

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a AVISTA UTILITIES,

Respondent.

DOCKETS UE-260007 and UG-260008 (*Consolidated*)

POST-HEARING BRIEF OF AVISTA CORPORATION

October 19, 2026

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	)	
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¹ COMES NOW, Avista Corporation (hereinafter “Avista” or the “Company”), by and through its undersigned attorney, respectfully submits this Post-Hearing Brief (“Brief”) in the above-captioned matter pursuant to Order 03 issued by the Washington Utilities and Transportation Commission (“Commission” or “UTC”) on March 2, 2026.

I. INTRODUCTION – OVERVIEW OF CASE

² This proceeding presents important issues beyond the conventional review of revenue requirement, cost of capital, and rate design. At the core of this filing is whether the multi-year rate plan (“MYRP”) framework will operate as the Washington Legislature (“Legislature”) intended – to support the timely recovery of prudent utility investments while preserving Commission oversight, customer protections, and affordability. The record demonstrates that Avista faces substantial and ongoing obligations to maintain system reliability, mitigate wildfire risk, modernize technology and cybersecurity systems, and replace aging infrastructure. Avista’s proposed Four-Year Rate Plan provides a reasonable and balanced framework to meet those obligations while continuing to provide safe, reliable, and affordable service.

³ On rebuttal, Avista requests approval of a Four-Year Rate Plan that uses established

Commission ratemaking principles, including standard Commission Basis,¹ restated, pro forma, and provisional methodologies applied to a modified historical test period and updated through numerous known and measurable adjustments, updated actuals, offsetting factors, and capital investment updates developed during this proceeding. Avista's rebuttal revenue requirement reflects utility-specific evidence, as well as the matching of revenues, expenses, and rate base in each rate year, consistent with longstanding Commission practice.

⁴ Avista requests electric base rate relief of \$109.978 million in 2027 (Rate Year 1), followed by incremental increases of \$37.260 million, \$31.732 million, and \$27.726 million in 2028 through 2030 (Rate Years 2 through 4), respectively.² For natural gas operations, Avista requests base rate relief of \$10.438 million in 2027, followed by incremental increases of \$7.830 million, \$6.414 million, and \$3.298 million in 2028 through 2030.³ Avista also seeks approval of annual power supply updates, balancing mechanisms, provisional capital reporting and refund protections, and ongoing Commission review to ensure that customers pay only prudent costs while maintaining affordability as a central consideration throughout the MYRP.

⁵ By contrast, several parties in this proceeding urge the Commission to abandon established ratemaking methods in favor of externally indexed revenue and expense methodologies that are unsupported by the record and inconsistent with the Commission's traditional approach to setting rates. Those proposals would replace utility-specific evidence, known and measurable adjustments, actual cost information, and detailed revenue requirement analyses with broad external indices that do not reflect Avista's actual costs, investment obligations, or operating circumstances. Accordingly, the Commission should approve Avista's proposed Four-Year Rate

¹ Avista files its Commission Basis Reports by April 30 each year, pursuant to WAC 480-100-257 (electric) and 480-90-257 (natural gas).

² Garbarino, Exh. MJG-5T at 3:15-19.

³ *Id.* at 3:21-4:1.

Plan and reject proposals that are unsupported by the record, inconsistent with the statutory MYRP framework, or otherwise fail to produce fair, just, and sufficient rates, providing the Company a meaningful opportunity to recover its prudently incurred costs and investments over the plan term.

⁶ Please note that to the extent any issue is not expressly addressed in this Brief, Avista does not waive its position on that issue and instead relies on its rebuttal position as reflected in the Joint Issues Matrix filed with the Commission on September 3, 2026.

A. Four-Year Multi-Year Rate Plan

⁷ Avista's proposed Four-Year Rate Plan is a foundational issue in this case. Each of the parties' proposals (specifically, Commission Staff's ("Staff") proposed Two-Year Rate Plan, Public Counsel's proposal of an external index-based revenue cap, and the Alliance of Western Energy Consumers' ("AWEC") and The Energy Project's ("TEP") support of an index-based revenue cap or a single-year increase) are wholly unsupported. With a focus on affordability, Avista's Four-Year Rate Plan provides customers with greater rate certainty, reduces the frequency and expense of successive rate cases, and allows the Commission and the parties to devote resources to broader policy and implementation issues raised throughout this case.

⁸ The Four-Year Rate Plan places meaningful risk on Avista, which must manage inflation, labor and benefit costs, interest rate volatility, and other changing conditions throughout the plan. Neither an external index-based revenue cap nor a shortened plan adequately reflects the actual utility costs that have been established in the record. Additionally, the proposed increases for Rate Years 3 and 4 are based on the same methodologies that underpin Rate Years 1 and 2, which are well known to the Commission. The increases for Rate Years 3 and 4 are modest, providing greater overall stability and predictability for customers.

B. Cost of Capital

⁹ The Commission must establish a return that permits Avista to compete for the capital necessary to serve customers. For Rate Years 1 and 2, Avista proposes a 10.2 percent return on equity (“ROE”), with a capital structure of 48.5 percent equity and 51.5 percent debt, and a cost of debt of 4.95 percent. For Rate Years 3 and 4, Avista proposes a 10.5 percent ROE, with a capital structure of 48.5 percent equity and 51.5 percent debt, and a cost of debt of 5.01 percent. Staff, Public Counsel, and AWEC recommend lower returns to varying degrees.

¹⁰ A utility must have an opportunity to earn a return comparable to investments of corresponding risk and sufficient to support its credit, maintain its financial integrity, and attract capital on reasonable terms. The Commission should approve an extended rate plan that adopts a cost of capital to assist in Avista’s ability to finance the investments on which that plan depends, which will also benefit customers from a longer-term horizon of stability.

C. Provisional Capital Investment and Recovery

¹¹ Avista’s proposal includes forecasted capital additions in Rate Years 1 through 4 and continues the provisional capital process as approved in prior MYRPs. Through that process, Avista must demonstrate on an annual basis that its investments are in service, used and useful, prudent, and net of applicable offsets. The review and refund process protects customers if Avista does not satisfy those requirements.

¹² Capital needs evolve, project scopes change, and new reliability, safety, or compliance needs may take priority during a MYRP. The provisional capital process accommodates prudent changes while preserving review of actual investments made. Proposals that would convert the process into project-by-project approval, impose unnecessary requirements for inclusion, or create duplicative reporting would reduce the flexibility necessary for multi-year ratemaking without providing a corresponding customer benefit. Absent such flexibility, there would be no reason for

a utility to file anything but a Two-Year Rate Plan, as there would simply be too much risk for the utility.

D. Wildfire, Insurance, and Benefits Balancing Accounts

¹³ Avista proposes to continue its Wildfire and Insurance Expense Balancing Accounts and update their baselines, and establish a Benefits Expense Balancing Account. These mechanisms address material expenses that are volatile and substantially affected by factors outside of the Company's control. These properly structured balancing accounts protect both customers and the Company. Customers receive the benefit when actual costs fall below the authorized baseline, while recovery of higher costs remains subject to review. Avista's proposal regarding the three mechanisms provides a more precise and balanced method of addressing these costs.

E. Power Supply Updates

¹⁴ Power supply is Avista's largest electric operating expense. Market prices, fuel costs, transmission expenses, load forecasts, plant availability, and contractual positions may change materially during any MYRP. Annual updates improve the accuracy of rates and reduce the risk of material over- or under-collection. Avista supports Staff's recommended annual power supply update timing and has accepted several Staff recommendations concerning the underlying forecast, including the removal of certain demand response costs and revisions to market, load, and outage assumptions. Avista's acceptance of those revisions demonstrates its willingness to incorporate current and supportable information after a constructive Staff review.

F. The Plan Must Be Evaluated as a Whole

¹⁵ The outcome of this proceeding will determine whether Avista's proposed MYRP will function as the Legislature intended, providing an integrated and balanced regulatory framework.⁴

⁴ Engrossed Substitute Senate Bill 5295 ("ESSB" or "SB" 5295), codified as RCW 80.28.425.

Avista’s proposal includes annual capital reporting, used and useful and prudence review, refund obligations, balancing mechanisms that operate in both directions, as well as an appropriate power supply baseline with annual updates. These protections allow the Commission to review actual costs and investments throughout the proposed MYRP without requiring the parties to relitigate the entire revenue requirement every two years (or less as proposed by AWEC and TEP).

¹⁶ A shorter plan, lower cost of capital, restricted capital recovery, elimination of balancing mechanisms, and burdensome power cost updates would have a deleterious effect on Avista. If approved, such proposals would unfairly assign Avista the risks of changing costs, capital investment, and market volatility without providing the regulatory framework necessary to manage those risks or recover prudently incurred costs. Avista underscored this point in its 2024 GRC, stating that the adoption of a shorter rate plan and “the rejection of the “portfolio” approach to ongoing review of “provisional” capital, will undermine the very purpose of the MYRP legislation. It will simply have become unworkable.”⁵ Avista’s position remains the same in this proceeding.

¹⁷ Avista believes the Commission desires longer-term rate plans, so it can focus on the increased volume of ongoing, significant policy proceedings. Longer plans must be properly designed and fair for the Company and its customers, and Avista believes it has achieved that in this proceeding. Approval of Avista’s proposal will provide customers with greater rate predictability, preserve meaningful Commission oversight, and allow the Company to make the investments necessary to provide safe, reliable, and affordable service through 2030.

II. ARGUMENTS

A. Multiyear Rate Plan

- i. The Commission should approve Avista’s Four-Year Rate Plan, as Engrossed Substitute Senate Bill 5295 (RCW 80.28.425) favors long-term planning.

⁵ *Wash. Utils. and Trans. Comm’n.*, Dockets UE-240006 & UG-240007, Avista Post-Hearing Brief at 5.

Avista's proposed Four-Year Rate Plan advances the core objectives underlying RCW 80.28.425 – seeking to reduce regulatory lag and improve regulatory efficiency, supporting prudent long-term utility planning, and ensuring utilities have a reasonable opportunity to recover prudently incurred costs necessary to provide safe and reliable service. As Company witness Ms. Rosentrater testified, the Four-Year Rate Plan promotes stability, predictability, and efficiency while reducing the frequency of resource-intensive rate proceedings, ultimately allowing the Commission and interested parties to devote greater attention to broader policy issues affecting Washington's energy future.⁶ Creating space for parties to have critical conversations around issues like affordability, resource adequacy, wildfire, large loads, and jurisdictional separation and allocation will benefit all parties long-term and outweigh the substantial risk that the Company will bear over the proposed Four-Year Rate Plan.⁷ As Company witness Mr. Ehrbar emphasized, this approach also considers the affordability challenges that our customers are facing: “Beyond the benefits for the Commission and the Company, longer rate plans benefit our customers by giving them a level of rate stability through knowing, at least from a base rate perspective, what their energy bills will look like for the next several years.”⁸

The evidence also demonstrates that a longer-term rate plan is particularly appropriate given the nature of Avista's investment obligations. Avista's planned capital investments are not speculative or discretionary – they are driven by established needs associated with system reliability, wildfire mitigation, aging infrastructure, cybersecurity, and technology modernization. Company witness Mr. Christie testified that Avista planned systemwide capital expenditures of approximately \$575 million in 2026, increasing to approximately \$705 million by 2030, with

⁶ Rosentrater, Exh. HLR-1T at 11:21-12:16; Rosentrater Exh. HLR-3T at 14:20-15:2.

⁷ Rosentrater, Exh. HLR-3T at 15:3-8; Rosentrater, TR. at 146:14-24.

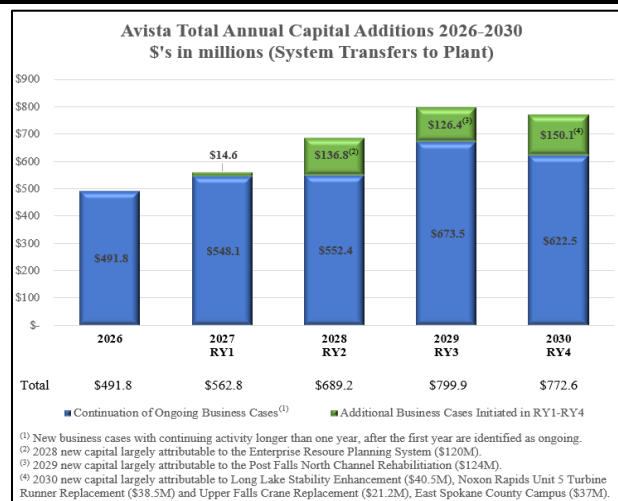
⁸ Ehrbar, Exh. PDE-1T at 5:14-17.

investments focused on generation, transmission, electric and natural gas distribution systems, technology, reliability, resiliency, and wildfire mitigation.⁹ These investments are the product of a rigorous planning and prioritization process. Avista evaluates and prioritizes capital based on customer requests, mandatory compliance obligations, asset condition, customer service quality and reliability, system performance, and capacity requirements.¹⁰ Avista's capital budget is intentionally constrained to balance investment needs against affordability, resulting in the deferral of approximately 10 percent of requested capital projects despite additional identified needs.¹¹

20

A Four-Year Rate Plan is also sensible because many of the programs and projects included in this case are inherently multi-year in nature. Reliability improvements, transmission and distribution upgrades, wildfire investments, technology projects, and customer growth-related infrastructure cannot be planned or executed efficiently on an annual rate case cycle. Company witnesses Ms. Rosentrater and Ms. Benjamin testified that more than 87 percent of the capital investments included in Avista's proposal represent ongoing programs and projects that are essential to maintaining safety, reliability, and system performance (see Chart No. 1 below).¹²

Chart No. 1 – Avista Total Annual Capital Additions 2026-2030 (\$ millions)



⁹ Christie, Exh. KJC-1T at 2:15-26; 20:3-19.

¹⁰ Rosentrater, TR. at 151:13-18, 174:1-6; Christie, Exh. KJC-1T at 20:22-21:19, 21:23-23:39.

¹¹ Christie, Exh. KJC-1T at 32:3-19; Rosentrater, Exh. HLR-1T at 34:11-13.

¹² Rosentrater, Exh. HLR-1T at 28:6-23; Benjamin, Exh. TCB-1T at 36:1-20.

21 Importantly, the Company is not requesting recovery under a framework that lacks meaningful customer protections. Contrary to the parties' assertions, the MYRP statute includes substantial safeguards.¹³ As witness Rosentrater explained, RCW 80.28.425 incorporates, among other things, low-income protections and a one-way earnings-sharing mechanism that requires Avista to defer earnings above the statutory threshold for the benefit of customers.¹⁴ In addition, the provisional capital review process, depicted in Illustration No. 1 below, ensures continued Commission oversight of capital investments and requires refunds where appropriate.¹⁵

Illustration No. 1 – Capital Additions Included in Four-Year Rate Plan

Provisional Capital Additions Over Four Year Rate Plan				
Subject to review in UE-240006 and UG-240007 ¹	Rate Year 1 (2027)	Rate Year 2 (2028)	Rate Year 3 (2029)	Rate Year 4 (2030)
Jul. 2025 - Dec. 2026	+Provisional: (RY1) Jan. 2027 - Dec. 2027	Provisional: (RY2) Jan. 2028 - Dec. 2028	Provisional: (RY3) Jan. 2029 - Dec. 2029	Provisional: (RY4) Jan. 2030 - Dec. 2030
¹ Capital additions in 2025 and 2026 will be reviewed in the Provisional Capital Reporting process in UE-240006 and UG-240007. Rate base is included in UE-240006 and UG-240007 on an AMA basis. Jul. 2025 - December 2026 Capital additions on an EOP basis are included for recovery in Rate Year 1. Test Period July 2024 - June 2025.				

22 The record also demonstrates that the proposed Four-Year Rate Plan places meaningful risk on the Company. Witnesses Rosentrater, Christie, and Ehrbar explained that by electing a Four-Year Rate Plan, Avista must manage through inflation, labor cost pressures, interest rate volatility, escalating material costs, wildfire-related risks, and other unforeseen expenses in an extended period without seeking additional general rate relief.¹⁶ Ultimately, customers benefit from greater rate stability and predictability, while the Company bears the risk that actual costs

¹³ See generally, Reeves, Exh. AR-1T at 10:13-14; Fitzgerald, Exh. KWF-1T at 11:2-3.

¹⁴ Rosentrater, Exh. HLR-1T at 13:12-29, citing to RCW 80.28.425(6); Rosentrater, TR. 145:7-10.

¹⁵ Rosentrater, Exh. HLR-1T at 17:20-23; Rosentrater Exh. HLR-3T at 21:9-19.

¹⁶ Rosentrater, Exh. HLR-1T at 11:21-12:16; Christie, Exh. KJC-1T at 7:23-8:3; Ehrbar, Exh. PDE-1T at 4:16-5:10.

may exceed expected levels.¹⁷ Importantly, as Mr. Ehrbar emphasized, “While longer-term rate plans can provide greater stability and efficiency for customers and utilities, they are only sustainable if the underlying framework preserves the utility’s financial integrity and supports timely recovery of prudently incurred costs.”¹⁸ “The Commission’s decision, therefore, has implications beyond this case.”¹⁹

²³ The Commission should reject the parties’ claims that a Four-Year Rate Plan is unsupported because future capital expenditures may change over time. As Mr. Ehrbar explained, forecasting is inherently prospective and differences between planned and actual expenditures do not establish that forecasts were unreasonable when prepared.²⁰ Additionally, the record shows that Avista’s actual net plant balances have tracked closely to previously filed projections, with variances generally ranging from approximately one to two percent.²¹ The Commission has repeatedly recognized that adaptive management of utility infrastructure is both prudent and necessary, and the provisional capital process is specifically designed to accommodate changing circumstances while preserving appropriate oversight.²²

²⁴ As such, the Commission should avoid adopting any proposals that would shorten the plan period and effectively return the parties to continual rate case litigation. Mr. Ehrbar testified that approval of only a Two-Year Rate Plan would likely require Avista to return to the Commission with another rate filing as early as 2028 (i.e., filing mid-January for a rate effective date of January 2029), undermining the efficiency gains contemplated by RCW 80.28.425.²³ He emphasized that

¹⁷ Ehrbar, Exh. PDE-1T at 6:8-16; Rosentrater, Exh. HLR-3T at 15:3-8.

