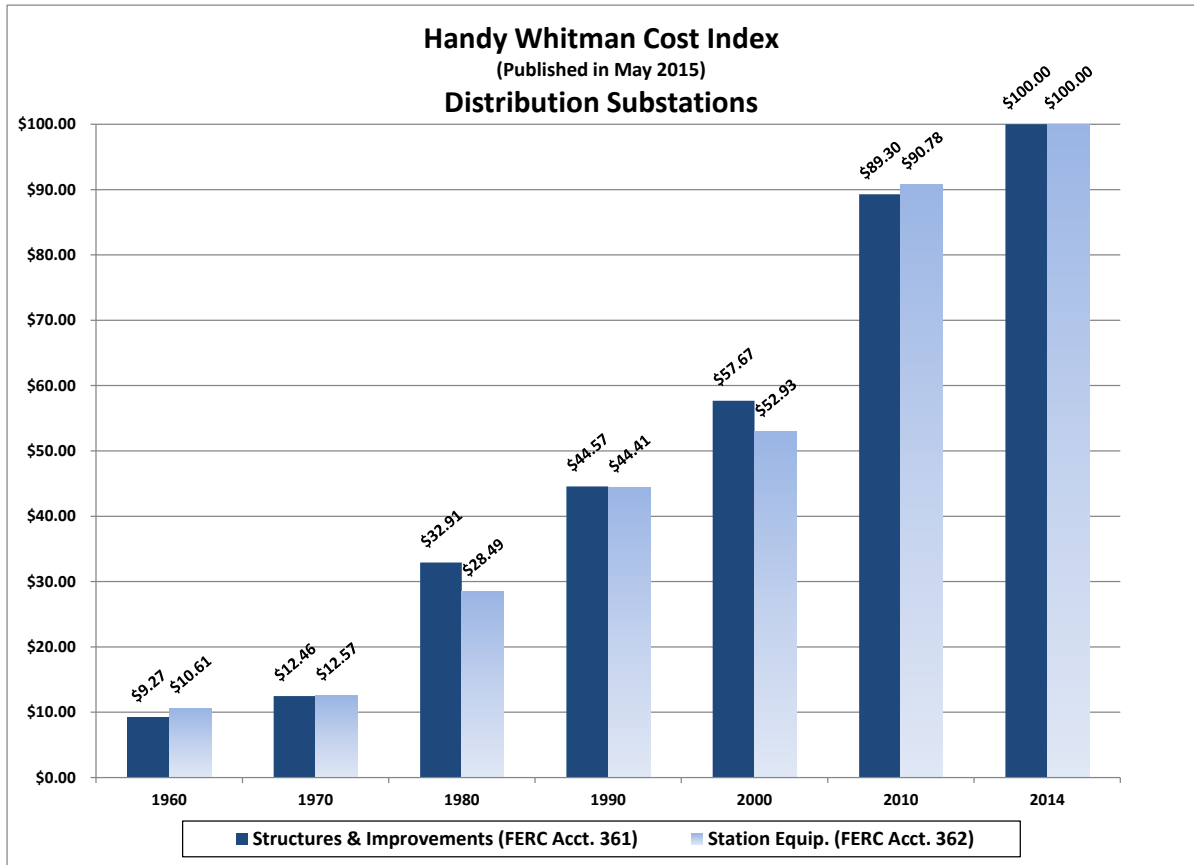
1           **Q.    What data is available that depicts the increase in**  
2 **the cost of utility plant assets that have been added in recent**  
3 **years, as compared to the cost of the facilities being replaced?**

4           A.    The Handy-Whitman Index Manual<sup>6</sup> provides cost  
5 comparison information over time for several major categories  
6 of plant. Exhibit No. 10, Schedule 2 depicts the increases in  
7 costs of transmission substations, transmission equipment,  
8 distribution substations, and distribution equipment that the  
9 utility industry has experienced over the past fifty years.  
10 These charts show what these categories of plant have cost  
11 historically on a relative scale. For example, on Page 4 of  
12 Exhibit No. 10, Schedule 2, and also shown in Illustration No.  
13 2 below, distribution poles (FERC Account 361) fifty years ago  
14 would have a cost approximately 9% - 10% of the current  
15 replacement cost.

