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August 21, 2026

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Salem, OR 97301-3612

Re: Docket No. AR 676 – Avista Utilities' Operations & Maintenance Costs Pre-Read

Filing Center:

Avista Corporation, dba Avista Utilities (Avista or the Company), hereby submits for filing with the Oregon Public Utility Commission (Commission) its operations & maintenance (O&M) pre-read, as requested by Commission Staff in their AR 676 Phase 2 workplan. If you have any questions regarding this filing, please contact me at (509) 495-2782 or shawn.bonfield@avistacorp.com

Sincerely,

/s/ *Shawn Bonfield*

Shawn Bonfield
Sr. Manager, Regulatory Policy & Strategy

AVISTA PRE-READ

AR 676

O&M Expense Cost Recovery

Avista Pre-Read

1. O&M Cost Recovery Principles

From Avista's perspective, first-year "going-in" rates under a Multi-Year Rate Plan (MRP) should closely reflect expected actual costs based on known and measurable information. Continuing the traditional general rate case process for the initial year provides a robust evidentiary record and supports cost recovery consistent with established cost-of-service principles, Generally Accepted Accounting Principles (GAAP), and ASC 980 requirements.

Avista supports separating O&M costs into distinct categories, such as labor, insurance, and taxes, to calculate going-in rates accurately and apply the most relevant escalator to each category.

Typical O&M Cost Categories

Principle for escalation. Inflation may reasonably escalate costs that follow the broader economy, but many O&M costs are driven by contracts, regulatory requirements, work cycles, or other factors. Each material category should use a transparent, supportable method, including known and measurable contracts, a specific escalator, or another targeted adjustment.

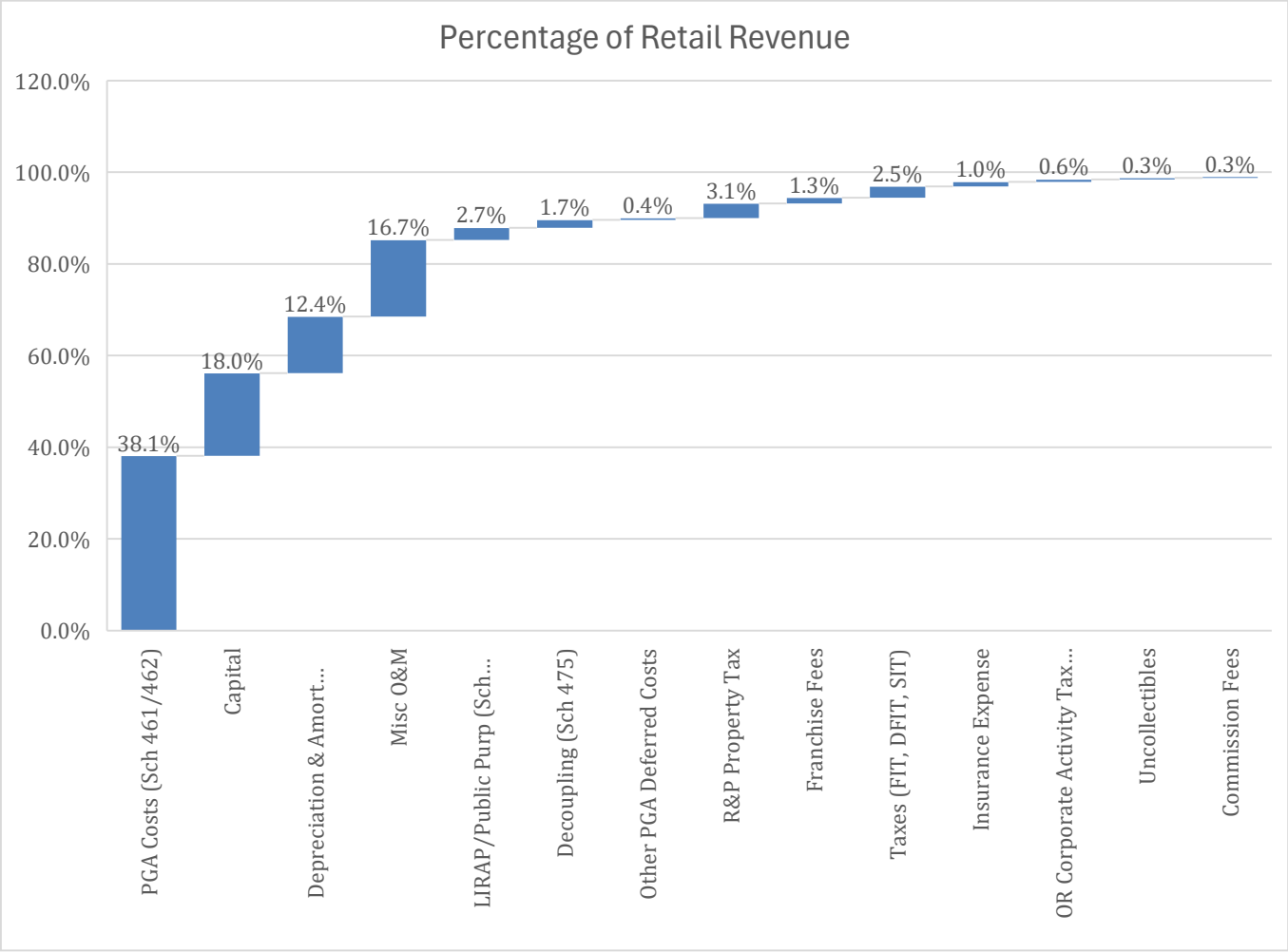
Program Costs Recovered Through Trackers

Historically, O&M costs for energy efficiency programs (ETO) and low-income assistance programs (bill discount/LIRAP) have been excluded from general rate case revenue requirements and recovered through separate deferral and tracker mechanisms. Avista supports maintaining these recovery mechanisms so customers pay the actual program costs and spending is not artificially constrained when a need is identified by ETO, Avista advisory groups, or Avista.