¹⁸ Ehrbar, Exh. PDE-1T at 5:7-10 (emphasis added).

¹⁹ *Id.* at 5:2-3.

²⁰ *Id.* at 8:14-9:16.

²¹ *Id.* at 9:25-10:11.

²² *Id.* at 9:1-16; 16:5-6.

²³ *Id.* at 7:7-13.

the pro forma adjustment methodologies used to develop revenue requirements for Rate Years 3 and 4 are the same as those employed in Rate Years 1 and 2 – the underlying calculations and assumptions are not new or novel.²⁴ He echoed Ms. Rosentrater’s point that a longer plan would provide the necessary space for the Commission and interested parties to address evolving issues such as large loads, decoupling, performance-based regulation, and other policy matters.²⁵ If both Avista and Puget Sound Energy (“PSE”) were in Two-Year Rate Plans, there would be little practical opportunity for the Commission, Staff, utilities, and other parties to evaluate the effectiveness of the initial MYRPs, consider lessons learned, and thoughtfully develop any modifications to the framework through the ongoing performance-based regulation process.²⁶

²⁵ Finally, approval of the Four-Year Rate Plan is necessary to support the financial integrity required to provide safe and reliable service. The record establishes that Avista faces continuing pressure from elevated power supply costs, significant infrastructure investment obligations, wildfire exposure, and increasing operating costs. Without reasonable and timely cost recovery, Avista’s earned returns would fall substantially below authorized levels, impairing its ability to attract the capital required to maintain and modernize its system.²⁷ A constructive Four-Year Rate Plan that provides regulatory certainty while preserving robust customer protections balances the interests of customers and investors and aligns with the legislative intent of RCW 80.28.425. Consequently, the Commission should approve Avista’s proposed Four-Year Rate Plan.

B. Cost of Capital

- i. The Commission should approve Avista’s proposed cost of capital, to maintain system reliability, support critical infrastructure investments, and ensure safe, reliable, and affordable energy delivery to customers.

²⁴ *Id.* at 6:3-5.

²⁵ *Id.* at 8:1-10

²⁶ *Ibid.*

²⁷ Christie, Exh. KJC-1T at 6:8-15.

²⁶ Avista’s proposed cost of capital is the only recommendation in this proceeding that satisfies the standards of financial integrity, capital attraction, and comparable earnings established by *Bluefield* and *Hope*.²⁸ Staff, Public Counsel, and AWEC each recommend returns that materially understate the risks reflected in the record. Staff recommends a 9.625 percent ROE, Public Counsel recommends a 7.20 percent ROE, and AWEC recommends a 9.00 percent ROE.²⁹

²⁷ The parties’ recommendations seem to largely rest on the premise that Avista’s risk profile has declined since the passage of SB 5295, the establishment of multi-year rate plans, and because of other existing regulatory mechanisms.³⁰ However, the parties fail to explain that those mechanisms do not eliminate the substantial risks investors continue to bear. Avista remains responsible for funding significant investments in reliability, wildfire mitigation, and compliance with Washington’s clean energy requirements, while continuing to manage inflation, interest rate volatility, and other uncertainties over a four-year planning horizon.³¹ Credit rating agencies continue to identify adverse regulatory outcomes, regulatory lag, wildfire-related liabilities, and capital spending pressures as meaningful risks to Avista’s financial profile.³²

²⁸ The Commission has already recognized these realities. In Avista’s last GRC, the Commission concluded that, “The challenges of remaining credit worthy and acquiring capital for continued operation are very real,” and go to the heart of the Commission’s responsibility to preserve utility financial integrity and capital access.³³ Those concerns have not diminished. Since that decision, Avista’s credit metrics have remained under pressure from rising financing costs,

²⁸ See generally, *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944), and *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n*, 262 U.S. 679 (1923).

²⁹ Parcell, Exh. DCP-1T at 6:7-8; D. Garrett, Exh. DJG-1T at 3:14-15; Kaufman, Exh. LDK-1TC at 24:16-18.

³⁰ Parcell, Exh. DCP-1T at 23:14-19, 29:27-30:4, 67:14-20; Reeves, Exh. AR-1T at 10:13-11:6.

³¹ Christie, Exh. KJC-5T at 7:1-14, 8:5-13.

³² *Id.* at 3:2-4:1, 4:3-23; See generally, Thompson, Exh. JST-1T at 8:1-11:15.

³³ *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007, Order 08 (corrected) at 141 ¶¶ 517-519 (December 23, 2024) (emphasis added).

power supply cost volatility, wildfire-related risks, and substantial capital requirements associated with reliability and the clean energy transition.³⁴

²⁹ Staff's recommendation gives disproportionate weight to perceived reductions in regulatory risk while discounting the realities of financing a capital-intensive utility system. Staff acknowledges that utility bond yields, inflation, and capital requirements have increased, yet recommends a reduction from Avista's currently authorized ROE.³⁵ AVEC likewise understates Avista's cost of capital based on assumptions that fail to reflect current market expectations and Avista's financing requirements.³⁶ Public Counsel's proposal is even further removed from market evidence, falling approximately 260 basis points below Avista's currently authorized ROE and significantly below every objective benchmark identified in the record.³⁷ Inexplicably, just six weeks after filing testimony in this case, Public Counsel supported an ROE that is almost 100 basis points higher for PSE, a company objectively less risky than Avista.³⁸

³⁰ Company witness Dr. Thompson explains that the 7.20 percent to 9.63 percent ROE recommendations of the parties fall approximately 99 to 342 basis points below national average authorized ROEs, once adjusted for current interest rates.³⁹ These ROE disparities are even more evident when considering that utility bond yields have increased approximately 56 basis points since the Commission approved an ROE of 9.80 percent for Avista in its last litigated rate proceeding.⁴⁰ These benchmarks illustrate that the parties' ROE recommendations violate the economic and regulatory standards underlying a fair ROE, while confirming the reasonableness of

³⁴ Christie, Exh. KJC-5T at 4:13-23, 5:2-10, 6:8-19.

³⁵ Parcell, Exh. DCP-1T at 16:14-20, 67:14-20.

³⁶ Kaufman, Exh. LDK-1TC at 24:16-25:13.

³⁷ D. Garrett, Exh. DJG-1T at 3:14-15; Thompson, Exh. JST-14T at 8:14-22, 24:4-19.

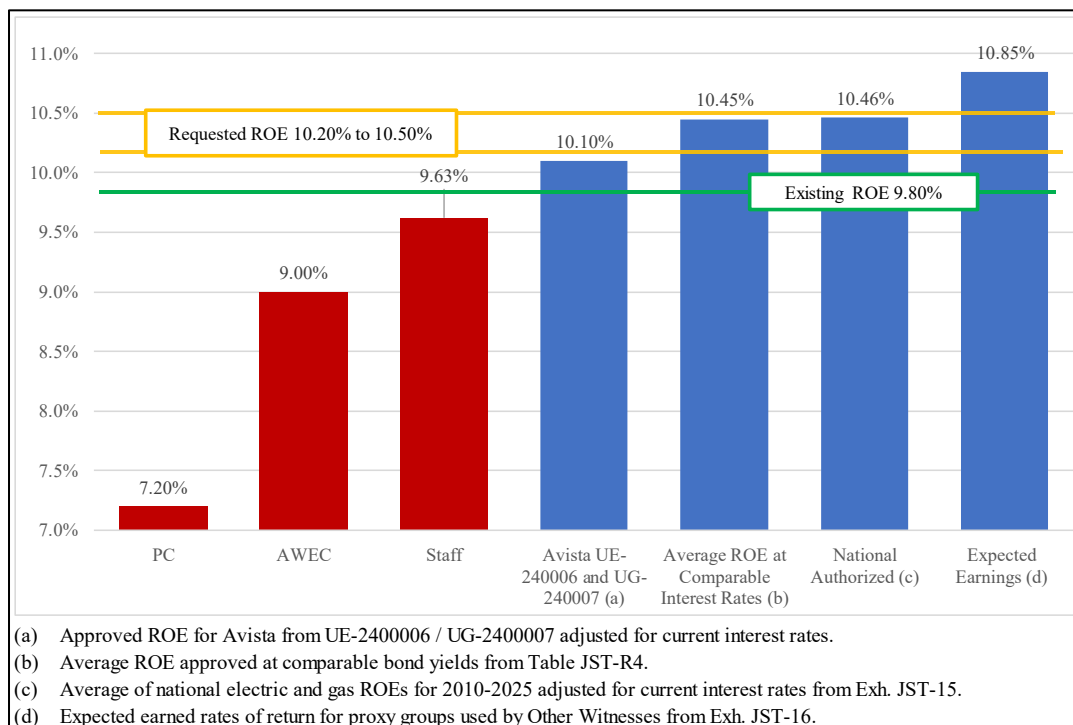
³⁸ Christie, Exh. KJC-5T at 16:10-23.

³⁹ Thompson, Exh. JST-14T at 8:1-16.

⁴⁰ *Id.* at 8:16-19.

the 10.2 percent ROE for Rate Years 1 and 2, and 10.5 percent ROE for Rate Years 3 and 4 requested by Avista.⁴¹ Dr. Thompson likewise demonstrates that the ROE recommendations of the other parties fall below expected earnings benchmarks, and below the level implied by the Commission’s own prior ROE determinations.⁴² Those factors, in conjunction with the fact that bond yields have objectively increased, Avista’s credit rating has remained unchanged since its 2024 GRC, capital costs have gone up, and “the only thing that ROE depends on is risk and capital market conditions,”⁴³ “shows that [the parties’] recommendations cannot be reconciled with fundamental financial principles.”⁴⁴ As summarized by Dr. Thompson, the parties’ recommendations fall well below a fair and reasonable level for the Company’s electric and natural gas operations:⁴⁵

Chart No. 2 - ROE Benchmark Comparison



⁴¹ *Id.* at 8:19-22.

⁴² *Id.* at 8-10, 21:13-30:5.

⁴³ Thompson, TR. 335:13, 336:5-8.

⁴⁴ Thompson, Exh. JST-14T at 3:14-15.

⁴⁵ *Id.* at 4:8-34.

- As depicted in Chart No. 2, the parties' recommendations fall below accepted benchmarks:
 - Adjusting national authorized ROEs for electric utilities to reflect current capital market conditions implies an ROE of approximately **10.62 percent**. A comparable analysis for gas utilities implies an ROE of approximately **10.32 percent**.
 - Adjusting Avista's current ROE to account for changes in capital costs implies a current cost of equity of at least **10.08 percent**.
 - When utility bond yields were comparable to current levels, the average allowed ROE was **10.45 percent**.
 - Expected earned returns for the parties' proxy groups fall in the range of approximately **10.1 percent to 11.6 percent**.
- The parties' ROE analyses are undermined by errors and methodological flaws, including:
 - Failure to account for significantly higher capital costs, lower proxy group risk, and rising risk exposures such as wildfires and affordability.
 - Errors in the specification of their proxy groups.
 - Unsupported growth rate assumptions in the application of the discounted cash flow ("DCF") model that do not reflect investors' expectations.
 - Capital Asset Pricing Model ("CAPM") studies that rely on historic backward-looking inputs that are not consistent with this method.
 - Failure to account for the impact of firm size in applying the CAPM.
 - Inclusion of anomalously low individual ROE estimates.
 - Arbitrary and unsupported exclusion of "outliers" and model results.

³¹ The ultimate question is whether Avista will have a reasonable opportunity to attract the capital necessary to maintain safe, reliable, and affordable service. The record demonstrates that investors and credit rating agencies continue to view regulatory outcomes, wildfire exposure, capital investment obligations, and cost recovery as critical factors affecting Avista's financial profile.⁴⁶ While affordability is and should be an important consideration, the Commission has consistently recognized that cost of capital determinations must be grounded in the evidence regarding investors' required returns and the utility's ability to attract capital on reasonable terms.⁴⁷ Consistent with *Bluefield*, *Hope*, and the Commission's prior findings, the Commission should ensure that affordability concerns are balanced with the equally important obligation to preserve Avista's financial integrity and access to capital necessary to maintain safe and reliable

⁴⁶ Christie, Exh. KJC-5T at 4:4-6; Thompson, Exh. JST-1T at 12:3-10, 24:17-23.

⁴⁷ See, *Wash. Utils. and Trans. Comm'n.*, Dockets UE-240006 & UG-240007, Order 08 at 38, ¶ 506.

service.⁴⁸

C. Provisional Capital and Plant Investment

- i. The Commission should approve Avista's proposal as it meets the requirements of the existing portfolio review-based framework.

³² Avista's proposal is consistent with RCW 80.28.425, the Commission's Used and Useful Policy Statement ("Policy Statement"), and the provisional capital review process that the Commission has repeatedly approved and refined in prior proceedings.⁴⁹ Ms. Benjamin explained that all capital additions beyond the test period have been designated as provisional, categorized pursuant to the Policy Statement, and made expressly subject to future review and refund.⁵⁰

³³ The Commission's statutory authority to approve an MYRP necessarily encompasses consideration of property that will become used and useful during the rate-effective period.⁵¹ As Ms. Benjamin explained, RCW 80.28.425 permits the Commission to determine revenues, expenses, and rate base during the MYRP using any reasonable ratemaking methodology and requires the Commission to establish an appropriate process to identify, review, and approve property that becomes used and useful after rates take effect.⁵² The Policy Statement recognizes that rate-effective period property "cannot be reviewed completely prior to rates going into effect," and therefore traditional prospective review must be replaced by retrospective review.⁵³

³⁴ Avista has fully complied with the provisional capital framework with minimal variance, as acknowledged by Staff witness Panco.⁵⁴ In this proceeding, the Company identified all rate-

⁴⁸ *Ibid.*; see generally, *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944), and *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923).

⁴⁹ See, RCW 80.28.425(3)(b); *In re Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After the Rate Effective Date (Jan. 31, 2020), hereinafter referred to as the "Policy Statement".

⁵⁰ Benjamin, Exh. TCB-1T at 3:20-4:8; 28:12-16.

⁵¹ RCW 80.28.425(3)(b).

⁵² Benjamin, Exh. TCB-4T at 28:5-32, citing to RCW 80.28.425(3)(c) and the Policy Statement; 29:1-30:2.

⁵³ *Id.* at 29:19-23, citing to the Policy Statement at 10, ¶ 7.

⁵⁴ Panco, Exh. DJP-1T at 6:8-11; The Company's ability to maintain a minimal variance between provisional and

effective period capital additions as provisional investments, provided detailed business case support, supplied estimated project costs, projected in-service dates, categorized investments according to Commission guidelines, and identified offsetting factors associated with those investments, including grant-related offsets.⁵⁵ The Company's capital witnesses have supplied supporting business cases with extensive project-specific exhibits covering generation, transmission, distribution, information technology, wildfire mitigation, and enterprise technology system investments through 2030.⁵⁶ Importantly, even Staff witness Gomez supports Avista's generation capital projects as proposed in Rate Years 3 and 4, underscoring the long-term, ongoing nature of some of Avista's most critical investments.⁵⁷

³⁵ Contrary to Staff and Public Counsel's positions, the record also demonstrates that Avista incorporated substantial customer protections through offsetting factors and matching adjustments. As Company witness Ms. Andrews explained, Avista included direct operations and maintenance ("O&M") savings, inclusive of efficiency adjustments, revenue offsets, retirements, accumulated depreciation impacts, and Accumulated Deferred Federal Income Taxes (ADFIT) adjustments associated with the Company's capital program.⁵⁸ These adjustments ultimately reduced Avista's proposed electric revenue requirement by approximately \$123.8 million and its proposed natural gas revenue requirement by approximately \$23.9 million over the Four-Year Rate Plan.⁵⁹

actual costs was address by Company witness Ms. Andrews during her live testimony, in which she explained, "[W]e have proven our level of recovery – or our level of request recovery has been within one and a half – less than two percent of what we have asked for this Commission to approve." Andrews, TR. 221:5-14.

⁵⁵ Benjamin, Exh. TCB-1T at 2:14-3:1; 3:15-19; 15:17-19; 27:5-21; 30:8-31:9; Panco, Exh. DJP-2T, Proposal 8, which requests that the Company, "Separately identify benefits received or applied for through the Inflation Reduction Act ("IRA") and Infrastructure Investment and Jobs Act ("IIJA")." The Company does not believe this is necessary, as it already includes all offsetting factors, and has addressed grant funding in the cover letter of each of its Provisional Capital Reports from 2023-2026.

⁵⁶ Benjamin, Exh. TCB-1T at 6:5-8:8; 27:5-21; Christie, Exh. KJC-1T at 20:3-19.

⁵⁷ Gomez, Exh. DCG-1CT at 24:6-12.

⁵⁸ Andrews, TR. 207:9-12, 210:23-211:19; 213:25-214-5.

⁵⁹ Andrews, Exh. EMA-1T at 65:1-67:1, 66, Table Nos. 7 and 8.