---

<sup>6</sup> "The Handy-Whitman Index of Public Utility Construction Costs", is published by Whitman, Requardt and Associates, Baltimore, Maryland, published in May 2015. The Handy-Whitman Indices of Public Utility Construction Costs show the level of costs for different types of utility construction. Separate indices are maintained for general items of construction, such as reinforced concrete, and specific items of material or equipment, such as pipe or turbo-generators. Handy-Whitman Index numbers are used to trend earlier valuations and original cost at prices prevailing at a certain date.

1 **Illustration No. 2:**



15 Illustration No. 2 above and Exhibit 10, Schedule 2, show

16 that the cost of the equipment and facilities that are being

17 added today are many times more expensive than those same

18 facilities installed in the past. Our retail rates are "cost-

19 based" and reflect the low cost of the old equipment serving

20 customers. When the equipment is replaced, it requires an

21 increase in rates to reflect the much higher cost of the new

22 equipment.

23 **Q. With respect to Avista's capital additions through**

24 **2017 included in the Company's revenue requirement, would there**

1 **be operation and maintenance (O&M) savings associated with the**  
2 **replacement of some of the aging equipment?**

3 A. Yes. In some instances there will be a reduction to  
4 O&M associated with the investment, and O&M cost savings have  
5 been identified. However, on a net basis, we will continue to  
6 experience increased O&M costs to maintain a system that  
7 continues to age. Our general practice is to attempt to replace  
8 our aging equipment before it fails, because it is not only  
9 less costly to replace this equipment on a systematic, planned  
10 basis, but it also results in more reliable service to  
11 customers, which is expected by all utility stakeholders. If  
12 our practice were to avoid replacing utility equipment until it  
13 failed, the reliability of our system would suffer.

14 Therefore, it is imperative that we continue every year to  
15 reinvest and upgrade a portion of our utility system, in  
16 addition to the investments needed to meet mandatory  
17 reliability requirements. The reinvestment and upgrades  
18 actually serve, to a large extent, to slow the growth of annual  
19 O&M costs, but does not result in a year-over-year reduction to  
20 overall O&M costs.

21

22 **IV. CAPITAL ADDITIONS DETAIL**

23 **Q. Please provide a summary of the capital projects for**  
24 **2016 and 2017.**

1           A.     Exhibit No. 10, Schedule 3 details the system-level  
 2 capital projects that were, or will be, transferred to plant  
 3 for 2016 and 2017. A listing and/or description of the capital  
 4 projects and their system costs is provided below:

5     **Generation:**

6 The electric generation projects that will transfer to plant-  
 7 in-service are described in detail in Mr. Kinney's direct  
 8 testimony. A listing of these projects on a system basis is  
 9 included in Table No. 1 below.

<b>TABLE NO. 1</b>		
<b>Generation / Production Capital Projects (System)</b>		
<b>Business Case Name</b>	<b>2016</b>	<b>2017</b>
	<b>\$ (000's)</b>	<b>\$ (000's)</b>
Colstrip Thermal Capital	\$ 12,292	\$ 12,432
Cabinet Gorge Unit 1 Refurbishment	14,702	
Post Falls South Channel Replacement	15,648	
Nine Mile Rehab	73,193	3,814
Little Falls Plant Upgrade	23,833	11,470
Spokane River License Implementation	\$ 1,007	\$ 17,764
Kettle Falls Stator Rewind		7,930
Peaking Generation	500	500
Cabinet Gorge Automation Replacement		2,342
Cabinet Gorge HED - Gantry Crane Replacement		3,500
Kettle Falls CT Control Upgrade		667
Kettle Falls Reverse Osmosis System	4,750	
Generation DC Supplied System Upgrade	700	1,033
Coyote Springs Long Term Service Agreement	1,980	1,980
Noxon Station Service	1,477	1,172
Base Load Hydro	1,149	1,149
Regulating Hydro	5,786	3,533
Base Load Thermal Plant	2,200	2,200
Clark Fork Settlement Agreement	6,093	4,226
Hydro Safety Minor Blanket	75	80
<b>Total Planned Generation/Production Capital Projects</b>	<b>\$ 165,387</b>	<b>\$ 75,791</b>

1 **Electric Transmission:**

2 The electric transmission projects that will transfer to plant-  
 3 in-service are described in detail in Mr. Cox's direct  
 4 testimony. A listing of these projects and system costs is  
 5 included in Table No. 2 below.

