

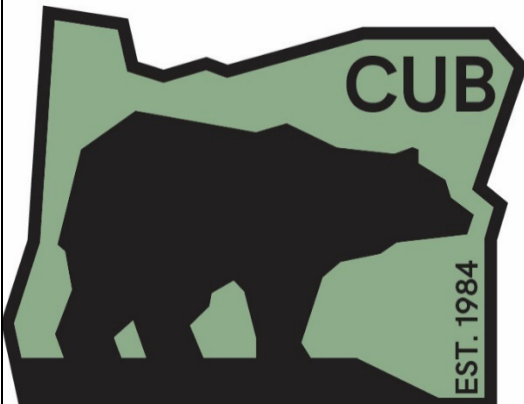
**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UG 433**

In the Matter of )  
 )  
AVISTA CORPORATION, dba AVISTA )  
UTILITIES, )  
 )  
Request for General Rate Revision. )  
\_\_\_\_\_ )

**OPENING TESTIMONY  
OF THE  
OREGON CITIZENS' UTILITY BOARD**

March 3, 2022



**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
UG 433**

|   |   |   |
|---|---|---|
| In the Matter of                          | ) |   |
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| AVISTA CORPORATION, dba AVISTA UTILITIES, | ) | OPENING TESTIMONY OF THE OREGON CITIZENS' UTILITY BOARD |
|   | ) |   |
| Request for a General Rate Revision.      | ) |   |
| _____                                     | ) |   |

**I. INTRODUCTION**

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is William Gehrke. I am a Senior Economist employed by Oregon  
3 Citizens' Utility Board (CUB). My business address is 610 SW Broadway, Ste.  
4 400 Portland, Oregon 97205.

5 **Q. Please describe your educational background and work experience.**

6 A. My witness qualification statement is found in exhibit CUB/101.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony responds to issues raised in Avista Corporation, dba Avista Utilities'  
9 (Avista or the Company) Direct Testimony, filed with the Public Utility  
10 Commission of Oregon (Commission) on October 22, 2021.

1 **Q. How is your testimony organized?**

2 A. My testimony is organized as follows:

3 I. Introduction

4 II. Return of Deferred Tax Customer Credits

5 III. CUB's Long Run Incremental Cost Study

6 IV. Rate Spread

**II. Return of Deferred Tax Customer Credits**

7  
8 **Q. Please summarize CUB's testimony on this item.**

9 A. Regardless of any base rate increase potentially approved in this proceeding, CUB  
10 recommends that the Commission amortize Schedules 486 over five years, and  
11 Schedule 487 over two years. Schedule 486 represents Avista's "Tax Customer  
12 Credit" tariff and Schedule 487 is its "Deferred Tax Credit" tariff.<sup>1</sup>

13 **Q. Please summarize Avista's 2020 accounting petition and its impact on**  
14 **Avista's federal taxes.**

15 A. In Oregon, Idaho, and Washington, Avista filed for an accounting application to  
16 change its accounting for federal income tax expenses for non-protected plant basis  
17 adjustments, including Industry Director Directive No. 5 (IDD #5) and meters.<sup>2</sup>  
18 Avista also filed for a deferral of any benefits to customers as a result of this  
19 proposed accounting change.<sup>3</sup> All three states approved Avista's accounting

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<sup>1</sup> UG 433 – Avista/100/Vermillion/24, lines 1-2.

<sup>2</sup> UG 433 – Avista/600/Andrews/9, lines 7-12.

<sup>3</sup> See, e.g., OPUC Docket No. UM 2124.

1 change. The Company's accounting change has resulted in \$21.9 million being  
2 available to offset Oregon customers' rates in this rate case.<sup>4</sup>

3 **Q. Please summarize how Avista's 2020 accounting petition impacts Avista's**  
4 **Oregon state taxes.**

5 **A.** Based on feedback from the Alliance of Western Energy Consumers (AWEC) and  
6 Staff of the Public Utility Commission of Oregon (Staff), Avista realized that the  
7 federal income tax accounting change for IDD #5 and meters will eliminate Oregon  
8 state taxable income tax for several years, resulting in a state income tax benefit to  
9 Oregon customers.<sup>5</sup> When the Commission approved Avista's 2020 accounting  
10 petition, a deferral was approved to track this Oregon state tax benefit.<sup>6</sup>

11 **Q. Does CUB have any reactions to Avista accounting change?**

12 **A.** Yes. In 2020, Avista's annual revenues were \$138 million. The accounting order  
13 results in at least \$23.5 million in benefits for Oregon customers. This has the  
14 potential to provide significant benefits to Avista's Oregon customers.