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The parties' concerns regarding forecast uncertainty do not justify excluding provisional capital investments from rates. As Staff witness Panco acknowledges, the Commission has already rejected proposals requiring project-by-project approval of provisional capital and has instead endorsed a portfolio-based approach that preserves flexibility while protecting customers.⁶⁰ Ms. Benjamin confirmed that the Commission expressly rejected project-by-project review in Avista's 2024 GRC, finding that the Policy Statement was intended to provide flexibility and avoid an overly prescriptive process.⁶¹ The Commission has recognized that a project-by-project approach would prevent utilities from adaptively managing capital plans and responding to changing circumstances.⁶² Failing to account for an adaptive management approach could have a significant negative impact on the Company's ability to complete critical infrastructure projects, specifically those necessary to keep Avista's aging infrastructure safe and operational.

37

Importantly, customers remain fully protected through retrospective review process. For investments made in 2027 through 2030, Avista will continue to file annual provisional capital reports, consistent with existing practice, comparing actual net plant after ADFIT to Commission-authorized levels, providing in-service dates, final costs, variance explanations, offset updates, and supporting evidence demonstrating prudence.⁶³ Parties may also challenge investments through discovery and any amounts ultimately found not recoverable are subject to customer refund with carrying costs.⁶⁴

38

The assertions by Staff witness Boyd and Public Counsel witness Reeves that Avista has not met its burden of proof for the inclusion of certain investments provisionally in Rate Years 3

⁶⁰ Panco, Exh. DJP-1T at 7:7-11, citing to Dockets UE-240006 & UG-240007, Order 10/04.

⁶¹ Benjamin, Exh. TCB-4T at 31:10-32:17.

⁶² *Id.* at 32:24-33:7.

⁶³ *Id.* at 29:7-8.

⁶⁴ *Id.* at 32:24-33:7; 36:16-37:2; Benjamin, Exh. TCB-1T at 34:5-35:2.

and 4 lack context.⁶⁵ Premised on their opposition to Rate Years 3 and 4 entirely, both parties characterize all of Avista's proposed capital investment in those years as too speculative.⁶⁶ Staff witness Boyd asserts that the wildfire-related capital investment information the Company provided, particularly for Rate Years 3 and 4, lacked detailed project justification, cost-benefit analysis, and evaluation of alternatives.⁶⁷ While the Company understands Staff's desire for additional project-specific information in Rate Years 3 and 4, Avista does not agree that the absence of feeder-specific project details several years in advance means those future wildfire investments are unsupported or unreasonable. The Company's wildfire planning process is designed to identify overall wildfire mitigation needs while retaining the flexibility necessary to respond to changing risk conditions, emerging priorities, and new information.⁶⁸ Staff's recommendations largely seek refinements to reporting requirements, even imposing new reporting requirements, rather than abiding by the existing provisional capital framework.⁶⁹ Adopting such a proposal would run afoul of established policy and practice, and has the potential to undermine the intent of RCW 80.28.425 in improving regulatory efficiencies and reducing overall administrative burden.⁷⁰

³⁹ Similarly, Public Counsel expressed skepticism at the Company's wildfire-related investments in Rate Years 3 and 4, and proposed that the Commission order all unnamed projects for those years be tracked outside of the provisional capital review process.⁷¹ Witness Reeves,

⁶⁵ Boyd, Exh. AMB-1T at 2:19-4:6; Reeves, Exh. AR-1T at 51:8-55:10.

⁶⁶ *See generally*, Boyd, Exh. AMB-1T; Reeves, Exh. AR-1T at 2:10-3:1.

⁶⁷ Boyd, Exh. AMB-1T at 3:11-18, 8:1-2; Andrews, Exh. EMA-5T at 10:16-18.

⁶⁸ Frederiksen, Exh. EEF-6T at 16:1-8.

⁶⁹ Boyd, Exh. AMB-1T at 7:17-9:14; Andrews, Exh. EMA-5T at 8:16-18, 14:17-15:1, and 9, footnote 33: "Ms. Boyd also proposes Avista submit a compliance filing by July 1, 2028 to demonstrate continued need for the balancing account, allowing parties a six-month review period."

⁷⁰ *See*, Policy Statement, ¶ 32, stating, "The Commission encourages regulated companies to streamline their requests by using existing reporting frameworks and limiting additional or duplicative processes. For example, a request is not "streamlined" if it creates unnecessary or burdensome processes."

⁷¹ Reeves, Exh. AR-1T at 54:14-16.

however, did not propose a method for tracking such projects, and instead critiqued the provisional capital process itself, stating, “[T]his process is reactive and does not substitute for the duty to ensure that rates are based on well-supported forecasts at the outset.”⁷²

⁴⁰ Ms. Andrews directly emphasized that the Company’s expected costs included in this case, similar to prior GRCs, are well-supported, “[S]tarting with [the Company’s] modified historical test year with post-test-year rate-base and other adjustments, ensuring the known and measurable standard is met and that offsetting factors are taken into account. These are elements of the “matching principle” standard, that ensure that costs and offsetting benefits are accounted for during the period in which they occur.”⁷³ Furthermore, “[T]he Company provides thousands of pages of documentation to support capital investments on a pro-forma/provisional basis and then provides hundreds of pages of additional documentation to adequately allow for the provisional review proceeding. As a part of that documentation, a business case justification narrative is filed for every capital investment, including wildfire capital investments, that the Company includes on a pro-forma or provisional basis. These documents include an overall executive summary, project drivers, alternatives considered, offsetting factors, project ownership and oversight, and references to additional supporting documents that may be available.”⁷⁴ Staff witness Panco acknowledges that Avista has complied with Commission-ordered provisional capital reporting requirements and has been responsive to modifications made to the reporting process over time.⁷⁵

⁴¹ Avista’s capital investments are continuously reviewed and reprioritized based on changing reliability requirements, customer growth, wildfire conditions, operational needs, permitting considerations, and system conditions. Avista’s accounting controls – which include an

⁷² *Id.* at 1-4.

⁷³ Andrews, Exh. EMA-5T at 20:5-11.

⁷⁴ *Id.* at 21:15-22:2.

⁷⁵ Panco, Exh. DJP-1T at 6:7-10.

accounting system that disallows duplication of entries, annual employee training, and reviews by Avista's internal audit team and external auditor, Deloitte & Touche LLP – ensure appropriate cost assignment and prevent duplicate transactions and double recovery.⁷⁶ Requiring project-specific certainty years before investments are placed in service would undermine the adaptive management approach the Commission has repeatedly recognized as necessary under the MYRP framework.⁷⁷ As Public Counsel witness Reeves noted, “The Company possesses vastly more knowledge about its own day-to-day operations than Commission Staff, Public Counsel, or other intervenors, and therefore has a better understanding of what costs are actually necessary to operate safely and reliably.”⁷⁸ The Company wholeheartedly agrees and requests that the Commission preserve the flexibility needed for the Company to appropriately manage operations within its MYRP.

D. Balancing Accounts and Tracker Mechanisms

- i. The Commission should approve continuation of Avista's Wildfire and Insurance Expense Balancing Accounts, and Avista's proposed Benefits Expense Balancing Account.

42

The balancing account mechanisms proposed by Avista are symmetrical ratemaking tools designed to align customer collections with actual prudently incurred costs while ensuring customers pay no more and no less than actual costs.⁷⁹ The Commission should continue Avista's existing Wildfire Expense Balancing Account and Insurance Expense Balancing Account and approve the proposed Benefits Expense Balancing Account, as the record demonstrates that each

⁷⁶ Andrews, TR. 227:19-22; Frederiksen, TR. 465:5-11; *see*, Avista's response to Bench Request No. 2-5: “Any funding reallocation must also occur within the bounds of the approved business case, meaning the funding that has been approved through Avista's BPT and capital planning processes can only be deployed for approved projects and not reallocated to other business cases...without the direct review and approval by the BPT, requiring a reduction in other capital investment(s), i.e., business case(s), elsewhere, to maintain the overall approved capital spend.”.

⁷⁷ Andrews, Exh. EMA-5T at 19:27-30.

⁷⁸ Reeves, Exh. AR-1T at 13:11-14 (emphasis added).

⁷⁹ Andrews, Exh. EMA-1T at 26:2-5, 33:1-24, 51:20-52:12; Andrews, Exh. EMA-5T at 23:6-26:5.

mechanism addresses extraordinary, volatile, and difficult-to-forecast cost categories that are materially outside the Company's reasonable control and could create significant under- or over-recoveries over the Four-Year Rate Plan.

1. Wildfire Expense Balancing Account

43 The Commission has recognized the extraordinary nature of wildfire mitigation costs and the need for balancing account treatment to address those costs.⁸⁰ In its initial approval of the Wildfire Expense Balancing Account, the Commission found that Avista had demonstrated extraordinary wildfire-related circumstances warranting the use of a balancing account.⁸¹ Those circumstances have not changed and have even exacerbated since approval. Avista's wildfire mitigation efforts continue to evolve as the Company responds to changing wildfire conditions, expanded vegetation management practices, annual risk tree inspections, Public Safety Power Shutoff ("PSPS") implementation, and emerging wildfire mitigation obligations.⁸²

44 Avista has submitted a Wildfire Mitigation Plan ("WMP") to the Commission on an annual basis since 2020, the year before investor-owned utilities ("IOUs") were required to submit and present WMPs to the Commission.⁸³ Notwithstanding the ongoing Commission rulemaking with respect to Engrossed Substitute House Bill ("ESHB") 1522,⁸⁴ Avista has consistently identified, evaluated, and implemented a comprehensive set of wildfire mitigation measures through its WMP, including grid hardening, vegetation management, situational awareness, and emergency response, among other measures.⁸⁵

⁸⁰ See, e.g., Dockets UE-200900 & UG-200901, Order 08/05, Dockets UE-220053, and Dockets UE-240006 & UG-240007; see also, Andrews, Exh. EMA-5T at 26:10-20.

⁸¹ Andrews, Exh. EMA-1T at 25:19-27:8.

⁸² *Id.* at 28:5-15, 29:10-18; Andrews, Exh. EMA-5T at 33:20-35:21.

⁸³ Frederiksen, Exh. EEF-6T at 34:7-16.

⁸⁴ Laws of 2025, ch. 156. Engrossed Substitute House Bill ("ESHB" or "HB") 1522: legislation concerning approval of electric utility wildfire mitigation plans, effective July 27, 2025, codified as RCW 80.28.445.

⁸⁵ Frederiksen, Exh. EEF-6T at 34:22-35:2.

45 As Company witness Ms. Frederiksen testified, “[C]ompliance with the Wildfire Mitigation Plan is not cost-free. All of the measures identified in the Plan, ... require substantial and ongoing expenditures by the Company. These are real and incremental costs that Avista must incur to implement the mitigation strategies reflected in its Commission-reviewed-and-approved plan.”⁸⁶ To highlight one example, risk tree identification efforts continue to exceed expectations year-after-year. By June 2026, Avista had identified more than 20,000 risk trees requiring mitigation as compared to approximately 5,000 anticipated during budget development.⁸⁷ Similarly, a transmission corridor where 78 risk trees were removed in 2025 yielded 474 new risk trees needing removal during 2026 inspections.⁸⁸

46 The resulting increase in actual costs illustrates the inherent uncertainty associated with forecasting wildfire-related expenditures and reinforces the need for a mechanism that permits recovery of actual, prudently incurred costs while protecting customers from over-collection.⁸⁹ Despite Avista’s repeated demonstration that “wildfire-related vegetation risk is inherently dynamic,”⁹⁰ Staff, Public Counsel, and AWEC request that the Commission discontinue the Wildfire Expense Balancing Account on the premise that wildfire costs have become an ordinary cost of doing business.⁹¹ Ms. Andrews noted that the same argument was rejected by the Commission in Avista’s 2024 GRC, and wildfire activity in 2026 has only exemplified the need to protect the Company and its customers from extraordinary wildfire-related costs.⁹²

47 Staff witness Boyd and AWEC witness Wilcox further assert that the pro formed wildfire

⁸⁶ *Id.* at 35:6-12 (emphasis added).

⁸⁷ *Id.* at 38:14-15.

⁸⁸ Andrews, Exh. EMA-5T at 30:14-18; Frederiksen, Exh. EEF-6T at 38:14-39:18.

⁸⁹ Andrews, Exh. EMA-5T at 32:1-10, 35:15-20.

⁹⁰ Frederiksen, Exh. EEF-6T at 38:7.

⁹¹ Boyd, Exh. AMB-1T at 74:7-13; Reeves, Exh. AR-1T at 49:14-50:12; Wilcox, Exh. CDW-1TC at 27:10-28:9.

⁹² Andrews, Exh. EMA-5T at 33:5-29, citing Avista’s 2024 GRC, Dockets UE-240006, et. al., Order 08, ¶ 619, 623.

expenses proposed by Avista in this case are not “known and measurable.”⁹³ AWEC witness Wilcox requests that the Commission authorize a strict baseline of known and measurable costs in base rates, but seemingly fails to note that, “[T]he actual test period wildfire expense was within \$5,000 on a system basis of the RY1 (2027) level pro formed by the Company.”⁹⁴ Staff witness Boyd also proposes that the Commission order Avista to submit a compliance filing by July 1, 2028, and allow the parties a six-month review period to review costs associated with the Wildfire Expense Balancing Account.⁹⁵ Ms. Andrews explained that such a process would be unnecessary and duplicative of existing review processes, given that the Company is required to file its Wildfire Expense Tariff Schedule 88 for recovery of its deferred wildfire-related expenses each year.⁹⁶

⁴⁸ Likewise, Public Counsel’s position that wildfire costs have become sufficiently stable to justify eliminating balancing account treatment does not align with Avista’s actual, demonstrated experience in this space.⁹⁷ The 2026 wildfire season exhibited the continued uncertainty around these expenses and stressed the importance of preserving a mechanism that allows actual costs to be tracked and reviewed rather than relying solely on forecasts.⁹⁸ The Commission has previously recognized that wildfire conditions, mitigation requirements, and associated operating costs remain dynamic and continue to evolve as utilities gain experience and adapt their wildfire mitigation programs.⁹⁹ The Commission should continue to recognize the need for, and importance of, the Wildfire Expense Balancing Account in protecting customers through the MYRP.

2. Insurance Expense Balancing Account

⁹³ Boyd, Exh. AMB-1T 63:19-64:12; Wilcox, Exh. CDW-1TC at 28:12-13.

⁹⁴ Wilcox, Exh. CDW-1TC at 28:12-20; Andrews, Exh. EMA-1T at 28, footnote 75.

⁹⁵ Boyd, Exh. AMB-1T at 75:9-16.

⁹⁶ Andrews, Exh. EMA-5T at 35:15-21.

⁹⁷ Reeves, Exh. AR-1T at 49:16-19.

⁹⁸ Andrews, Exh. EMA-5T at 33:18-35:22.

⁹⁹ *Ibid.*

49 Like the Wildfire Expense Balancing Account, the record supports continuation of the Insurance Expense Balancing Account. The Commission previously found that Avista demonstrated “unprecedented increases and volatility” in insurance costs that were largely outside the Company’s control.¹⁰⁰ These conditions persist, as insurance costs continue to be materially affected by wildfire exposure, reinsurance markets, catastrophic weather events, social inflation, industry loss experience, and broader insurance market conditions.¹⁰¹ Although Avista actively negotiates with insurers and has demonstrated substantial efforts to manage these expenses, premium outcomes remain volatile and difficult to forecast.¹⁰²

50 Similar to their positions in Avista’s 2024 GRC, Public Counsel and AWEC both request that the Commission discontinue Avista’s Insurance Expense Balancing Account in this proceeding.¹⁰³ Public Counsel’s suggestion that the extraordinary nature of insurance costs has dissipated is contrary to the record.¹⁰⁴ AWEC witness Wilcox advocates for a strict “known and measurable” insurance baseline and opposes continuation of the Insurance Balancing Account.¹⁰⁵ Public Counsel witness Reeves similarly opposes continuation of the tracker,¹⁰⁶ while Public Counsel witness Garrett proposes a 50/50 sharing of wildfire insurance expenses between shareholders and customers.¹⁰⁷

51 As Avista has demonstrated, insurance expenses are not ordinary operational costs that can be forecasted with precision or managed through routine efficiency efforts, nor have they ever been subject to any sort of arbitrary sharing mechanism.¹⁰⁸ Furthermore, the parties’ positions do

¹⁰⁰ Andrews, Exh. EMA-1T at 33:10-24, 34:1-39.

¹⁰¹ *Id.* at 37:7-15, 41:12-45:18.

¹⁰² *Id.* at 36:11-37:2.

¹⁰³ Wilcox, Exh. CDW-1TC at 28:12-20; Reeves, Exh. AR-1T at 48:20-49:12.

¹⁰⁴ Reeves, Exh. AR-1T at 49:8-13.

¹⁰⁵ Wilcox, Exh. CDW-1TC at 27:3-29:4.

¹⁰⁶ Reeves, Exh. AR-1T at 48:20-49:13.

¹⁰⁷ M. Garrett, Exh. MEG-1CT at 42:18-43:16.