6  
7  
8

<b>TABLE NO. 2</b>		
<b>Transmission Capital Projects (System)</b>		
<b>Business Case Name</b>	<b>2016</b>	<b>2017</b>
	<b>\$ (000's)</b>	<b>\$ (000's)</b>
<b><u>Reliability Compliance Projects:</u></b>		
Transmission - NERC Low Priority Mitigation	\$ 1,675	\$ 3,000
Transmission - NERC Medium Priority Mitigation	2,576	1,000
SCADA - System Operations and Backup Control Center	1,002	1,044
Environmental Compliance	50	50
<b><u>Contractual Requirements:</u></b>		
Tribal Permits and Settlements	314	300
Colstrip Transmission	568	398
<b><u>Reliability Improvements:</u></b>		
Noxon Switchyard Rebuild	11,500	6,700
Substation - Station Rebuilds	4,260	7,540
Westside Rebuild Phase One	2,525	
South Region Voltage Control	5,000	
SCADA Completion		1,000
Transmission - Reconductors and Rebuilds	17,559	20,830
Spokane Valley Transmission Reinforcement	1,340	7,200
<b><u>Reliability Replacements:</u></b>		
Storms (Transmission)	1,000	1,000
Substation - Capital Spares	5,200	4,565
Substation - Asset Mgmt. Capital Maintenance	4,100	4,100
Transmission - Asset Management	1,772	1,780
<b>Total Planned Transmission Capital Projects</b>	<b>\$ 60,442</b>	<b>\$ 60,507</b>

9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38



1 **Electric Distribution:**

2  
 3 The electric distribution projects that will transfer to plant-  
 4 in-service are described in detail in Ms. Rosentraters's direct  
 5 testimony. A listing of these projects and system costs is  
 6 included in Table No. 3 below.

7

8 **TABLE NO. 3**

9 **Distribution Capital Projects (System)**

10

Business Case Name	2016 \$ (000's)	2017 \$ (000's)
Meter Minor Blanket	\$ 403	\$ 403
Elec Replacement/Relocation	2,750	2,600
Distribution Minor Rebuild	8,609	8,867
Storms (Distribution)	2,090	2,183
Primary URD Cable Replacement	200	500
Street Light Management	1,500	2,720
Substation - Asset Mgmt. Capital Maintenance	18	52
Worst Feeders	1,500	2,499
Distribution Transformer Change-Out Program	8,406	8,115
Distribution Wood Pole Management	7,840	12,000
Substation - New Distribution Stations	400	275
Distribution Grid Modernization	6,359	13,118
Segment Reconductor and FDR Tie Program	3,801	4,175
Distribution Line Protection	125	125
Environmental Compliance	350	350
	<b>\$ 44,351</b>	<b>\$ 57,982</b>

11

12

13

14

15

16

17

18

19

1 **Enterprise Technology:**

2 The enterprise technology projects that will transfer to plant-  
3 in-service are described in detail in Mr. Kensok's direct  
4 testimony. A listing of these projects and system costs is  
5 included in Table No. 4 below.

6  
7  
8 **TABLE NO. 4**  
9 **Enterprise Technology Capital Projects (System)**

10	11	12	13
	<b>Business Case Name</b>	<b>2016</b>	<b>2017</b>
		<b>\$ (000's)</b>	<b>\$ (000's)</b>
14	Technology Refresh to Sustain Business Process	\$ 18,001	\$ 17,250
15	Mobility in the Field		650
16	Next Generation Radio Refresh	6,000	375
17	Enterprise Security	1,360	2,500
18	Customer Facing Technology	286	4,000
19	High Voltage Protection for Substations	887	
20	Avista Facilities Maintenance COTS Migration	3,800	11,500
21	AvistaUtilities.com Redesign	5,536	
22	Enterprise Business Continuity Plan	664	450
23	Technology Expansion to Enable Business Process	2,742	13,700
24	Microwave Refresh	4,543	4,000
25	Meter Data Management		21,299
26	<b>Total Planned Enterprise Technology Capital Projects</b>	<b>\$ 43,817</b>	<b>\$ 75,724</b>