Energy Efficiency + Energy Assistance Revenues		
2023	2024	2025
$4.1M	$5.8M	$13.8M

2. Historical Approach and Cost Drivers

For broader context, the chart below illustrates broad cost categories as a percentage of total retail revenue for Avista from its last general rate case filing (UG-519), which total O&M expense was approximately 18.3%[1] of total retail revenue, excluding taxes.



Avista's Historical Rate Case Approach to O&M

1. Separate O&M into labor and non-labor components.
2. Escalate non-labor O&M and A&G expenses using CPI, unless a specific adjustment applies, such as property taxes or insurance.
3. Adjust labor-related O&M and A&G expenses using projected wage, benefit, and compensation increases rather than CPI, PPI, or another external index.
4. Exclude capital-related labor from O&M and A&G expense because those costs are reflected in capital additions and rate base adjustments.

[1] Misc. O&M, uncollectibles, insurance expense and commission fees

Largest O&M Cost Drivers from UG 519

Cost category	Dollars	% of total
Labor and benefits	$14.0M	37.4%
Miscellaneous O&M costs	$12.0M	34.5%
Insurance	$1.5M	4.1%
Uncollectibles	$0.5M	1.3%
Commission fees	$0.5M	1.3%
Property taxes	$4.9M	13.5%
Other taxes (CAT/franchise fees)	$1.4M	7.9%
Total	**$36.2M**	**100.0%**

How O&M Changes Are Reflected in Rate Cases

Avista reflects changes in O&M expenses through restating and pro forma adjustments. These adjustments update test-year expenses for labor, benefits, A&G, and other operating costs. Non-labor costs generally use applicable CPI forecasts, while labor expenses reflect negotiated labor agreements, merit increases, benefit projections, and other compensation factors. Property tax and insurance expenses are treated separately from broad inflation adjustments and forecast using detailed projections and available cost information. DSM (ETO) and LIRAP costs are removed from the test year and recovered through separate tracker mechanisms.

Method at a Glance

Cost type	Primary treatment	Rationale
Labor and benefits	Wage, contract, benefit, and compensation projections	Not tied directly to broad inflation
Non-labor O&M and A&G	CPI, absent a specific adjustment	General escalation for economy-linked costs
Property tax and insurance	Detailed cost projections	Cost-specific information is more representative
ETO and LIRAP	Separate deferral and tracker recovery	Reflect actual program costs

3. Historical General Rate Case Methodologies

The following summary reflects excerpts from Marcus Garbarino's testimony in Docket UG-519. It provides historical context for the treatment of different O&M cost categories.

Test-Year Expense Adjustment: Restating

The test-year expense adjustment reflects increases in expenses, excluding expenses otherwise restated or pro formed, including labor and benefit O&M and A&G expenses pro formed through the twelve months ended August 31, 2026. Supporting workpapers analyze each adjustment at the FERC account level and apply year-over-year CPI assumptions of 3.00% for 2024, 2.20% for 2025, and 2.60% for 2026.

Labor and Benefits O&M

- Non-executive wage increases reflect actual and projected merit increases.
- Union wage increases reflect labor agreements.
- Executive wage increases are adjusted separately.
- Incentive compensation is modified to reflect Oregon Commission policy.
- Capital labor impacts are included in capital adjustments rather than O&M expense.

Employee compensation and benefit increases affect both O&M and A&G functions. Adjustments bring non-executive labor, executive labor, retirement benefits, medical costs, and payroll taxes to test-year levels.

Salaries and Wages

The Restate Salaries and Wages adjustment applies the method agreed to in Docket UG-186.[2] The method begins with annualized August 31, 2023 actual labor expense and applies annual All-Urban CPI increases for non-union labor and approved union contract increases for each of the three subsequent years. Differences between this calculation and the Company's forecast above the 10% allowance band are shared equally between customers and shareholders. The same methodology applies to overtime labor expense.

Non-Labor O&M

Remaining non-labor O&M expenses are escalated using CPI. Property tax and insurance expenses use more refined projections, as summarized below.

Test-Year Property Tax Adjustment

The adjustment restates base-year accrued property taxes to the test-year level using prorated estimated property values for July 1, 2025 through June 30, 2026, and July 1, 2026 through June 30, 2027, for the September 1, 2025 through August 31, 2026 rate-effective period.

Test-Year Insurance Expense

The adjustment reflects increases from base-year insurance expense for general liability, directors and officers liability, property insurance, and other coverage, including cybersecurity and workers' compensation, to the expected test-year level. The estimate used actual December 2023 general and property insurance premiums, actual March 2023 directors and officers insurance premiums, and other insurance premiums.

4. Key Takeaways

The following are the key takeaways regarding treatment of O&M costs:

- Establish going-in rates using known and measurable information and a robust initial-year evidentiary record.
- Match each material O&M cost category to the method that best reflects its underlying driver.
- Use broad inflation escalators where it reasonably represents expected cost movement.
- Retain targeted treatment for labor, property taxes, insurance, ETO, and LIRAP.
- Maintain transparent adjustments that reflect the utility's operational reality.

[2] 2009 general rate case.