¹⁰⁸ Andrews, Exh. EMA-5T at 25:28-29:5.

not reflect the updated renewal information incorporated on rebuttal. As Ms. Andrews explained, June 2026 renewals produced significant reductions in projected insurance costs through favorable pricing changes by carriers, AEGIS, EIM, and Bermuda.¹⁰⁹ As such, Avista updated its forecast for Pro Forma Insurance Expense 3.08 using the actual June 2026 renewal information, reducing its proposed insurance expense levels to \$16.969 million for electric operations and \$2.113 million for natural gas operations, and establishing those same amounts as the Insurance Expense Balancing Account baselines throughout the Four-Year Rate Plan.¹¹⁰ After incorporating those updates, Avista's revised insurance expense exceeds test-period levels by only approximately \$208,000 for electric operations and \$44,000 for natural gas operations.¹¹¹

⁵² Insurance costs remain volatile, largely outside Avista's control, and continue to warrant balancing account treatment.¹¹² Consistent with prior Commission orders, Staff's uncontested position in this proceeding,¹¹³ and Policy Staff's recent recommendation to maintain the mechanism,¹¹⁴ the Commission should reject Public Counsel's proposal that the Company and customers share in wildfire insurance expenses,¹¹⁵ reject AWEC and Public Counsel's recommendations to discontinue the Insurance Expense Balancing Account,¹¹⁶ and approve Avista's insurance expense adjustment and balancing account baselines as presented on rebuttal.¹¹⁷

3. Benefits Expense Balancing Account

⁵³ Avista has demonstrated that employee benefit costs, and medical benefit costs in

¹⁰⁹ *Id.* at 62:5-63:12.

¹¹⁰ *Id.* at 61:10-65:12.

¹¹¹ *Id.* at 62:5-66:4, and 65, footnote 131.

¹¹² Andrews, Exh. EMA-1T at 33:10-24, 34:1-39.

¹¹³ Andrews, Exh. EMA-5T at 40:1-41:3; Klein, Exh. TAK-1Tr at 11.

¹¹⁴ Andrews, Exh. EMA-5T at 42:23-44:2, citing to Docket U-210590, Washington Regulatory Assessment (July 7, 2026).

¹¹⁵ Andrews, Exh. EMA-1T at 42:18-20.

¹¹⁶ Andrews, Exh. EMA-5T at 41:5-42:21.

¹¹⁷ *Id.* at 41:13-42:21.

particular, have increased significantly in recent years and continue to exhibit material uncertainty. The Company's filing shows that net benefits expense is projected to increase approximately 24 percent above test period levels in Rate Year 1.¹¹⁸ Medical insurance expense alone is projected to increase approximately 35 percent above test-period levels and approximately 96 percent above 2020 levels.¹¹⁹ Staff witness McConnell agrees that the Company's proposed benefit expense levels over the MYRP are reasonable and recommends approval of those costs.¹²⁰

⁵⁴ As described in detail by Ms. Andrews, Avista actively manages employee benefit costs through extensive governance, vendor oversight, pharmacy benefit management strategies, employee cost-sharing measures, and regular reviews by management and the Benefits Plan Administration Committee ("BPAC").¹²¹ Nevertheless, many of the primary drivers of healthcare costs remain outside the Company's control, including provider pricing, pharmaceutical costs, utilization trends, carrier contracts, and broader healthcare market forces.¹²² Avista believes a symmetrical balancing account is an appropriate mechanism to permit recovery of actual, prudently incurred benefits costs while ensuring customers receive the benefit of any reductions in actual benefit expenses during the Four-Year Rate Plan.

⁵⁵ Public Counsel proposes to cap medical cost increases at 6.5 percent based on generalized industry benchmarks and to eliminate balancing account treatment altogether.¹²³ That proposal is entirely inconsistent with both the evidence in this case and Public Counsel's own criticism of forecast uncertainty. The Company's proposal relies on expert actuarial forecasts prepared specifically for Avista's plans and workforce, while Public Counsel proposes substituting

¹¹⁸ *Id.* at 45:2-8, Table No. 3; Andrews, TR. 232:11-233:5.

¹¹⁹ Andrews, Exh. EMA-1T at 53:19-54:20; Andrews, Exh. EMA-5T at 49:5-15.

¹²⁰ McConnell, Exh. KM-1CT at 17:21-18:15.

¹²¹ Andrews, Exh. EMA-5T at 46:7-47:11.

¹²² *Id.* at 47:13-18; Andrews, Exh. EMA-1T at 62:12-63:4; Andrews, TR. 231:25-232:2.

¹²³ M. Garrett, Exh. MEG-1CT at 35:6-16.

generalized industry averages for Company-specific evidence.¹²⁴

4. Balancing Accounts – Generally

56 Public Counsel and Staff generally argue that balancing accounts improperly transfer risk from shareholders to customers and weaken management’s incentives to control costs.¹²⁵ Their criticisms, however, overlook the nature of the specific cost categories at issue and the operation of the proposed mechanisms.

57 First, the balancing accounts do not eliminate risk. They simply ensure that the parties bear the appropriate respective risks, as the accounts are symmetrical and have been operating as intended. Customers receive the benefit when actual costs fall below authorized baselines, and the Company may recover prudently incurred costs when actual costs exceed those baselines.¹²⁶ Consequently, the mechanisms do not guarantee recovery, insulate the Company from prudence review, or create a one-way ratchet in favor of shareholders. Instead, they replace uncertain forecasts with reconciliations based on actual costs.

58 Second, Public Counsel’s criticism assumes that the existence of a balancing account eliminates management’s incentive to control costs.¹²⁷ Avista presented extensive testimony regarding its efforts to control wildfire expenses,¹²⁸ negotiate insurance premiums,¹²⁹ manage employee benefit costs,¹³⁰ oversee pharmacy benefit managers,¹³¹ and monitor healthcare utilization trends.¹³² The existence of balancing account treatment has not diminished those efforts and there is no evidence in the record demonstrating otherwise.

¹²⁴ Andrews, Exh. EMA-5T at 57:17-18; M. Garrett, Exh. MEG-1CT at 35:6-16.

¹²⁵ M. Garrett, Exh. MEG-1CT at 5:6-9; Reeves, Exh. AR-1T at 48:22-49:13; McConnell, Exh. KM-1CT at 5:3-21.

¹²⁶ See generally, Andrews, Exh. EMA-1T at 25:19-26:5, 33:1-9, 51:20-52:22.

¹²⁷ Reeves, Exh. AR-1T 49:5-8.

¹²⁸ See generally, Andrews, Exh. EMA-1T at 28:2-64:5; Frederiksen, Exh. EEF-6T at 22:12-27:5.

¹²⁹ Andrews, Exh. EMA-1T at 36:5-37:2.

¹³⁰ Andrews, Exh. EMA-5T at 89:11-90:8; Cox, Exh. BAC-1CT at 34:6-35:4; 37:1-38:17.

¹³¹ Cox, Exh. BAC-1CT at 34:6-35:4; 37:1-38:17.

¹³² *Ibid.*

59 Public Counsel’s position concerning incentive compensation further demonstrates why its criticism misses the mark regarding the balancing accounts. Public Counsel argues that cost containment incentives should be applied where management meaningfully controls the underlying costs.¹³³ What Public Counsel fails to address is that wildfire exposure, insurance market volatility, benefits/healthcare inflation are fundamentally different from discretionary operational expenses. Such costs are primarily driven by external market conditions beyond management’s control.¹³⁴

60 Third, Public Counsel’s broader concerns regarding forecast uncertainty actually support balancing account treatment rather than undermine it. Throughout his testimony, Public Counsel witness Garrett repeatedly emphasizes that the MYRP framework is inappropriate because future costs are difficult to forecast and because forecast errors can result in customers paying rates based on costs that never materialize.¹³⁵ But that is precisely the problem balancing accounts are designed to solve. These mechanisms reduce forecast risk by substituting actual costs for forecasted costs, thereby eliminating the very concern Public Counsel identifies. Without balancing account treatment, either customers or shareholders bear the consequences of forecast variances throughout the MYRP. With balancing accounts, actual, prudently incurred costs are tracked and reconciled, producing a more accurate and equitable result.

61 Finally, Public Counsel’s recommendations would produce fundamentally inconsistent results. On the one hand, Public Counsel argues that the Commission should be skeptical of long-term forecasts and should rely more heavily on actual costs.¹³⁶ On the other hand, Public Counsel

¹³³ M. Garrett, Exh. MEG-1CT at 26:1-27:9.

¹³⁴ Andrews, Exh. EMA-1T at 42:22-45:21, 53:1-54:4, 62:24-63:4; Andrews, Exh. EMA-5T at 47:5-18, citing to Cox, Exh. BAC-1CT at 35:5-36:20.

¹³⁵ M. Garrett, Exh. MEG-1CT at 4:10-15, 5:6-22, 9:1-10.

¹³⁶ *Id.* at 4:10-21, 9:1-10, 37:6-15.

opposes mechanisms that reconcile rates to actual costs when those costs differ from forecasted levels. That position would leave customers and shareholders exposed to the exact forecast uncertainty that Public Counsel identifies. The Commission should reject that approach and instead authorize balancing account treatment that uses actual, prudently incurred costs to reduce the impacts of forecast variances and improve ratemaking accuracy.

⁶² The Commission has repeatedly approved balancing account treatment where extraordinary, volatile, and externally driven expenses create substantial uncertainty and where a symmetrical tracker better aligns rates with actual costs.¹³⁷ The Wildfire Expense Balancing Account and Insurance Expense Balancing Account were both approved on findings that the relevant costs were extraordinary, volatile, may cause financial harm, and are substantially outside the Company's control.¹³⁸ Nothing in the record demonstrates that those findings are no longer valid. To the contrary, the evidence shows continued volatility and unpredictability in wildfire mitigation costs, insurance expenses, and employee benefit costs.¹³⁹ The Commission should continue the existing Wildfire and Insurance Expense Balancing Accounts and approve the proposed Benefits Expense Balancing Account as a measured and reasonable response to these cost categories, as these mechanisms strike the appropriate balance of affordability, accuracy, and financial stability.

E. Power Supply

- i. The Commission should approve Avista's power supply framework as modified, with accepted Staff recommendations.

⁶³ Avista's power supply proposal, as modified on rebuttal, reflects the product of the Commission-directed workshop process established in Avista's 2024 GRC, incorporates six

¹³⁷ Andrews, Exh. EMA-1T at 26, footnote 23, 33:1-35:6; Andrews, Exh. EMA-5T at 41:13-42:21; 48:16-49:1.

¹³⁸ *Ibid.*

¹³⁹ Andrews, Exh. EMA-1T at 43:21-45:21, 54:8-55:21; Andrews, Exh. EMA-5T at 31:17-32:11, 33:20-35:21.

workshop-developed forecasting enhancements, and is designed to improve the accuracy of authorized Net Power Supply Expense (“NPE”).¹⁴⁰ The changes include updated natural gas price forecasting, use of an implied market heat rate (“IMHR”) methodology to forecast wholesale electricity prices, a rolling 30-year hydro record, modeling of major generation outages, and updated treatment of Energy Imbalance Market (“EIM”) charges.¹⁴¹ Together, these improvements address approximately \$52 million of system costs that would otherwise be omitted from the authorized power supply baseline.¹⁴²

⁶⁴ The record demonstrates a clear need for these enhancements, as power supply costs are increasingly driven by wholesale market conditions.¹⁴³ Avista’s existing forecasting methods have contributed to significant Energy Recovery Mechanism (“ERM”) balances due to differences between forecasted and actual market prices.¹⁴⁴ Avista demonstrated that the projected 2025 ERM balance was approximately \$79.4 million, driven by differences between forecasted and actual market prices.¹⁴⁵ The IMHR methodology developed through the workshop process materially improves forecast accuracy by deriving electric prices from the historical relationship between Mid-Columbia (“Mid-C”) power prices and Malin natural gas prices.¹⁴⁶ The IMHR methodology substantially reduces forecasting variance compared to reliance on stale forward electricity prices, thereby producing a more accurate and reasonable estimate of expected power supply costs.¹⁴⁷

⁶⁵ Neither Public Counsel nor AWEC present an alternative forecasting framework that better addresses the causes of recent ERM variances. Public Counsel challenges the IMHR and hydro

¹⁴⁰ Dockets UE-240006 & UG-240007, Final Order 08 at 229, ¶ 861; Kalich, Exh. CGK-1T at 5:20-22, 6:5-9:4.

¹⁴¹ Kalich, Exh. CGK-1T at 7:14-9:4, 11:5-32; Kalich, Exh. CGK-8T at 3:3-21.

¹⁴² Kalich, Exh. CGK-1T at 12:5-19, Table No. 5.

¹⁴³ *Id.* at 3:17-24, 13:18-14:1.

¹⁴⁴ Kalich, Exh. CGK-8T at 7:4-13, 8:11-19.

¹⁴⁵ Kalich, Exh. CGK-1T at 9:9-10:10, Table Nos. 3 and 4; *see*, Avista’s response to Bench Request No. 2-18.

¹⁴⁶ Kalich, Exh. CGK-1T at 15:10-17, and 14, footnote 9.

¹⁴⁷ *Id.* at 14:11-16; 14, footnote 9; 15:10-17; 16, Illustration No. 2.

methodologies, while AWEC opposes the IMHR methodology and Avista’s original load-growth adjustment.¹⁴⁸ Avista demonstrates that the IMHR methodology was extensively evaluated through the Commission-ordered workshops and improves forecast accuracy relative to historical approaches.¹⁴⁹ Avista likewise establishes that its hydro methodology appropriately reflects current system conditions and that the alternatives proposed by the parties would not produce a more reliable forecast.¹⁵⁰

66 Perhaps most importantly, Staff agrees that changes to Avista’s forecasting methodologies are necessary and supported several key elements of the Company’s proposal, including use of an IMHR-based forecasting approach and annual updates to power supply assumptions.¹⁵¹ Staff witness Gomez also concludes that failure to timely refresh power supply assumptions was a primary contributor to recent ERM variances and recommends annual updates following issuance of the final order in this proceeding and prior to subsequent rate years to ensure authorized power supply costs reflect then-current market conditions.¹⁵² On rebuttal, Avista accepted Staff’s recommended modifications, including adoption of a five-year IMHR average, revisions to outage modeling, and replacement of the original load growth proposal with annual updates to weather-normalized retail load assumptions (as reflected in Table No. 1 below).¹⁵³

Table No. 1: Party Positions and Avista’s Rebuttal – Summary

Proposals	Staff	AWEC	PC	Avista Rebuttal Position
Natural Gas Price Forecast		Not Contested		As Filed
Mid-C Price (IMHR)	Recommended Modifications	Recommended Modifications	Recommended Modifications	Accept Staff’s Modifications
Power Market Modeling		Not Contested		As Filed
Hydro Generation		Not Contested		As Filed
Plant Maintenance Modeling	Recommended Modifications	Not Contested	Not Contested	Accept Staff’s Modifications
CAISO EIM Charges		Not Contested		As Filed
(New) Pro-forma Load Adjustment	Recommended Modifications	Reject Avista’s Proposal	Not Contested	Accept Staff’s Modifications

¹⁴⁸ Earle, Exh. RLE-1CT at 7:1-8:20, 15:9-16:9. Wilcox, Exh. CDW-1TC at 20:4-23:10.

¹⁴⁹ Kalich, Exh. CGK-8T at 12:20-13:18.

¹⁵⁰ *Id.* at 7-15.

¹⁵¹ Gomez, Exh. DCG-1CT at 13:1-14:2, 14:10-15:13, 19:1-5.

¹⁵² *Id.* at 9:18-21, 10:6-12, 20:6-12, 21:1-11; Kalich, Exh. CGK-8T at 16:3-16, 17:20-23, 18:8-21.

¹⁵³ Kalich, Exh. CGK-8T at 4:14-15, Table No. 3.

⁶⁷ Avista supports the resulting methodology as follows:

- Natural Gas Price Forecast - Natural gas prices based on a 30-calendar day average.¹⁵⁴
- Mid-C Price (IMHR) - Use of a 5-year average for setting the IMHR prices.¹⁵⁵
- Power Market Modeling - Aurora's two-step power modeling for intra-hour impacts.¹⁵⁶
- Hydro Generation - Rolling 30-year median hydro generation by basin.¹⁵⁷
- Plant Maintenance Modeling - Adjust Aurora data to reflect reduced generation impacts from major maintenance and upgrade outages at hydro plants lasting longer than six months of the pro forma period, updated based on Staff's proposal to update the output of Long Lake Dam in the AURORA model for RY1 to reflect the projected outage at Unit 1 when it updates NPE in the compliance filing following the final order in this GRC.¹⁵⁸
- CAISO EIM Charges - CAISO EIM non-energy charges flow through the ERM based on five-year average.
- (New) Pro-forma Load Adjustment - Update the test year weather normalized retail load assumption at the same time power costs are updated annually in the rate plan. In that way, the controversy associated with using load forecasts to set the ERM baseline is removed from the discussion in favor of updated weather normalized actuals.¹⁵⁹

⁶⁸ Ultimately, Avista's proposed power supply costs, as modified on rebuttal with Staff-supported adjustments, advances the objectives of both the ERM and Washington's MYRP framework. Significant under-forecasting of actual costs merely shifts recovery into future ERM proceedings and results in substantial deferred balances that customers ultimately pay for years after the underlying costs are incurred. By incorporating improved forecasting methodologies, updated market assumptions, and annual updates, Avista's proposal better aligns authorized rates with expected costs, improves price signals, reduces future ERM volatility, and insulates customers from the impacts of forecast variances. Accordingly, the Commission should adopt Avista's proposed power supply costs, including the Staff-supported modifications accepted by the Company (as shown in Table No. 1 above) as the most accurate and reasonable representation

¹⁵⁴ *Id.* at 3:6.

¹⁵⁵ *Id.* at 7:18-19.

¹⁵⁶ *Id.* at 3:9.