27  
28  
29  
30

31 **General Plant:**

32  
33 **Q. Please discuss the drivers for the Company's general**  
34 **plant capital projects that will be completed in 2016 and 2017.**

35 A. Avista's Facilities Department is the driver for  
36 most of the general plant capital additions in the upcoming  
37 years. They have reviewed many of Avista's physical facilities  
38 (i.e., buildings, property, etc.) and determined that in  
39 certain areas the following issues need to be addressed:

1 customer and employee parking, material storage, employee  
2 office space, safety, the needs of the Company's Fleet  
3 Department, and reducing offsite leased office space. Further,  
4 many of our service centers throughout our service territory  
5 were built between 1950 and 1970 and are now requiring extensive  
6 maintenance and capital investment as they are reaching the  
7 end, or are already beyond their useful life.

8 **Q. How does Avista's Facilities Department prioritize**  
9 **capital projects before they are submitted to the CPG?**

10 A. The overall process to prioritize projects in the  
11 Facilities Department is as follows: facilities managers and  
12 project managers meet and identify issues, propose solutions,  
13 and review the potential solutions for viability. Stakeholders  
14 from other areas of the Company such as Environmental, Real  
15 Estate, Operations, Supply Chain and other directly affected  
16 groups are then brought in to discuss the project and potential  
17 solutions. If these groups agree, then the project is presented  
18 to Facilities Management for approval. If approved, a business  
19 case is developed and presented to the CPG.

20 In addition, the Facilities Department has completed an  
21 internal building survey of all of the service centers and rated  
22 each one on its existing condition. Using this information  
23 they then meet with stakeholders from Operations,  
24 Environmental, Real Estate, and other directly related decision

1 makers and discussed the business needs in each region, taking  
 2 into account current and future materials storage needs,  
 3 expansion possibilities, current offsite storage yards,  
 4 environmental issues, and other factors, to rate whether each  
 5 site warrants capital upgrades only, or possible sale and  
 6 replacement. Based on this discussion, sites were identified  
 7 for possible replacement or upgrade and a capital plan was  
 8 created.

9 **Q. Please provide a brief description of the general**  
 10 **plant-related capital projects that are included in the**  
 11 **Company's electric Pro Forma Adjustments for 2016 and 2017.**

12 A. As shown in Table No. 5 below, general plant projects  
 13 for 2016 and 2017 total \$18.6 million and \$17.6 million  
 14 respectively, on a system basis. Details about these general  
 15 plant-related capital projects are discussed below.

<b>TABLE NO. 5</b>		
<b>General Plant Capital Projects (System)</b>		
<b>Business Case Name</b>	<b>2016</b>	<b>2017</b>
	<b>\$ (000's)</b>	<b>\$ (000's)</b>
Central Office Facility Long Term Restructuring- Phase 1	\$ 9,550	
New Airport Hangar		1,500
Clark Fork Engineering Building		1,089
Apprentice Training	60	60
Structures and Improvements/Furniture	3,600	3,600
Capital Tools & Stores Equipment	2,400	2,400
Central Office Facility Long Term Restructuring- Phase 2	2,991	8,979
<b>Total Planned General Plant Capital Projects</b>	<b>\$ 18,601</b>	<b>\$ 17,628</b>

1 **The following projects are included in the Company's Pro Forma**  
2 **Adjustments for the years 2016 and 2017. For the following**  
3 **capital projects, see Exhibit 10, Schedule 4 for business cases**  
4 **supporting these projects, as well as additional support for**  
5 **certain projects, filed with the Company's case:**  
6

7 **Central Office Facility ("COF") Long Term Campus**  
8 **Restructuring Plan Phase 1 - 2016: \$9,550,000**