15 **Q. Given the size of the fund available, what is Avista's proposal to return these**  
16 **funds back to Oregon customers?**

17 **A.** Avista proposes to return the deferred state income tax benefit through a separate  
18 Tariff Schedule 487 called "Deferred Tax Credit." Avista's proposal to amortize  
19 this deferral over two years results in an annual amortization of \$755,000.<sup>7</sup>  
20 Additionally, Avista proposes to return the deferred federal income tax benefit  
21 through a separate Tariff Schedule 486 called "Tax Customer Credit." Schedule

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<sup>4</sup> UG 433 – Avista/600/Andrews/9, lines 2-4.

<sup>5</sup> UG 433 – Avista/600/Andrews /15.

<sup>6</sup> OPUC Order No. 21-131.

<sup>7</sup> UG 433 – Avista/600/Andrews/16, lines 9-12.

1 486's tax benefits will return to customers over two years to offset any base rate  
2 increase in this case, with the remaining balance amortized over a ten-year period.<sup>8</sup>  
3 This means that Avista is proposing to wait no less than twelve years to fully return  
4 these benefits back to customers. The Company's proposes to limit the size of the  
5 amortization of Schedule 487 and 486 to the size of the base rate case in this  
6 proceeding. If the Commission were to approve a lower base rate amount for  
7 Avista and accepted Avista's recommendation on the Amortization of Schedule  
8 486, Schedule 486 would be amortized over a significantly extended period of  
9 time.

10 **Q. Why does Avista propose to amortize Schedule 486 over twelve years?**

11 **A.** Avista requests that the natural gas tax benefit amortization does not go beyond the  
12 base rate increase approve on an annual basis in this case; and requests to amortize  
13 this deferral over twelve years.<sup>9</sup> Avista cautions that amortizing more tax benefit  
14 funds to customers has the potential of impacting Company's investment-grade  
15 metrics.<sup>10</sup> Avista notes that its credit rating is at BBB, which is two notches above  
16 "non-investment grade" rating levels.<sup>11</sup> Avista asserts that a rating downgrade to  
17 BBB- or "non-investment grade" could occur if higher amortization balance was  
18 ordered by the Commission or if a greater than two-year amortization period was  
19 proposed in the filing.<sup>12</sup>

20 **Q. What is CUB's response to Avista's proposal?**

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<sup>8</sup> UG 433 – Avista/600/Andrews/15.

<sup>9</sup> UG 433 – Avista/600/Andrews/17.

<sup>10</sup> UG 433 – Avista/200/Thies/31, lines 1-2.

<sup>11</sup> UG 433 – Avista/200/Thies/31, lines 4-5.

<sup>12</sup> UG 433 – Avista/200/Thies/31, lines 5-10.

1     **A.** CUB supports amortizing Schedule 487 over two years. However, CUB  
2           recommends a medium-term amortization period for Schedule 486 regardless of the  
3           base rate increase approved by the Commission. CUB recommends amortizing the  
4           Schedule 486 over a five-year period, rather than the twelve-year window proposed  
5           by Avista. CUB appreciates the work that Avista has done to provide these  
6           benefits to ratepayers. However, Avista has not justified its proposal to wait twelve  
7           more years to fully return these benefits back to customers.