¹⁵⁷ *Id.* at 3:10.

¹⁵⁸ Kalich, Exh. CGK-1T at 17:18-22:10; Kalich, Exh. CGK-8T at 14:3-5.

¹⁵⁹ Gomez, Exh. DCG-1T, at 20:6-12.

of expected NPE over the Four-Year Rate Plan.¹⁶⁰

ii. The Commission should approve Avista's annual power supply baseline update.

⁶⁹ The Company agrees with Staff witness Gomez that differences between authorized and actual NPE are magnified the further back in time a forecast is determined.¹⁶¹ Moving the Rate Year 1 update to immediately follow the final order, and subsequent rate year filings to three weeks prior to their effective date, helps to address the differences between long-term forecasts and actual prices since the market adjusts for long-term uncertainty. The shorter timeline ensures final rates reflect the most current market information, reducing the magnitude of deferred balances flowing through the ERM. The Company supports the following regarding baseline power supply updates:

- Updates made prior to each rate year include:¹⁶²
 - Wholesale natural gas and electricity prices,
 - Non-gas fuel prices (i.e., wood),
 - Incremental short-term hedging contracts for natural gas and electricity,
 - Power and transmission¹⁶³ service contracts (including Mid-C hydro contract costs and volumes), and
 - Test-year weather normalized loads (acceptance of witness Gomez's proposal).¹⁶⁴

⁷⁰ If the Commission adopts Staff's proposal, Avista will prepare a revised NPE to include the items noted above as a part of its compliance filing with the final order issued in this GRC. That update would include certain corrections outlined in Mr. Kalich's testimony.¹⁶⁵ For Rate Year 2, consistent with Staff's approach, Avista would file an updated NPE on or before December 10, 2027, for new rates effective January 1, 2028.¹⁶⁶ The same update would be provided for Rate Years 3 and 4, as proposed by Avista.¹⁶⁷

¹⁶⁰ *Ibid.*

¹⁶¹ *Id.* at 19:1-5.

¹⁶² Kalich, Exh. CGK-1T, at 34:19-35:2; Baseline power supply updates would also include transmission revenue updates during each year of the Four-Year Rate Plan as discussed by Company witness Mr. Dillon at Exh. KLD-1T.

¹⁶³ *See*, Avista's response to Bench Request No. 2-6.

¹⁶⁴ Gomez, Exh. DCG-1CT, at 19:1-5.

¹⁶⁵ Kalich, Exh. CGK-8T at 4:17-6:33.

¹⁶⁶ *Id.* at 17:20-23.

¹⁶⁷ *Id.* at 18:1-3.

F. Revenue Requirement Adjustments

- i. The Commission should approve the Company's rebuttal revenue requirement position as it produces the most reasonable outcome supported by the record.

⁷¹ On rebuttal, Avista updated its revenue requirement to reflect actual capital information, corrected modeling inputs, revised insurance costs, and other known and measurable changes identified over the course of the proceeding. Those updates reduced the Company's requested revenue requirement while preserving the revenues necessary to provide safe, reliable, and affordable service. The following tables summarize Avista's request, as updated on rebuttal:¹⁶⁸

Table No. 2 – Electric Revenue Requirement – Rate Years 1 through 4

Summary of WA Electric Revenue Requirements - As-Filed versus Rebuttal (000s)				
	RY1	RY2	RY3	RY4
As-Filed Revenue Requirement	\$ 111,046	\$ 42,470	\$ 33,464	\$ 27,915
Updates on Rebuttal:				
Net Power Supply Corrections ¹	\$ 2,094	\$ 351		
Net Transmission Revenue ²	\$ 445	\$ (5,162)		
Capital and Related Expense ³	\$ 3,134	\$ 801	702	\$ 604
Updated Insurance & Wildfire Balancing Baselines ⁴	\$ (2,635)			
Net Other Revenue & Expense ⁵	\$ (4,106)	\$ (1,200)	(2,434)	\$ (793)
Rebuttal Revenue Requirement	\$ 109,978	\$ 37,260	\$ 31,732	\$ 27,726
% Increase - Billed	13.3%	4.0%	3.3%	2.8%
¹ Net Power Supply reflects corrections to power supply revenues and expenses noted in opening direct testimony of Mr. Garbarino (see Exh. MJG-1T at 51:1) resulting in an increase to revenue requirement of approximately \$1.159 million in RY1 and and \$0.704 in RY2, the remainder of the corrections are discussed by Mr. Kalich (see Exh. CGK-8T).				
² Net Transmission Revenue reflects updates to transmission revenues and expenses discussed in Section IV below.				
³ Capital and Related Expense amount mainly reflects updates to capital adjustments including <u>actual</u> transfers-to-plant through February 2026 and updated expected transfers-to-plant through December 2026, and flow through impact to provisional capital adjustments each year through 2030, available after the filing of the Company's electric and natural gas filed cases.				
⁴ Reflects updates to insurance and wildfire expense baseline levels discussed by Ms. Adrews (See Exh. EMA-5T).				
⁵ Net Other Revenue & Expense includes changes to other revenue, incentives, regulatory amortizations, & other O&M expenses shown in detail in Table No. 7 below.				

¹⁶⁸ Rosentrater, Exh. HLR-3T at 19:1-21, Table Nos. 9-10.

Table No. 3 – Natural Gas Revenue Requirement – Rate Years 1 through 4

Summary of WA Natural Gas Revenue Requirements - As-Filed versus Rebuttal (000s)				
	RY1	RY2	RY3	RY4
As-Filed Revenue Requirement	\$ 12,434	\$ 6,503	\$ 5,928	\$ 3,114
Updates on Rebuttal:				
Capital and Related Expense ¹	\$ (1,335)	\$ 991	\$ 316	\$ 242
Net Other Revenue & Expense ^{2/3}	\$ (661)	\$ 335	\$ 170	\$ (58)
Rebuttal Revenue Requirement	\$ 10,438	\$ 7,829	\$ 6,414	\$ 3,298
% Increase - Billed	3.5%	2.5%	2.0%	1.0%
¹ Capital and Related Expense amount mainly reflects updates to capital adjustments including <u>actual</u> transfers-to-plant through February 2026 and updated expected transfers-to-plant through December 2026, and flow through impact to provisional capital adjustments each year through 2030, available after the filing of the Company's electric and natural gas filed cases.				
² Net Other Revenue & Expense includes changes to incentives, insurance balancing account baseline, regulatory amortizations, & other O&M expenses shown in detail in Table No. 8 below.				
³ Included in Net Other Revenue & Expense, for RY4 only, is an adjustment reducing revenue requirement by \$228 thousand so that the cumulative revenue requirement in RY4 does not exceed the as-filed amount.				

72 Additionally, Avista's proposal reflects substantial offsetting factors, including O&M savings, increased revenues, depreciation offsets, and reductions associated with accumulated depreciation and ADFIT. Those offsets reduce electric revenue requirement by approximately \$123.8 million and natural gas revenue requirement by approximately \$23.9 million over the Four-Year Rate Plan.¹⁶⁹

73 Public Counsel's proposal materially understates the Company's revenue requirement. As Company witness Garbarino explained, Public Counsel's Rate Year 1 position is driven largely by its proposed 7.20 percent ROE and significant reductions to net power supply expense.¹⁷⁰ Adjusting Public Counsel's proposal to reflect the currently authorized 9.8 percent ROE and removing its power supply adjustment increases Public Counsel's electric revenue requirement by approximately \$91.6 million, yielding an adjusted electric revenue requirement of approximately \$86.3 million.¹⁷¹

74 Public Counsel's externally indexed revenue cap should likewise be rejected, as broad

¹⁶⁹ Garbarino, Exh. MJG-5T at 14:7-19:17, Table Nos. 9-11.

¹⁷⁰ *Id.* at 8:9-9:10; *see*, M. Garrett, Exh. MEG-3C for electric and ROE, Exh. MEG-4C for natural gas.

¹⁷¹ Garbarino, Exh. MJG-5T at 8:12-9:20, Table No. 5.

external indices should not replace utility-specific expected costs. Doing so would require the Commission to disregard the actual costs the utility reasonably expects to incur during the rate-effective period, despite those costs being supported by testimony, exhibits, business plans, and subjected to rigorous scrutiny in the proceeding. External indices, by definition, are designed to measure broader economic conditions across industries and regions. They are not intended to reflect the unique operating circumstances, investment requirements, regulatory obligations, or cost drivers of an individual utility.¹⁷² Avista’s rebuttal revenue requirement incorporates utility-specific evidence supporting its expected labor, miscellaneous O&M, and other operating costs over the Four-Year Rate Plan.¹⁷³ Public Counsel witness Garrett’s proposal removed approximately \$9.7 million, \$9.6 million, and \$9.9 million of supported electric O&M expense in Rate Years 2 through 4, respectively, and approximately \$1.8 million, \$1.9 million, and \$2.0 million of supported natural gas expense, and replaced those amounts with an “Indexed Rate Adjustment” based on its proposed index methodology.¹⁷⁴ Rates should be based on evidence of the costs Avista will actually incur, not a generalized index untethered to Avista’s actual operating requirements.¹⁷⁵

⁷⁵ Likewise, Staff’s proposed reductions to provisional capital additions disregard evidence demonstrating that the challenged investments are necessary for reliability, safety, wildfire mitigation, customer growth, and regulatory compliance. Those investments were updated using actual transfers-to-plant (“TTP”) through February 2026 and revised forecasts through 2030 and remain subject to Avista’s proposed provisional capital review and refund process.¹⁷⁶

¹⁷² Ehrbar, Exh. PDE-1T at 27:9-17.

¹⁷³ Garbarino, Exh. MJG-5T at 63:5-6.

¹⁷⁴ Garbarino, Exh. MJG-5T at 62:12-63:1; M. Garrett, Exh. MEG-3C (electric), tab “MEG-3.1 PC Adjustment Summary” and Exh. MEG-4C, tab “MEG-4.1 PC Adjustment Summary” (natural gas) native rev. requirement models.

¹⁷⁵ Garbarino, Exh. MJG-5T at 62:12-63:1.

¹⁷⁶ *Id.* at 30:26-35, 31:20-30, 32:20-37; Benjamin, Exh. TCB-4T at 14:3-7, 16:4-15; Shearer, Exh. BPS-1T at 3:5-8.

Staff's proposed disallowances of legal and aircraft expenses should also be rejected. Staff witness Sorrells does not demonstrate that the challenged expenses were imprudent, unreasonable, or unrelated to utility operations. Rather, witness Sorrells seeks to exclude ordinary and recurring utility costs based on disagreement with the nature of the underlying activities.¹⁷⁷ As Mr. Garbarino testified, the proper inquiry is whether the expenses were prudently incurred in furtherance of utility operations, not whether all parties agree with the Company's position in a particular matter.¹⁷⁸

AWEC's proposed reductions are similarly unsupported. AWEC witness Wilcox's proposed O&M freeze ignores evidence in the record that demonstrates continued growth in operating costs necessary to maintain the system.¹⁷⁹ Additionally, AWEC's proposed reduction to director stock compensation conflicts with recent Commission precedent rejecting substantially similar arguments and recognizing that director activities provide benefits to both customers and shareholders.¹⁸⁰ AWEC's challenge to Avista's generation maintenance adjustment disregards un rebutted evidence that the proposed staffing additions are incremental resources required to address increased wear and tear on generating assets.¹⁸¹ Finally, Avista incorporated additional joint use revenues on rebuttal, demonstrating that AWEC's proposed adjustment improperly

¹⁷⁷ Sorrells, Exh. SJS-1T at 6:1-19, 8:6-16.

¹⁷⁸ Garbarino, Exh. MJG-5T at 42:8-17, 45:2-8, 48:1-12, 52:2-8.

¹⁷⁹ *Id.* at 27:39-28:1; Wilcox, Exh. CDW-1TC at 2:20.

¹⁸⁰ Garbarino, Exh. MJG-5T at 59:3-20, noting that AWEC and Public Counsel proposed similar disallowances in Avista's 2024 GRC. The Commission denied such proposals, reiterating its prior approval in Dockets UE-090134 and UG-090135: "The Commission also rejects Public Counsel and AWEC's request to exclude stock compensation from the recovery of directors' fees from ratepayers. Assuming without deciding that stock compensation is solely intended to incentivize directors to prioritize the interests of shareholders over ratepayers, this consideration alone does not demonstrate that stock compensation provides no benefit to ratepayers because, as witness Mullins points out, shareholder interests may overlap with ratepayer interests. In these circumstances, director activities can be characterized as providing a benefit to ratepayers. Furthermore, as Avista points out, the Commission has not previously excluded stock compensation from director compensation in past rate cases and stock compensation is recorded as a utility expense. Consequently, the Commission declines to entirely preclude the recovery of stock compensation to directors from ratepayers based on the record in this case." (footnotes omitted).

¹⁸¹ Garbarino, Exh. MJG-5T at 60:11-16, 60:21-61:11; Wilcox, Exh. CDW-1TC at 18:16-21.

extrapolates non-recurring revenue growth associated with a one-time pole-attachment audit and therefore overstates expected future revenues.¹⁸²

78 In addition to Avista’s generalized objections to the parties’ revenue requirements above, the Commission should also reject the parties’ proposals on specific adjustments and adopt Avista’s rebuttal positions as follows.

1. Wildfire Mitigation Expenses and Investments

79 Avista’s wildfire mitigation investments are necessary expenditures directly related to the Company’s obligation to safely operate its electric system and to execute on its legislatively-mandated Wildfire Mitigation Plan.¹⁸³ As Mr. Garbarino explained, wildfire resiliency investments are among the principal drivers of Avista’s requested revenue requirement and include substantial capital and operating expenditures designed to reduce wildfire ignition risk and improve system resiliency.¹⁸⁴ As observed with the devastating Spokane Complex Fire in August 2026, these investments alone continue to be some of the most crucial for providing safe and reliable service to Avista customers.¹⁸⁵

80 Although Public Counsel and AWEC criticize the magnitude of wildfire-related capital investment and expenses, and both oppose continuation of balancing account mechanisms, neither party disputes the need for vegetation management, asset inspections, grid hardening, risk-based asset replacement, or other wildfire mitigation activities.¹⁸⁶ Instead, their criticisms center largely around cost recovery treatment, which has been addressed extensively by the Company in this proceeding. The Commission should continue to recognize that wildfire mitigation is not a

¹⁸² Garbarino, Exh. MJG-5T at 38:9-18, 39:12-40:1; Wilcox, Exh. CDW-1TC at 12:1-11.

¹⁸³ Laws of 2025, ch. 156. Engrossed Substitute House Bill (“ESHB” or “HB”) 1522: legislation concerning approval of electric utility wildfire mitigation plans, effective July 27, 2025, codified as RCW 80.28.445.

¹⁸⁴ Garbarino, Exh. MJG-1T at 16:13-22, 72:18-73:14, footnote 41; *see*, Frederiksen, Exh. EEF-1T at 9:15-11:1.

¹⁸⁵ Rosentrater, Exh. HLR-3T at 24:9-27:20; Frederiksen, TR. 435:8-24, 437:10-21.

¹⁸⁶ Reeves, Exh. AR-1T at 54:4-55:10; Wilcox, Exh. CDW-1TC at 26:11-29:14.

discretionary initiative. It is an essential component of providing safe and reliable electric service and should be reflected in rates accordingly.

2. Labor, Benefits, and Incentives

81 Avista's labor forecasts are based on actual compensation benchmarking, recruitment and retention needs, workforce demographics, and utility-specific labor market conditions rather than generalized economic indices.¹⁸⁷ Avista competes for specialized utility employees, including lineworkers, engineers, technicians, system operators, and cybersecurity professionals, and has demonstrated that maintaining competitive compensation is necessary to preserve workforce stability, reliability, and operational continuity.¹⁸⁸ As Company witness Mr. Cox explained, Staff's proposed 4% labor escalation,¹⁸⁹ Public Counsel's 3.3% escalation,¹⁹⁰ and Public Counsel's proposed O&M index approach¹⁹¹ rely too heavily on broad economic indices and do not adequately reflect Avista's actual labor market conditions.¹⁹² Avista's pro formed labor increases for both executive and non-executive labor reflect utility-specific wage pressures and bargaining data, and by all measures, are already conservative.¹⁹³ Avista believes its labor projections appropriately balance general economic indicators with the utility-specific workforce information necessary to maintain a qualified workforce and continue providing safe and reliable service.¹⁹⁴

82 Avista's incentive compensation proposal is similarly reasonable. The Company's Long-Term Incentive Plan ("LTIP"), including earnings-per-share ("EPS"), cumulative earnings-per-share, total shareholder return, and equity-based awards, is entirely excluded from customer rates

¹⁸⁷ Cox, Exh. BAC-1CT at 25:16-26:12.

¹⁸⁸ *Id.* at 28:18-32:9; Andrews, Exh. EMA-5T at 85:19-86:3.

¹⁸⁹ Andrews, Exh. EMA-5T at 85:15-18; McConnell, Exh. KM-1CT at 16:20-17:4.

¹⁹⁰ Andrews, Exh. EMA-5T at 85:15-18; M. Garrett, Exh. MEG-1CT at 32:9-13.

¹⁹¹ *Ibid.*

¹⁹² Andrews, Exh. EMA-5T at 85:15-18; Cox, Exh. BAC-1CT at 32:19-22:19.

¹⁹³ Andrews, Exh. EMA-5T at 7:6-8, 83:19-87:15; Cox, Exh. BAC-1CT at 32:6-9.