9 The COF campus restructuring plan, phase one, is a two-  
10 year, multiple project plan to address material storage,  
11 field recovery operations, and office space needs. Over  
12 the past few years, our warehouse material inventory has  
13 increased and presently the materials are scattered in  
14 multiple locations in the COF, because they outgrew their  
15 allocated space. The campus restructuring will increase  
16 and consolidate their storage area, resulting in greater  
17 efficiencies for the warehouse and field crews. In  
18 addition, two new structures will be built to consolidate  
19 transformer recovery, hazardous waste & material, and  
20 investment recovery (recycling) operations. This will  
21 improve the safety and efficiencies for collection of all  
22 field recovery materials, as well as provide a one-stop  
23 drop location for field crews (instead of the three  
24 different locations). Avista is also remodeling two  
25 existing areas in our service building that will provide  
26 approximately 30 new cubicles, meeting rooms, and offices.  
27 This will help accommodate our new growth and may allow  
28 employees in leased office space to return to the COF.  
29

30 **New Airport Hanger - 2017: \$1,500,000**

31 In 2017 Avista will lose the lease on its existing airport  
32 hangar. The owner is losing their lease and the hangar  
33 will be demolished. Avista will have to lease a new space  
34 or buy land and build a hangar. An additional option  
35 includes leasing property and building a hangar on the  
36 leased property in exchange for a 30 to 50 year lease.  
37

38 **Clark Fork Engineering Building - 2017: \$1,089,000**

39 This project is related to the construction of engineering  
40 and operations office space at Cabinet Gorge Hydro  
41 Electric Facility for use by plant engineers, the Plant  
42 Manager, and visiting Staff. The existing building has  
43 been converted from a former guest house, and is in poor  
44 condition, inadequate for current needs. This building  
45 serves as our headquarters in this area.  
46  
47

1           **Apprentice Training - 2016: \$60,000; 2017: \$60,000**

2           This program is for on-going capital improvements to  
3           support the training needed for journeyman workers,  
4           apprentices and pre-apprentices. Capital expenditures  
5           under this program include items such as: building new  
6           facilities or expanding existing facilities, purchase of  
7           training equipment, or build out of realistic utility  
8           field infrastructure used to train employees.

9  
10           **Structures and Improvements/Furniture - 2016: \$3,600,000;**  
11           **2017: \$3,600,000**

12           This program is for the capital maintenance, improvements,  
13           and furniture at 50 plus Avista offices and service centers  
14           (over 700,000 square feet in total). Many of the included  
15           service centers were built in the 1950's and 1960's and  
16           are starting to show signs of severe aging. The program  
17           includes capital projects in all construction disciplines  
18           (roofing, asphalt, electrical, plumbing, HVAC, energy  
19           efficiency projects etc.).

20  
21           **Capital Tools & Stores Equipment - 2016: \$2,400,000; 2017:**  
22           **\$2,400,000**

23           This category includes equipment utilized in warehouses  
24           throughout the service territory, such as forklifts,  
25           manlifts, shelving, cutting/binding machines, etc.  
26           Expenditures in this category also include large tools and  
27           instruments used throughout the Company for natural gas  
28           and/or electric construction and maintenance work,  
29           distribution, transmission, or generation operations,  
30           telecommunications, and some fleet equipment not  
31           permanently attached to the vehicle.

32  
33           **Central Office Facility ("COF") Long-Term Restructure**  
34           **Phase 2 - 2016: \$2,991,000; 2017: \$8,979,000**

35           Avista's COF Long Term Restructuring Plan, Phase 2  
36           involves the construction of a new fleet vehicle garage  
37           and four story parking structure. By the end of 2015,  
38           facilities projects added approximately 183 new cubicles.  
39           Our parking lots are beyond maximum capacity. The Company  
40           currently leases space from Burlington Northern Railroad  
41           for employee parking. This lease space could be at risk in  
42           the future, if Burlington needs the space. The Fleet garage  
43           is over 50 years old and is constrained. Once Fleet is  
44           relocated, there will be a distinct separation between  
45           operational/service vehicles and employee vehicles. This  
46           separation will increase safety by eliminating  
47           intermingling of pedestrians in work areas. The office