8     **Q. Why is CUB recommending a shorter amortization period for Schedule 486?**

9     **A.** CUB understands the importance of maintaining investment grade credit ratings  
10           and acknowledges that cash flow metrics contribute the Avista’s credit rating.  
11           Avista has not met its burden of proof to demonstrate that a medium-term  
12           amortization period for *Oregon* will actually lead to a credit downgrade for the  
13           Company. The Company states “[a] downgrade to [Avista’s] ratings to one-notch  
14           above or to non-investment grade, could be possible if the Commission were to  
15           include a higher amortization balance than the approved rate increases.”<sup>13</sup> Avista’s  
16           Oregon natural gas business is less than 10% of Avista’s utility revenues. Rating  
17           agencies use a variety of factors to assess the corporate credit ratings. While Avista  
18           raises the specter of a potential rating downgrades, Avista has not provided  
19           evidence on the record that that a shorter than twelve-year amortization period in  
20           Oregon for tax benefits would lead to a credit downgrade for Avista.

21    **Q. How has Avista framed the amortization period issue before the Commission?**

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<sup>13</sup> UG 433 – Avista/200/Thies/31, lines 5-7.

1     **A.** In testimony, Avista compared the twelve-year amortization period to a one or two-  
2           year amortization period.<sup>14</sup> Avista argued that a one or two-year amortization  
3           period of all these tax benefits would weaken credit metrics tracked by ratings  
4           agencies.<sup>15</sup> It is for this reason that Avista requests a longer amortization period.  
5           Avista asserts that a twelve-year amortization period for Schedule 486 balances the  
6           rate impact to customers and the Company’s financial health. The Company has  
7           provided no evidence on whether a medium-term amortization period would  
8           weaken its ratings.

9     **Q. Why should the Commission approve a five-year amortization of Schedule**  
10       **486?**

11    **A.** CUB does not dispute that an extremely short-term return<sup>16</sup> of the Schedule 486  
12       and 487 to customers would significantly harm Avista’s credit metrics. Avista’s  
13       insistence that the amortization of Schedule 486 and 487 be no greater than the  
14       base rate increase could lead to a long return period for these funds back to  
15       ratepayers if Avista’s base rate request is reduced. Also, CUB is not aware of the  
16       Commission changing the amortization schedule of a deferral while it is being  
17       amortized after it has been approved.

18    **Q. What was Avista’s proposal to allocate the tax benefits between customers?**

19    **A.** The Company proposed to allocate this cost on a uniform percent of revenue.

20    **Q. Does CUB have a proposal on how to allocate these schedules?**

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<sup>14</sup> UG 433 – Avista/600/Andrews/17-18.

<sup>15</sup> UG 433 – Avista/600/Andrews/17, lines 7-10.

<sup>16</sup> CUB considers 1 to 2 years to be extremely short term.

1     **A.** Yes. CUB recommends that tax benefits related to meters be allocated to each  
2           customer class based on the number of customers. This matches how customers  
3           are paying for meter expenses. Meter expenses are driven by the numbers of  
4           meters needed to measure natural gas usage and bill customers. Since meter  
5           expenses are allocated in this manner, it is symmetrical to allocate the tax credit  
6           associated with meters in a similar method. CUB recommends that IDD #5  
7           benefits are allocated on an equal percent of margin revenues basis.

8     **Q. Is CUB's position final on this topic?**

9     **A.** No. CUB position on the amortization period of Schedule 486 and 487 is not final.  
10           CUB would like to evaluate Staff's and AWEC's Opening testimony on this topic  
11           and reserves the right to alter its position based on the evidentiary record in this  
12           case.

13    **Q. Does CUB have an issue that may be addressed in later rounds of testimony on**  
14    **the amortization of the deferral?**

15    **A.** Yes. Avista's recommended amortization of Schedule 486 and 487 is dynamic,  
16           based it is based on the final rate increase in this case. CUB may advocate for a  
17           different interest rate during the amortization for Schedule 486 or 487 if Avista or  
18           other parties advocate for a Schedule 486's amortization over a longer period of  
19           time.

20                                    **III. Long Run Incremental Cost (LRIC)**

21    **Q. How does Avista allocate costs among the different rate schedules?**

22    **A.** Each rate case, Avista develops an Oregon-specific natural gas cost of service study  
23           known as the Long Run Incremental Cost (LRIC) study. Avista's study attempts to



1 develop the incremental annual cost of providing natural gas service to customers  
2 by rate schedule. Avista uses the LRIC study as one of the guidelines to allocate  
3 the Company's revenue requirement to individual rate schedules.