¹⁹⁴ Andrews, Exh. EMA-5T at 86:3-6.

and borne by shareholders.¹⁹⁵ The Company seeks recovery only of customer-focused portions of its Short-Term Incentive Plans (“STIP”), which are tied to the O&M cost-per-customer, customer satisfaction, reliability, response time, and strategic execution.¹⁹⁶ These metrics encourage employee accountability for outcomes that directly benefit customers while supporting retention of an experienced workforce. The Commission has previously approved recovery of these same customer-focused incentive metrics, concluding that they provide long-term customer benefits and are appropriately recoverable in rates.¹⁹⁷

83 Public Counsel’s proposal to limit labor escalation to Consumer Price Index (“CPI”)-based levels, disallow a portion of STIP expense, and substitute an indexed O&M approach for later rate years should be rejected.¹⁹⁸ That proposal fails to reflect actual utility labor market conditions, negotiated wage settlements, and the compensation levels required to attract and retain the skilled workforce necessary to provide safe and reliable service.¹⁹⁹

84 Finally, Staff agrees that Avista’s forecasted benefit expense levels are reasonable and sufficient for the proposed MYRP.²⁰⁰ The Company’s proposed benefit costs are based on analyses performed by independent consultants and reflect expected medical, pension, 401(k), and retiree medical costs.²⁰¹ The record further demonstrates that healthcare and prescription drug costs are increasingly volatile and driven largely by external market forces beyond the Company’s control,

¹⁹⁵ Cox, Exh. BAC-1CT at 9:12-13, stating, “As with the EPS component, all LTIP incentive compensation is excluded from customer retail rates and is borne by shareholders.”

¹⁹⁶ *Id.* at 2:13-19, 8:7-23, 15:6-10, 16:11-20:16.

¹⁹⁷ *Id.* at 19:19-20:16; Andrews, Exh. EMA-5T at 75:15-76:12.

¹⁹⁸ Garrett, Exh. MEG-1CT at 21:7-14, 31:16-32:12, 33:9-34:6; Andrews, Exh. EMA-5T at 75:15-76:12, 81:7-11; Cox, Exh. BAC-1CT at 22:1-6, footnote 38: “As discussed by Ms. Andrews, witness Garrett asserts that the Company failed to prorate wage increases appropriately (Garrett, Exh. MEG-1CT, at 21:7 – 14). The Company has already prorated wage increases appropriately to reflect the timing of when increases become effective. Confidential Exh. EMA-8C provides additional detail regarding the Company’s methodology.”

¹⁹⁹ Andrews, Exh. EMA-5T at 85:15-86:19; Cox, Exh. BAC-1CT at 28:9-29:21.

²⁰⁰ Andrews, Exh. EMA-5T at 88:10-89:1; McConnell, Exh. KM-1CT at 17:19-18:15.

²⁰¹ Andrews, Exh. EMA-1T at 11:6-10, 57:17-19, 58:16-64:5.

despite Avista's active efforts to manage those costs through plan oversight, vendor management, benchmarking, and pharmacy benefit initiatives.²⁰² Accordingly, the Commission should approve Avista's proposed labor, incentive compensation, and benefit expense adjustments in full.

3. Miscellaneous Operations & Maintenance ("O&M") Expense (Pro Forma Adjustments 3.10, 5.05, 6.05, and 7.05)

85 Avista's rebuttal Miscellaneous O&M adjustments are based on updated actual expense information and utility-specific historical cost experience.²⁰³ On rebuttal, Avista updated these adjustments using actual 12-months-ended December 31, 2025 ("12ME12.2025") expenses, resulting in known and measurable increases above the 12-months-ended June 30, 2025 ("12ME06.2025") test period, then applied growth factors derived from its historical Commission Basis O&M and administrative and general ("A&G") to a limited subset of expenses not otherwise adjusted in the case.²⁰⁴

86 Public Counsel's proposal substitutes a generic CPI-based escalation and external index for Avista's actual operating expenses, which should be rejected by the Commission.²⁰⁵ As Ms. Andrews explained, the expenses at issue are derived from normalized Commission Basis operating expenses, which are not forecasted using broad inflation indices.²⁰⁶ Avista's approach reflects actual Company cost trends and updated historical data, while Public Counsel's proposal relies on generalized economic assumptions disconnected from the underlying costs being recovered.²⁰⁷

87 AWEC's proposed zero-growth adjustment is even less persuasive than Public Counsel's

²⁰² Andrews, Exh. EMA-5T at 46:7-47:11; Cox, Exh. BAC-1CT at 34:6-35:4; 37:1-38:17.

²⁰³ Andrews, Exh. EMA-5T at 52:19-54:5.

²⁰⁴ *Id.* at 57:17-58:14.

²⁰⁵ *Id.* at 6:6-9; 57:5-59:22; M. Garrett, Exh. MEG-1CT at 38:18-21.

²⁰⁶ Andrews, Exh. EMA-5T at 58:9-14.

²⁰⁷ *Id.* at 58:17-19; Ehrbar, Exh. PDE-1T at 2:28-3:6, 27:14-17.

CPI application.²⁰⁸ AWEC relies on total FERC Form 1 O&M expenses that include categories expressly excluded from the Miscellaneous O&M adjustment, including power supply costs.²⁰⁹ As Ms. Andrews noted, AWEC states that its proposal was largely driven by a reduction in power supply expense, “including FERC Accounts 555 – 557, which in aggregate decreased \$97 million dollars between 2024 and 2025. But as mentioned earlier, power supply expenses (including FERC Accounts 555 – 557) are excluded for the purposes of analyzing miscellaneous O&M expenses, along with many other expenses that are included within Line 198 “Total Electric Operations and Maintenance” of the FERC Form 1.122. Therefore, AWEC witness Wilcox’s year-over-year comparison is not meaningful in this context and should be ignored, as he did not even examine an appropriate base level of costs.”²¹⁰ “Witness Wilcox’s position is not merely unsupported; it is based on the wrong data for this comparison and should be dismissed on its face.”²¹¹ The Commission should reject AWEC’s unsupported zero-growth adjustment, and Public Counsel’s external indexing proposal, and approve Avista’s rebuttal Miscellaneous O&M adjustments in full.

4. Day-Ahead Market Deferral

88

Avista continues to evaluate participation in western day-ahead markets (“DAM”), including CAISO EDAM and Southwestern Power Pool (“SPP”) Markets+, and has not yet made a final decision on market participation.²¹² On rebuttal, Avista agreed with Staff that DAM implementation costs should be removed from base rates because the Company has not made a final decision and the timing, scope, and costs of participation remain uncertain.²¹³ At the same

²⁰⁸ Andrews, Exh. EMA-5T at 60:1-61:8; Wilcox, Exh. CDW-1TC at 17.

²⁰⁹ *Ibid.*

²¹⁰ Wilcox, Exh. CDW-1TC at 17; Andrews, Exh. EMA-5T at 61:1-8 (emphasis added), footnote 122: “Versus independent Washington electric and natural gas annual normalized Commission Basis Reports as described in my testimony and provided in Exh. EMA-7.”

²¹¹ Andrews, Exh. EMA-5T at 60:15-16.

²¹² Holland, Exh. KMH-1T at 12:18-13:14; Holland, Exh. KMH-7T at 28:3-13.

²¹³ Holland, Exh. KMH-7T at 27:9-20; Evren, Exh. NE-1CT, at 15:14-19.

time, Avista supports deferred accounting treatment so prudently incurred costs over the MYRP may be reviewed and recovered in a future proceeding.²¹⁴ Deferral treatment is appropriate because participation in an organized DAM is being evaluated as part of Avista's broader transition to clean energy and the Company's ongoing efforts to comply with the Clean Energy Transformation Act ("CETA"). CETA and the associated Clean Energy Implementation Plan ("CEIP") framework require utilities to evaluate and pursue actions that support decarbonization, resource optimization, integration of clean energy resources, and reliable service to customers.²¹⁵

⁸⁹ Public Counsel's argument that DAM costs are premature for rate recovery supports deferral, not disallowance.²¹⁶ Deferral accounting does not guarantee recovery but preserves costs for future review after Avista selects a market and demonstrates the prudence and customer benefits of the expenditures. In Avista's view, important market variables remain uncertain, and deferral treatment appropriately addresses that uncertainty while allowing Avista to continue evaluating opportunities that may provide long-term customer value.²¹⁷ The Commission should approve the requested DAM deferral and consider any recovery only after a complete record exists regarding the selected market, demonstrating incurred costs and resulting customer benefits.

5. Property Held for Future Use (PHFFU)

⁹⁰ The Commission should reject proposals by Public Counsel, Staff, and AWEC to eliminate Property Held for Future Use ("PHFFU") from rate base.²¹⁸ Avista demonstrated that the requested PHFFU properties were acquired to support specifically identified transmission, generation, and system expansion needs and satisfy the Commission's existing PHFFU guidance.²¹⁹ Public

²¹⁴ Holland, Exh. KMH-7T at 27:12-13, 27:18-20, 28:15-29:1.

²¹⁵ *Id.* at 28:15-20.

²¹⁶ Earle, Exh. RLE-1CT at 73:7-79:6.

²¹⁷ Holland, Exh. KMH-7T at 29:2-11.

²¹⁸ Schearer, Exh., BPS-1T at 7:2-6; M. Garrett, Exh. MEG-1T at 13:2-15:3; Wilcox, Exh. CDW-1TC at 8:12-5:4.

²¹⁹ Garbarino, Exh. MJG-5T at 29:3-12; Benjamin, Exh. TCB-4T at 18:1-21:13.

Counsel and AWEC characterize the property acquisitions as speculative because some projects have not yet entered construction, but the record shows that the properties were acquired precisely so that future utility needs can be met in a timely and cost-effective manner.²²⁰ Excluding PHFFU would increase regulatory lag, discourage proactive utility planning, and ultimately increase costs borne by customers when strategically important property is no longer available at a reasonable price.

6. Gas Reinforcement Program

⁹¹ The Company's Gas Reinforcement Program is an annual program designed to identify and provide necessary capacity reinforcements to Avista's existing natural gas system.²²¹ As Company witness Mr. DiLuciano explained, "Execution of this program on an annual basis will ensure the continuation of reliable natural gas service that is of adequate pressure and capacity."²²² This is a critical component of the Company's ability to continue providing safe and reliable natural gas service.

⁹² Staff recommends that the Commission order Avista to "apply an equity lens in the evaluation of gas reinforcement proposals"; however, as Mr. DiLuciano highlighted, "The locations of disproportionately impacted low-income households and vulnerable populations are not correlated to vulnerable sections of our natural gas system."²²³ Not only are these investments tied directly to identified system needs, they also include the Company's continued compliance with the Commission's 2024 GRC order requiring Non-Pipeline Alternative ("NPA") analyses.²²⁴

⁹³ Staff witness Harmon seemingly conflates Avista's existing compliance obligations with

²²⁰ M. Garrett, Exh. MEG-1CT at 13:1-15:3; Wilcox, Exh. CDW-1TC at 8:9-10:4.

²²¹ DiLuciano, Exh. JDD-1T at 40:9-19.

²²² *Id.* at 40:14-16.

²²³ Harmon, Exh. BLH-1T at 9:6-7; DiLuciano, Exh. JDD-3T at 32:22-33:1.

²²⁴ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007, Order 08 at 80, ¶ 312; Harmon, Exh. BLH-1T at 9:12-16.

his proposal that the Company consider both current and future system deficiencies in NPA analyses.²²⁵ As Company witness Mr. Bonfield explained, “Avista only plans and considers reinforcement projects for current system deficiencies and with little expected natural gas load growth in Washington, future deficiencies in Avista’s distribution cannot be predicted.”²²⁶ Nevertheless, “Avista is constantly reviewing natural gas load studies and rebuilding gas models every two years.”²²⁷

⁹⁴ Given that Avista’s Gas Reinforcement Program already includes the assessment of geographically-related projects in consideration of NPA analyses, and there is no correlation between vulnerable populations and vulnerable sections of the Company’s gas system, the Commission should reject Staff’s proposed changes to the Company’s current NPA methodologies and equity analysis.²²⁸ Avista’s investments in the gas system are a small part of the broader capital program necessary to satisfy its obligation to provide adequate service to customers.

7. New Revenue – Growth Business Case

⁹⁵ Contrary to Staff’s assertions regarding Avista’s forecasting methodologies, the New Revenue–Growth Business Case shows that Avista’s forecasted investments and revenues satisfy the matching principle, as growth-related capital investments are paired with corresponding revenue offsets associated with customer additions and load growth.²²⁹ Mr. Garbarino explained the Company’s Revenue Offsets adjustments specifically incorporate growth-related revenues associated with customer expansion (e.g., distinguishing new customer connections from meter replacements) and are intended to offset the costs of growth-related investment.²³⁰

²²⁵ Harmon, Exh. BLH-1T at 14:22-15:16, 17:7-18:4; Bonfield, Exh. SJB-5T at 48:12-30.

²²⁶ Bonfield, Exh. SJB-5T at 49:16-18.

²²⁷ *Id.* at 49:19-20.

²²⁸ *Id.* at 52:9-12.

²²⁹ Harmon, Exh. BLH-1T, at 21:5-23:4; *see generally* Halliday, Exh. HSH-1T.

²³⁰ Garbarino, Exh. MJG-1T at 84:19-85:8, 93:20-94:10; DiLuciano, Exh. JDD-3T at 3:16-19.

While Staff asserts that Avista’s forecasting is “inconsistent”, and that growth-related investments unfairly burden existing customers, Avista demonstrated that it has incorporated substantial growth-related benefits into its proposed revenue requirement with forecasting methodologies that rely on actual data, policy changes, and capital planning needs.²³¹ The Commission should therefore reject efforts to remove the investment while simultaneously retaining the associated revenue offsets.

8. East Coeur d’Alene Reinforcement Project

The East Coeur d’Alene (“CDA”) Reinforcement Project is a necessary reliability investment that addresses long-term system loading concerns and supports reliability in a portion of Avista’s service territory experiencing continued growth and increasing operational demands.²³² Staff identifies the project as one of the major capital investment issues cited in their recommended revenue requirement, with Staff witness Schearer stating, “[T]he project has no benefits to Washington customers and therefore should not be allowed to be included in Washington rates.”²³³ However, Staff did not establish that the project is unnecessary. As Mr. DiLuciano explained, Staff’s characterization of the East CDA Reinforcement Project is incorrect,²³⁴ and given that the project is considered a “transmission-system benefit,” it was appropriately allocated using the longstanding Production/Transmission (“P/T”) ratio.²³⁵ Avista’s customers in Washington will benefit from the flexibility the overall electric system will have – system wide – due to this project. The O’Gara Substation rebuild will enable the Benewah–Pine Creek transmission path to operate in a normally closed configuration, improving network connectivity and changing regional power

²³¹ DiLuciano, Exh. JDD-3T at 3:16-19.; Harmon, Exh. BLH-1T, at 21:5-23:4, 22-9; *see generally* Halliday, Exh. HSH-1T.

²³² DiLuciano, Exh. JDD-3T at 23:14-25:3.

²³³ Schearer, Exh. BPS-1T at 18:22-23.

²³⁴ DiLuciano, Exh. JDD-3T at 25:6-16.

²³⁵ *Id.* at 25:11-12.

flow patterns, including transfers between Idaho and Washington.²³⁶

98 Mr. DiLuciano also provided several examples of transmission investments located entirely within Washington, where costs were allocated to both Washington and Idaho customers using the P/T ratio.²³⁷ Further, “Avista routinely allocates transmission-related investments using the P/T ratio, regardless of whether the facilities are physically located in Washington or Idaho, reflecting the integrated nature of Avista’s transmission system and the system benefits these facilities provide to both Washington and Idaho.”²³⁸ Despite Staff’s assertion that the East CDA Reinforcement Project has been improperly allocated to Washington customers, the Commission should recognize that the project reflects prudent system planning, consistent with prior practice, and should therefore remain in rate base.

9. Information Systems (“IS”) / Information Technology (“IT”) Investments and Enterprise Resource Planning (“ERP”)

99 Modern electric and natural gas utilities depend upon sophisticated information technology (“IT”) systems for customer service, financial management, cybersecurity, regulatory compliance, asset management, and operational coordination. Avista has demonstrated that replacement of its legacy IT systems is necessary to continue operating efficiently and reliably, as those legacy systems are largely reaching obsolescence.²³⁹ Staff’s arbitrary “disallowances” to the following IS/IT projects: Enterprise Security Systems (20%), Enterprise Network Infrastructure (20%),

²³⁶ *Id.* at 25:7-16; 24, footnote 51, stating, “As provided in Exh. JDD-2, Avista will transfer to plant approximately \$40 million (system) investment over the MYRP (2027 – 2030) associated with the East CDA Lake Reinforcement Project. Approximately 45% or \$18 million of the overall total project will be charged directly to Idaho, with the remaining 55% or \$23.0 million allocated between Washington and Idaho following Avista’s long-standing investment allocation methodologies.”

²³⁷ *Id.* at 26:17-28:3.

²³⁸ *Ibid.*

²³⁹ Manuel, Exh. WOM-1T at 2:14-3:7; Alexander, Exh. AGA-3T 4:7-5:18, specifically, “The IS/IT capital forecasts in this case were developed through a structured, multi-layered internal governance process. Forecasts originate from documented technical inputs, including manufacturer lifecycle status, end-of-support dates, cybersecurity requirements, performance and capacity needs, technology obsolescence, and historical replacement costs.”