1 building & parking garage is projected to allow the Call  
2 Center and any leased facilities to come back to the COF.  
3 The Ross Park conversion to office space will cover any  
4 future employee expansion that will occur. Avista's  
5 current main office building and surrounding facilities  
6 were originally constructed in 1958, and the facilities  
7 have been adapted over time to accommodate the growth in  
8 the need for office space, parking, materials storage,  
9 fleet, etc. These Phase 2 improvements will enable Avista  
10 to continue to use the existing main office facilities for  
11 years to come.  
12

13 **Other Plant:**

14 **Q. Please discuss some of the drivers and prioritization**  
15 **for the Company's other plant projects that will be completed**  
16 **from 2016 and 2017.**

17 A. The fleet department uses a vehicle management  
18 assessment tool to determine the life cycle for fleet assets.  
19 The transportation project costs (system) that will transfer to  
20 plant-in-service for 2016 and 2017 are included below:

21 **Fleet Budget - 2016: \$5,660,000; 2017: \$7,700,000**

22 Expenditures are for the scheduled replacement of trucks,  
23 off-road construction equipment and trailers that meet the  
24 Company's guidelines for replacement, including age,  
25 mileage, hours of use and overall condition. This also  
26 includes additions to the fleet for new positions or crews  
27 working to support the maintenance and construction of our  
28 electric and natural gas operations.  
29  
30

31 **V. CAPITAL ADJUSTMENTS**

32 **Q. What is the net impact to electric rate base for the**  
33 **twelve months ended December 31, 2015, in order to restate**  
34 **capital from an AMA to an EOP basis?**

1           A.    Electric net rate base for capital investment as of  
 2 year-end December 31, 2015 increased \$18,731,000 from  
 3 \$664,266,000 on a 2015 AMA basis to \$682,997,000 on an December  
 4 31, 2015 EOP basis as shown in Table No. 6 below.

5 **Table No. 6**

Plant Additions in 000's			
	AMA	1.03 E- CAP15	EOP
	2015	12.31.15 Adjustment	12.31.15
Total Plant Cost	\$ 1,296,352	\$ 39,427	\$ 1,335,779
Total Accumulated Depreciation	(466,396)	(12,607)	(479,003)
Total Accumulated DFIT	(165,690)	(8,089)	(173,779)
Net Rate Base	\$ 664,266	\$ 18,731	\$ 682,997

12  
 13           **Q.    What is the change to electric rate base from January**  
 14 **1, 2016 through 2017 on an AMA basis?**

15           A.    Electric rate base increases \$46,999,000, from  
 16 \$682,997,000 to \$729,996,000, from 2015 EOP through 2017 on an  
 17 AMA basis, as shown in Table No. 7 below.

18 **Table No. 7:**

Plant Additions in 000's					
	EOP	3.06 E-CAP16	EOP	3.07 E-CAP17	AMA BALANCE
	12.31.15	2016 EOP Adjustment	12.31.16	2017 AMA Adjustment	2017
Total Plant Cost	\$ 1,335,779	\$ 94,350	\$ 1,430,130	\$ 24,001	\$ 1,454,131
Total Accumulated Depreciation	(479,003)	(30,249)	(509,252)	(16,420)	(525,672)
Total Accumulated DFIT	(173,779)	(17,758)	(191,537)	(6,926)	(198,463)
Net Rate Base	\$ 682,997	\$ 46,343	\$ 729,340	\$ 656	\$ 729,996



1           **Q. Did you factor in retirements for the January 2016**  
2 **through December 2017 Electric capital adjustments?**

3           A. Yes. The Company used an estimate of retirements  
4 based on planned transfers-to-plant and historical retirements,  
5 and then allocated these by functional group to service and  
6 jurisdiction. Further detail is provided in my workpapers.

7           **Q. Were benefits from increased generation included in**  
8 **this case?**

9           A. Yes, the output from generation assets is included in  
10 the AURORA<sub>XMP</sub> power cost model (sponsored by Company witness Mr.  
11 Kalich). Therefore, to the extent that the additional  
12 investments serve to either preserve or increase generation  
13 from the generation projects, the benefits are already  
14 reflected in the AURORA<sub>XMP</sub> model.

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

16           A. Yes, it does.