Enterprise Communications (15%), Endpoint Compute & Productivity Systems (20%), and ET Modernization (20%), should be rejected.²⁴⁰ Company witness Mr. Alexander highlighted the risk of such arbitrary disallowances, including “increased risk of technology failure, cyber-attack, and the reinstatement of manual processes that could delay response to business and customer needs.”²⁴¹ “Because witness Luangsisongkham has not identified which specific investments should be removed or deferred, and the risk posed by the reduced investment,” the Commission should reject Staff’s proposals.²⁴²

100 AWEC’s criticism of Avista’s IS/IT investments centers largely around the contingency amounts associated with the ERP project estimates.²⁴³ The existence of contingencies alone does not render a project imprudent. Instead, it reflects reasonable planning for a large-scale system implementation that remains subject to the Commission’s provisional capital review framework.

101 Furthermore, the contingencies have been updated over the course of this proceeding, as described by Company witnesses Ms. Benjamin and Mr. Manuel.²⁴⁴ Ms. Benjamin testified that the Company provided the parties with the “2025 ERP Business Case – Addendum #1” (“Addendum”) through a discovery response on April 24, 2026.²⁴⁵ The Addendum contained several material updates to the ERP project, including a revised budget, updated transfer-to-plant schedule, and signed vendor contracts “totaling \$142.1 million investment occurring in 2027-2030, \$69.4 million allocated to Washington electric customers and \$19.3 million allocated to Washington natural gas customers.”²⁴⁶ With that, Wilcox’s concern regarding “uncontracted

²⁴⁰ Luangsisongkham, Exh. RL-1T at 26-27, Table No. 1.

²⁴¹ Alexander, Exh. AGA-3T at 7:15-17.

²⁴² *Id.* at 7:18-8:1.

²⁴³ Wilcox, Exh. CDW-1TC at 4:8-11, 7:3-8:8.

²⁴⁴ Benjamin, Exh. TCB-4T at 16:16-17:10; Manuel, TR. 370:3-4.

²⁴⁵ Benjamin, Exh. TCB-4T at 17:2-5.

²⁴⁶ *Id.* at 17:5-10.

contingency padding” is obsolete, and the Commission should reject AWEC’s proposed \$27.57 million reduction to ERP capital additions.²⁴⁷ The ERP system replaces disparate legacy, end of life platforms with a modern, cloud-based solution that streamlines workflows, improves data integrity, and reduces compliance risks – it also remains a foundational investment designed to better position the Company for serving customers with resilient, reliable, and affordable energy now and into the future.²⁴⁸

10. Ambient Adjusted Line Ratings (AALR)

¹⁰² The Company’s Ambient Adjusted Line Ratings (“AALR”) investments represent prudent transmission system improvements that increase operational efficiency and improve utilization of existing infrastructure.²⁴⁹ Not only do these projects allow transmission facilities to more accurately reflect real-time operating conditions and support system reliability while reducing the need for more costly infrastructure expansion,²⁵⁰ they were also mandated by Federal Energy Regulatory Commission (“FERC”) Order 881.²⁵¹ Staff witness Nightingale provided no persuasive evidence that the projects are unnecessary or imprudent.²⁵² Additionally, Avista does not have the discretion to ignore investments mandated by FERC Order. Accordingly, the Commission should authorize recovery of these investments as proposed by Avista.

G. Cost of Service, Rate Spread, and Rate Design

- i. The Commission should adopt the Company’s rebuttal position on cost of service, rate spread, and rate design.

¹⁰³ Avista’s cost of service study complies with WAC 480-85 and uses a methodology

²⁴⁷ Wilcox, Exh. CDW-1TC at 8:3-4.

²⁴⁸ Rosentrater, Exh. HLR-1T at 49:19-23.

²⁴⁹ DiLuciano, Exh. JDD-3T at 3:24-30.

²⁵⁰ See, Avista’s response to Bench Request No. 2-3.

²⁵¹ DiLuciano, Exh. JDD-3T at 38:8-16 (emphasis added).

²⁵² Klein, Exh. TAK-1Tr at 4:20-22, 17:4-10.

previously accepted by the Commission.²⁵³ The studies conducted by Avista, Staff, and AWEC all reached the same fundamental conclusion despite some methodological differences. Residential Service Schedules 1/7/8 have a parity ratio of 0.86, while General Service Schedules 11/12, Large General Service Schedules 21/22, and Schedule 25 have parity ratios of approximately 1.20, 1.18, and 1.20, respectively.²⁵⁴ These results indicate that residential customers continue to contribute less than their allocated costs while General Service customers contribute materially more than their allocated share.

¹⁰⁴ The Commission should continue balancing cost causation with gradualism, rate stability, and avoidance of rate shock.²⁵⁵ AWEC's proposal for immediate movement to parity places undue weight on a single cost of service outcome, despite reasonable disagreement among experts regarding cost allocation methodologies and specific inputs.²⁵⁶ Cost of service studies are directional tools, not precise rate prescriptions, and should be used collectively to guide ratemaking.

¹⁰⁵ Given that Staff's proposed modifications do not materially alter Avista's conclusions, the Company accepted the bulk of those adjustments.²⁵⁷ The Commission should adopt Staff witness Lien's parity-based rate spread proposal for Rate Year 1, which incrementally moves rates toward cost causation while limiting bill impacts for customers already paying above cost.²⁵⁸ As Company witness Miller stated, "[I]t is reasonable to apply witness Lien's rate spread proposal for RY1 to all years of the rate plan in order to continue to make modest movement towards parity considering

²⁵³ See generally, WAC 480-85.

²⁵⁴ Anderson, Exh. JCA-1T at 13:14-15; Exh. JCA-5T at 3, Table No. 1; Miller, Exh. JDM-1T at 8, Table No. 5, and 9, Table No. 6.

²⁵⁵ Miller, Exh. JDM-8T at 3:9-12, 10:16-18.

²⁵⁶ *Id.* at 6:14-19; Kaufman, Exh. LDK-1TC at 17:17-18:6.

²⁵⁷ Anderson, Exh. JCA-5T at 4:13-18, 5:2-20; Lien, Exh. ZML-25CT at 2:12-20, 16:11-23.

²⁵⁸ Miller, Exh. JDM-8T at 3:6-5:21; Lien, Exh. ZML-1T at 50:2-7.

that after application of the RY1 rate spread those schedules furthest from cost of service parity still require significant movement to attain their full cost of service.”²⁵⁹ By contrast, the Commission should reject AWEC’s proposed facility-specific distribution reallocations, and Public Counsel’s recommendation to continue uniform percentage increases without regard to cost of service results.²⁶⁰ For rate design, the Company supports the basic charge levels as proposed by witness Lien.²⁶¹ The Company continues to support all other rate design components as proposed in Mr. Miller’s opening testimony.

¹⁰⁶ Avista’s overall rebuttal cost of service framework, including the accepted Staff-supported modifications and rate spread methodology, appropriately balances cost causation, affordability, and rate stability, while making measured progress toward aligning fixed costs and fixed charges, and should therefore be approved by Commission as fair, just, and reasonable.²⁶²

H. Customer Assistance and Policy Proposals

- i. Customer assistance programs and disconnection policies should continue to be addressed through existing regulatory and advisory group processes.

¹⁰⁷ With affordability in focus, Avista has made substantial progress in expanding customer assistance and reducing customer energy burden²⁶³ through its Low-Income Rate Assistance Program (“LIRAP”), including My Energy Discount (“MED”), Arrearage Management Program (“AMP”), Arrearage Forgiveness Program (“AFP”), Emergency Share, and Automatic Hardship Grant.²⁶⁴ Since the implementation of Avista’s expanded LIRAP structure in October 2023, Avista has increased participation from approximately 16,201 households during the 2022-2023 program

²⁵⁹ Miller, Exh. JDM-8T at 5:15-19.

²⁶⁰ Anderson, Exh. JCA-5T at 5:2-6:7; Kaufman, Exh. LDK-1TC at 8:1-9:4.

²⁶¹ Miller, Exh. JDM-8T at 1:21-22; 13:8-14:20.

²⁶² Anderson, Exh. JCA-5T at 7:3-23; Miller, Exh. JDM-8T at 1:17-2:2.

²⁶³ Rosentrater, Exh. HLR-1T at 39:17-41:10; pursuant to RCW 19.405.020, “energy burden” means the share of annual household income used to pay annual home energy bills.

²⁶⁴ See generally, Bonfield, Exh. SJB-5T at 2:19-3:40.

year to 67,881 households during the 2024-2025 program year, while increasing overall energy assistance saturation from approximately 13 percent of eligible customers to approximately 45 percent.²⁶⁵ Avista further projects reaching approximately 54 percent saturation and providing more than \$52 million annually in assistance by the end of the 2025-2026 program year.²⁶⁶

¹⁰⁸ Many of the parties' proposals in this proceeding seek to transform customer assistance eligibility standards, collections practices, and disconnection policies in ways that extend well beyond the scope of a GRC proceeding. For example, TEP recommends that the Commission require new enrollment pathways for Comfort Level Billing ("CLB"), additional disconnection protections, medical dependency screening requirements, modifications to customer notices, and targeted customer assistance initiatives.²⁶⁷ Public Counsel similarly proposes expanding eligibility for assistance programs beyond existing income-based criteria and adopting additional affordability metrics and reporting requirements.²⁶⁸ While these proposals raise important policy considerations, they concern statewide customer protection and low-income assistance issues that affect all IOUs and are already being considered in various Commission proceedings, such as the Commission's Customer Notice and Fees Rulemaking, Docket U-210800.²⁶⁹ Similarly, broader questions regarding low-income assistance program structure, energy burden analysis, affordability metrics, and customer outreach are already being addressed through Avista's Energy Assistance Advisory Group ("EAAG"), Equity Advisory Group ("EAG"), and other related policy proceedings.²⁷⁰ The advisory groups were specifically created to allow the utility, customer advocates, Commission Staff, and community representatives the opportunity to collaboratively

²⁶⁵ Rosentrater, Exh. HLR-1T at 40:2-11; Bonfield, Exh. SJB-1T at 5:15-6:3.

²⁶⁶ Bonfield, Exh. SJB-1T at 10:12-11:3.

²⁶⁷ Henderson, Exh. CEH-1T at 3:14-4:21, 38:3-40:16; Stokes, Exh. SNS-1T at 54:12-55:3.

²⁶⁸ Hatch & Graff, Exh. MH-MG-1T at 44:1-45:16.

²⁶⁹ Bonfield, Exh. SJB-5T at 27:1-6.

²⁷⁰ *Id.* at 14:1-4, 15:10-16:7.

evaluate and improve customer programs outside the confines of litigated rate proceedings.²⁷¹

¹⁰⁹ In addition, Avista is undertaking many of the evaluative activities requested by parties, including providing Community Action Agencies (“CAA”) with lists of MED participants who may benefit from additional weatherization and assistance services, conducting annual evaluations of program effectiveness, analyzing customer energy burden data, and collaborating with advisory groups regarding future program modifications.²⁷² Avista has also expressly stated its willingness to continue analyzing high energy burden customers, evaluating communication improvements, developing more targeted outreach strategies, and discussing additional affordability initiatives through these existing collaborative processes.²⁷³

¹¹⁰ The question before the Commission is not whether these topics merit continued attention, but rather whether this proceeding is the appropriate venue for addressing them. Such issues are more appropriately addressed through the Commission’s dedicated policy dockets, rulemakings, and advisory group processes, where all interested parties and regulated utilities may participate on a comprehensive and consistent basis. The Commission should therefore reject any proposals that seek to expand the scope of this proceeding beyond ratemaking and direct those policy issues to the forums specifically established for their consideration.²⁷⁴

I. Miscellaneous/Other Policy Issues

¹¹¹ The record supports Avista’s positions on several policy and administrative issues that, while not major revenue requirement drivers themselves, are critical to successful implementation of the Company’s proposed Four-Year Rate Plan and Washington’s evolving energy policy framework. The Commission should adopt Avista’s position on the following issues:

²⁷¹ *Id.* at 14:1-20.

²⁷² *Id.* at 6:20-9:2, 16:2-17:9.

²⁷³ *Id.*

²⁷⁴ *Id.* at 14:1-20, 15:10-17:9, 27:1-2.

1. Jurisdictional Separation and Allocation (“JSA”)

112 The growing divergence between Washington and Idaho energy policy creates significant long-term challenges for Avista’s existing jurisdictional allocation methodology.²⁷⁵ As Company witness Mr. Kinney explained, CETA and the Climate Commitment Act (“CCA”)²⁷⁶ increasingly require resource acquisition, dispatch decisions, and compliance obligations that Idaho regulators have indicated should not be assigned to Idaho customers.²⁷⁷ Idaho has repeatedly rejected recovery of Washington-specific CCA-related costs, and the Idaho Supreme Court recently affirmed that position, holding that Idaho regulators may determine that the allocation of Washington-created climate policy costs to Idaho customers is not “just and reasonable.”²⁷⁸

113 While Avista is not requesting implementation of a new allocation methodology in this proceeding, the Company is seeking authorization from the Commission to commence a collaborative process with interested parties to evaluate a future Jurisdictional Separation and Allocation (“JSA”) framework. Avista plans to pursue the same authorization from the Idaho Public Utilities Commission (“IPUC”) in its next Idaho GRC filing.²⁷⁹

114 The Commission should authorize Avista to develop a JSA framework while recognizing that any final allocation methodology would be presented for review and approval in a separate, future proceeding. Such action is consistent with sound regulatory planning, principles of cost causation, and the Company’s obligation to reconcile competing state policy directives.

²⁷⁵ Kinney, Exh. SJK-1T at 3:3-13.

²⁷⁶ RCW 70A.65.

²⁷⁷ Kinney, Exh. SJK-1T at 3:3-13; Kinney, Exh. SJK-2T at 4:5-11:8.; *see generally*, Idaho Public Utilities Commission, Case No. PAC-E-24-05, Order No. 36269, <https://puc.idaho.gov/Case/Details/7292>.

²⁷⁸ Kinney, Exh. SJK-1T at 4:5-5:288; Kinney, Exh. SJK-2T at 6:18-9:1; *see generally*, Idaho Public Utilities Commission, Case No. AVU-E-23-04, Order No. 36015, <https://puc.idaho.gov/Case/Details/7021>; *see also*, *PacifiCorp v. Idaho Pub. Util. Comm’n.*, 579 P.3d 904 (2025).

²⁷⁹ Kinney, Exh. SJK-2T at 24:8-13.

2. Decoupling Mechanisms

¹¹⁵ Decoupling remains a foundational policy tool that aligns utility incentives with Washington’s clean energy objectives by eliminating the traditional throughput incentive.²⁸⁰ As demonstrated by Mr. Ehrbar, decoupling supports energy efficiency, beneficial electrification, distributed energy resources, conservation investments, and compliance with Washington’s broader decarbonization policies.²⁸¹ Without decoupling, utilities would face reduced fixed-cost recovery whenever customer usage declines in response to policy objectives encouraged by both the Commission and Legislature.²⁸² Additionally, continuation of decoupling has been supported by the Commission’s own policy review process. In its recent Washington Regulatory Assessment, Policy Staff concluded that decoupling continues to “support cost control, affordability, encouragement of energy efficiency, demand response, distributed energy resources, beneficial electrification,” and achievement of CETA requirements.²⁸³

¹¹⁶ Staff’s argument for why the Commission should decline to extend decoupling and instead allow the mechanism to expire mischaracterizes the intent of the mechanism.²⁸⁴ Staff witness Fitzgerald cites a third-party evaluation, stating, “[A]t best, the decoupling mechanisms are merely neutral in terms of their impact on energy conservation and do not necessarily impact conservation

²⁸⁰ Ehrbar, Exh. PDE-1T at 3:8-13.

²⁸¹ *Id.* at 40, stating in part, “Prior to decoupling, utilities could be financially harmed when they promoted energy efficiency and customers reduced usage. Decoupling removed that disincentive and aligned utility incentives with public policy goals. Today, as Washington pursues decarbonization and beneficial electrification, decoupling serves a similar purpose. It helps ensure that utilities can support these policy objectives without creating financial pressures that discourage the very customer behavior the State seeks to encourage.”; Forsyth, Exh. GDF-1T at 9, stating in part, “Absent the Decoupling Mechanism, if the weather normalization process were to not accurately capture variations in weather such as deviations from normal conditions, either customers or the Company would bear the over or under recovery making the consequence of the weather normalization process much more significant.”

²⁸² *Ibid.*

²⁸³ Ehrbar, Exh. PDE-1T at 38:19-39:19; *see*, Docket U-210590, Washington Regulatory Assessment at 36-39 (July, 7, 2026).

²⁸⁴ Ehrbar, Exh. PDE-1T at 40:1-44:4; Fitzgerald, Exh. KWF-1T at 23:4.

efforts one way or another.”²⁸⁵ However, as Mr. Ehrbar addressed, “Decoupling was never intended to drive energy efficiency. Rather, it was designed to remove a key financial disincentive to pursuing all cost-effective energy efficiency opportunities. By breaking the link between revenues and sales volumes, decoupling allowed utilities to aggressively promote conservation and efficiency without jeopardizing recovery of their fixed costs.”²⁸⁶ Given the impact that allowing decoupling to expire would have on Avista and other IOUs in Washington, the Commission should reject Staff’s proposal, extend Avista’s decoupling mechanism through the Four-Year Rate Plan, and direct further discussions regarding decoupling to the ongoing policy docket, U-210590.²⁸⁷

3. Performance Incentive Mechanisms (“PIMs”)

¹¹⁷ Avista regularly submits extensive reports on Commission-required performance metrics and remains subject to numerous accountability mechanisms, including prudence reviews, annual reporting obligations, service quality reporting, integrated resource planning (“IRP”) requirements, and CEIP reporting.²⁸⁸ Notably, in Avista’s 2024 GRC, the Commission declined to require PIMs as part of Avista’s MYRP and instead directed continued development of a statewide framework through Docket U-210590.²⁸⁹ Thus, the parties’ recommendations that the Commission adopt PIMs in this proceeding are misplaced.

¹¹⁸ The reliability-based penalty mechanisms proposed by Public Counsel are inconsistent with both the Commission’s directive in the 2024 GRC and prior reliability benchmarking

²⁸⁵ Fitzgerald, Exh. KWF-1T at 25:10-26:4.

²⁸⁶ Ehrbar, Exh. PDE-1T at 41:12-16 (emphasis added).

²⁸⁷ *Id.* at 39:1-8.

²⁸⁸ Bonfield, Exh. SJB-5T at 33:9-23, outlining the mechanisms available for the parties to review the prudence of Avista’s investments over the course of a MYRP, including: “Extensive audit and review during a general rate case filing; Annual prudence review of capital investments; Annual financial reporting; Annual reliability reporting; Annual PBR metrics reporting; Clean Energy Implementation Plan (CEIP) reporting; Integrated resource planning requirements; Annual Service Quality Metrics (SQM) reporting”.

²⁸⁹ Bonfield, Exh. SJB-5T at 36:19-37:6; Dockets UE-240006 and UG-240007, Order 08 at 110, ¶ 407.

findings.²⁹⁰ The Commission's investigation concluded that reliability benchmarks are useful for analysis, but should not be used to establish penalty mechanisms because such metrics are overly aggregated and may distort prudent investment decision-making.²⁹¹ For these reasons, the Commission should affirm that any future PIM framework continue to be developed through Docket U-210590 rather than through this rate proceeding.

4. Load Forecasting and Weather Normalization

¹¹⁹ Staff's proposed modifications to Avista's load forecasting and weather normalization methodologies should be rejected because Staff has not demonstrated that the Company's existing approaches produce unreasonable results or an inaccurate revenue requirement. Notably, Staff did not develop or sponsor any adjustment to the Company's weather normalization calculations in this case and did not quantify any resulting revenue requirement impact.²⁹²

¹²⁰ Staff's criticism that Avista utilizes multiple forecasts for different business purposes also misses the mark.²⁹³ Forecasts used for revenue modeling, integrated resource planning, transmission and distribution planning serve different objectives and therefore appropriately employ different methodologies and assumptions.²⁹⁴ The existence of multiple forecasting tools does not establish inconsistency, but rather, reflects the practical reality that utilities must answer different planning questions using different analytical frameworks.²⁹⁵

¹²¹ Staff's recommendation that Avista abandon its weather normalization methodology in favor of an ARIMA-based approach is unsupported by evidence.²⁹⁶ Dr. Forsyth demonstrated that

²⁹⁰ Bonfield, Exh. SJB-5T at 38:15-40:6; Deupree, Exh. MWD-1T at 21:16-25:14.

²⁹¹ Bonfield, Exh. SJB-5T at 38:22-39:21, citing to Staff's Open Meeting Memo, presented at the January 10, 2019 Open Meeting: "...Further, penalties associated with reliability benchmarks may have the unintended consequence of biasing investment decisions toward projects with specific reliability performance benefits."

²⁹² Forsyth, Exh. GDF-1T at 7:21-25; Halliday, Exh. HSH-1T at 2:18-3:19, 23:1-25:3.

²⁹³ Halliday, Exh. HSH-1T at 9:14-10:10.

²⁹⁴ Forsyth, Exh. GDF-1T at 4:2-23, Table No. 1.

²⁹⁵ *Id.* at 9:16-10:7.

²⁹⁶ Halliday, Exh. HSH-1T at 17:18-20:15; Forsyth, Exh. GDF-1T at 11:19-12:1, stating in part, "Without providing any

OLS regression is appropriate when explanatory variables capture seasonal and weather-driven behavior, that Avista routinely performs autocorrelation diagnostics, and that its existing regressions explain the overwhelming majority of customer usage variation.²⁹⁷ Staff offers only a methodological preference and admits it cannot quantify the effect its proposed changes would have on the Company's adjustment.²⁹⁸ Staff's proposals regarding additional weather variables, sub-territories, and revised balancing temperatures amount to suggestions for future study rather than evidence of an existing defect.²⁹⁹ The Company demonstrated that its current models produce strong statistical results and that additional complexity may introduce significant administrative burden with little measurable improvement, while Staff did not perform independent regression analysis or quantify any effect on rates.³⁰⁰

¹²² Finally, Staff's concerns are further diminished by Avista's decoupling mechanism. As Dr. Forsyth explained, decoupling substantially mitigates the consequences of any weather normalization variance because revenues are ultimately reconciled to authorized levels regardless of actual weather conditions.³⁰¹ Therefore, the Commission should reject Staff's recommendation.

5. Williams Pipeline Deferral

¹²³ The Commission should authorize recovery of costs associated with the Williams Pipeline outage. Not only did the outage arise from extraordinary circumstances entirely outside of Avista's control, but the Commission also recognized the event as extraordinary for ratemaking purposes.³⁰²

evidence, witness Halliday argues that OLS, a statistical method that underlies much of the analytical work in the utility industry is inappropriate. In addition, the mathematics that underlies the ARIMA time-series models preferred by witness Halliday flow directly from the original OLS theory under special conditions of autocorrelated error terms. In this sense, ARIMA models are still regression-based procedures." (footnote omitted).

²⁹⁷ Forsyth, Exh. GDF-1T at 11:12-17.

²⁹⁸ Halliday, Exh. HSH-1T at 23:1-8.

²⁹⁹ *Id.* at 20:11-22:3.

³⁰⁰ Forsyth, Exh. GDF-1T at 15:15-19.

³⁰¹ *Id.* at 9:3-11.

³⁰² Ehrbar, Exh. PDE-1T at 58:16-19, citing to Docket UG-230914, Order 01, ¶10: "we agree that the Williams Northwest Pipeline outage is an extraordinary circumstance because it creates costs beyond the Company's control."

As Mr. Ehrbar testified, the Company's response was both prudent and effective.³⁰³ Avista responded to the outage swiftly, coordinating more than 300 mutual aid personnel from multiple states to restore service in less than one week.³⁰⁴

124 Staff witness Fitzgerald opines that if the Commission approves the Company's request to recover the deferred balance associated with this outage, it would disincentivize the Company from "vigorously seeking recover from all other outlets, since the costs will have been recovered from its ratepayers."³⁰⁵ Delaying recovery of these expenses would only increase carrying costs and create intergenerational inequities by assigning these costs to future customers who did not receive the benefits of the restoration effort.³⁰⁶ Mr. Ehrbar testified that Avista has and will continue to pursue any and all legal avenues for cost recovery, while noting there is also a cost to pursuing such recovery.³⁰⁷ Accordingly, the Commission should authorize recovery while requiring that any future third-party recoveries be credited back to customers, and allow the Company to provide annual updates to the Commission on its progress.

6. Large Loads

125 The Commission should decline requests to establish large load tariff structures or cost allocation frameworks in this case. No executed large load agreement is before the Commission in this proceeding, and Avista appropriately excluded all speculative large load impacts from its filed revenue requirement.³⁰⁸ The Company has also articulated clear principles governing any future large load service request, including that existing customers must be protected, cost shifting must

³⁰³ *Id.* at 59:2-10.

³⁰⁴ *Ibid.*

³⁰⁵ Ehrbar, Exh. PDE-1T at 57:18-21; Fitzgerald, Exh. KWF-1T at 7-8.

³⁰⁶ Ehrbar, Exh. PDE-1T at 59:17-18:4.

³⁰⁷ *Id.* at 58:3-12; Ehrbar, TR. 255:3-7; Avista filed a lawsuit on Tuesday, September 8, 2026; *see*, Avista's response to Bench Request No. 2-1.

³⁰⁸ Ehrbar, Exh. PDE-1T at 44:19-45:20.

be prohibited, reliability must be maintained, and customers must receive net benefits.³⁰⁹ The Commission’s ongoing large load policy docket, Docket UE-260162, provides the appropriate venue for broader consideration of those issues.³¹⁰ Given that Avista does not have a specific customer or contract before the Commission, any broader action in this proceeding would be premature.

7. Renewable Energy Credit (“REC”) Treatment in the ERM

¹²⁶ While Avista does not request fundamental changes to the ERM in this case, the Company proposes “combining the instruments utilized to meet the state’s climate policy goals into the costs tracked in the ERM at 100% (i.e., RECs and CCA allowances).”³¹¹ Staff opposes Avista’s proposal to include Renewable Energy Credits (“RECs”) in the ERM outside of the sharing bands, with witness Oliver stating, “RECs should continue to be tracked in the current separate tariff rider...”³¹²

¹²⁷ As Company witness Mr. Holland noted, “[C]ustomers are not impacted any differently depending on whether REC revenues and costs are tracked through a standalone tariff rider or through the ERM outside of the sharing bands. In either case, customers receive 100% of the benefits related to RECs.”³¹³ The Company’s proposal also aligns with the recent Washington Regulatory Assessment issued by Commission Policy Staff in Docket 210590.³¹⁴

¹²⁸ Given that Staff’s proposal runs contrary to Policy Staff’s recent guidance and does not

³⁰⁹ *Id.* at 46:16-48:10.

³¹⁰ *Id.* at 56:16-19.

³¹¹ Holland, Exh. KMH-1T at 23:19-22

³¹² Holland, Exh. KMH-7T at 4:4-5; Oliver, Exh. CRO-1T at 5:8-9.

³¹³ Holland, Exh. KMH-7T at 4:11-14.

³¹⁴ *See*, Docket U-210590, Washington Regulatory Assessment (July 7, 2026) at 43: “The primary purpose of the tracker is accounting transparency. Customers receive the benefit of proceeds associated with REC sales rather than utilities retaining those revenues. This mechanism functions largely as a pass-through accounting adjustment with annual bill impacts becoming smaller and less frequent. In fact, PSE has already set its tracker to zero, and with the associated revenues and costs embedded and reflected in the power cost baseline, starting in 2025. Policy Staff find no practical value in maintaining a separate tracking mechanism for this purpose.”.

provide any tangible customer benefit, the Commission should approve Avista's proposal, which minimizes administrative burden and ensures customers continue to receive 100 percent of the benefits associated with REC transactions.³¹⁵

8. Climate Commitment Act Compliance Costs

¹²⁹ The Commission should adopt Avista's proposed treatment of electric CCA compliance costs in the ERM and decline requests to establish additional CCA-specific risk-sharing mechanisms ("RSM"), reporting obligations, or prudence frameworks in this proceeding. As highlighted by Mr. Holland, future electric CCA compliance costs remain highly uncertain due to evolving allowance allocations, ongoing Washington Department of Ecology ("Ecology") rulemakings, carbon market design, linkage implementation, weather conditions, and Avista's unique multi-jurisdictional operating characteristics.³¹⁶ Avista appropriately proposes that CCA allowance costs and associated benefits be tracked through the ERM outside traditional sharing bands, as those costs are not currently embedded in authorized NPE and cannot be accurately forecasted.³¹⁷

¹³⁰ Public Counsel proposes a market-based RSM on the basis that a benchmark-based mechanism is necessary to create incentives for least-cost compliance.³¹⁸ The Commission has previously recognized that broader CCA risk-sharing issues are better addressed through statewide policy proceedings than utility-specific rate cases.³¹⁹ As further highlighted by Mr. Holland, "Avista has established internal practices to "pursue lowest-cost compliance strategies" consistent with the Commission's expectations.³²⁰

³¹⁵ Holland, Exh. KMH-7T at 5:7-9.

³¹⁶ Holland, Exh. KMH-1T at 23:19-22; Holland Exh. KMH-7T at 7:1-24.

³¹⁷ Holland, Exh. KMH-1T at 23:17-26:15.

³¹⁸ Earle, Exh. RLE-1CT, at 36:6-13.

³¹⁹ Holland, Exh. KMH-7T at 8:15-17.

³²⁰ *Id.* at 9:4-5, citing the Commission's decision in Docket UG-230968, Order No. 05 at ¶ 77.

¹³¹ Interestingly, witness Oliver responded to Public Counsel’s proposal by offering her own proposals concerning consignment revenues, compliance period prudence reviews, and additional reporting requirements, particularly suggesting the Commission should adopt California policies for use by the Washington IOUs.³²¹ These proposals, which include brand new ideas not previously presented in any other venue, were presented for the first time in cross-answering testimony with little to no evidentiary support, and neither Avista nor any other party had an opportunity to respond in written testimony. The Company believes these proposals are premature given Ecology’s recent adoption of revised program rules and substantial uncertainty regarding future allowance treatment.³²² Accordingly, the Commission should adopt Avista’s proposed treatment of CCA costs and benefits while reserving broader market-design, risk-sharing, and reporting obligation issues for the Commission’s ongoing CCA policy docket, Docket U-230161.

J. Additional Briefing Issues (Per Bench Requests)

1. Return on Power Purchase Agreement Interest

¹³² The three power purchase agreements (“PPAs”) for which Avista is requesting a full rate of return in this proceeding (Clearwater Wind III, Columbia Basin Hydro, and the contract with Chelan County Public Utilities District (“PUD”)) are principally the same contracts included in Avista’s 2024 GRC, for which the Commission approved a cost of debt return over the Two-Year Rate Plan beginning January 1, 2025.³²³ Regardless of Avista’s request in this case, a pro forma PPA adjustment would be necessary to reflect the incremental return on Washington’s share of the Rate Year 1 (2027) total PPA value on an average-of-monthly-averages (“AMA”) basis, versus the authorized test period AMA PPA balance, which reflected only six months of the authorized

³²¹ See generally, Oliver, Exh. CRO-7T.

³²² Bonfield, Exh. SJB-5T at 46:8-13.

³²³ *Wash. Utils. & Trans. Comm’n. v. Avista Corp. d/b/a Avista Utilities*, Dockets UE-240006 and UG-240007, Order 08 at 161, ¶ 594.

balance as of the end of the test period (12ME.06.30.2025).

133 In the 2024 GRC, the Commission concluded that, "...Avista did not present a case warranting the authorized [full] rate of return, and as such, we agree with Staff that the lower end of the spectrum, the cost of debt, is appropriate here."³²⁴ Based on the Commission's determination, and given that the three contracts at issue are long-term PPAs, the Company believed it would have an opportunity to provide support for the full rate of return in its next GRC – this case.³²⁵

134 In this proceeding, Mr. Garbarino proposed a full rate of return, but acknowledged, "the interest rate allowed on PPAs is currently under consideration in Docket U-210590."³²⁶ On rebuttal, Mr. Garbarino further explained Avista's position referencing the Commission's "Policy Statement Regarding Return on Power Purchase Agreements" in Docket U-210590, issued on August 5, 2026.³²⁷ In that Policy Statement, the Commission indicated it would consider a higher return on PPAs "that deliver firm non-emitting energy, integrate distributed energy resources (DERs), support demand response programs, and minimize transmission risks."³²⁸ The three long-term PPAs in this case supplant self-build options and "advance the clean energy transition in a safe, reliable, and affordable manner under CETA." Thus, a full rate of return is appropriate.³²⁹

2. Artificial Intelligence ("AI") Disclosure

³²⁴ *Id.*

³²⁵ *Id.*, stating in part, "The statute contemplates returning a range between the cost of debt and the authorized rate of return. See RCW 80.28.410(2)(b). This return is meant to incentivize procurement of resources at the lowest reasonable cost to aid the utilities in meeting Washington's long-term decarbonization goals. In reviewing the record, we conclude that Avista did not present a case warranting the authorized rate of return..."

³²⁶ Garbarino, Exh. MJG-1T at 72:12-16.

³²⁷ Garbarino, Exh. MJG-5T at 36:13 37-17.

³²⁸ *Id.* at 35:1-19: "Senate Bill 5116 states, in reference to the transition to clean energy, that the "legislature declares that utilities in the state have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy." The purposeful inclusion of "a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company..." is, in our view, just such an incentive."

³²⁹ *Id.* at 37:12-17.

135 Avista personnel utilized Microsoft Copilot to assist with tasks such as organizing information, summarizing documents, conducting preliminary research, identifying relevant materials, and developing draft content. Neither Copilot nor any other AI tool was used to make decisions, formulate Company positions independently, or provide testimony.

136 Avista's use of Microsoft Copilot occurred within the Company's licensed enterprise environment, which utilizes Avista's internal data protections and access controls. Information provided to Copilot was neither made publicly available, nor used to access or rely upon any open-source content. All testimony, discovery responses, workpapers, and other filings submitted in this proceeding were reviewed, evaluated, and approved by Avista's employees, subject matter experts, witnesses, and counsel before filing. Avista remains fully responsible for the accuracy, completeness, and substance of all positions advanced in this case. AI-generated content, where used, served only as an aid and did not replace human judgment, expertise, or professional review.

III. CONCLUSION

137 For the reasons set forth in this Brief and in the record for this proceeding, Avista respectfully requests that the Commission approve its rebuttal revenue requirement, proposed cost of capital, Four-Year Rate Plan, and associated ratemaking mechanisms. Avista's proposal produces fair, just, reasonable, and sufficient rates, preserves customer protections and Commission oversight, and provides Avista a reasonable opportunity to recover prudently incurred costs and investments necessary to deliver safe, reliable, and affordable service to its customers.

RESPECTFULLY SUBMITTED this 19th day of October, 2026.

AVISTA CORPORATION

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