4 **Q. Has Avista proposed any changes to the LRIC study methodology since the**  
5 **last rate case?**

6 **A.** No. Avista's methodology is unchanged since UG 389.<sup>17</sup>

7 **Q. Have parties agreed on any issues in this case prior to filing opening**  
8 **testimony?**

9 **A.** Yes. Avista, AWEC, CUB and Staff agreed to settle the cost of capital in this case.  
10 If adopted by the Commission, this adjustment sets Avista's return on equity to  
11 9.4%, long-term cost of debt to 4.7%, with an overall Cost of Capital of 7.05%.  
12 This cost of capital settlement reduces Avista's revenue requirement request by  
13 \$1.191 million.

14 **Q. Given that stipulation, what is the first change that CUB proposes to the**  
15 **LRIC?**

16 **A.** Avista's LRIC uses the Company's initially requested Cost of Capital with an  
17 overall rate of return on 7.35%. CUB's proposed LRIC study reflects Avista's rate  
18 of return of 7.05%.

19 **Q. What are Avista Schedule 440 and 456?**

20 **A.** On Avista's Oregon distribution system, rate schedules are grouped by customer  
21 type (Residential, Commercial, Industrial), size, and natural gas service  
22 (Transportation and Sales). Avista Schedule 440 is the rate schedule for large

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<sup>17</sup> UG 433 – Avista/900/Anderson/3, lines 15-17.

1 commercial and industrial interruptible customers. Avista Schedule 456 is the rate  
2 schedule for large transportation, commercial, and industrial interruptible  
3 customers.

4 **Q. What is Avista's proposal to allocate system main costs?**

5 **A.** Avista assigns fifty percent of the capacity portion of core main costs to Schedule  
6 440 and 456.<sup>18</sup> Avista makes this recommendation in response to Staff's testimony  
7 in UG 366.

8 **Q. What was Staff's recommendation in UG 366 around system main costs?**

9 **A.** Staff recommended that interruptible schedules should only pay for half of the  
10 capacity portion of core main costs.<sup>19</sup> In UG 366, Avista initially proposed to  
11 allocate one hundred percent of capacity core main costs to interruptible  
12 customers.<sup>20</sup> Staff argued that some interruptible customers make major capital  
13 investments to enable them to withstand natural gas interruption.<sup>21</sup> Staff argued  
14 that interruptible customers should be spared a portion of the capacity portion of  
15 core main costs.

16 **Q. How often are interruptible customers asked to suspend service?**

17 **A.** In the last decade, Oregon interruptible customer have experienced **one** curtailment  
18 event.<sup>22</sup> Forty-six interruptible customers were issued curtailment notices during  
19 the event, and three interruptible customers used natural gas during the curtailment

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<sup>18</sup> UG 438 - Avista/900/Anderson/8, lines 1-2.

<sup>19</sup> UG 366 - Staff/900/Compton/9-10.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> CUB Exhibit 102.

1 period. It is clear that Schedule 440 and Schedule 456 customers are seldom  
2 actually interrupted.

3 **Q. Are interruptible customers required to maintain and fund capital**  
4 **investments to maintain service during a curtailment period?**

5 **A.** No. Avista does not require interruptible customers to maintain standby facilities.  
6 Avista Oregon Schedule 440 reads “Avista recommends that the Customer, at their  
7 expense, provide and maintain standby facilities to continue operations with a  
8 substitute fuel in the event of partial Curtailment or total interruption of the natural  
9 gas supply.” Staff’s argument in UG 366 may have been more persuasive to CUB  
10 if Avista’s tariff required interruptible customers were required to maintain standby  
11 facilities.

12 **Q. Under Avista Rule 14, what does the term “unauthorized usage” mean?**

13 **A.** When Avista issues a curtailment notice to interruptible customers, interruptible  
14 customers are obligated to reduce natural gas usage. Unauthorized usage occurs  
15 when an interruptible customer uses natural gas during a curtailment period. A  
16 customer that uses natural gas during a curtailment event is subject to fees. During  
17 the last curtailment event, despite receiving a discount for capacity in margin rates,  
18 some interruptible customers had unauthorized gas usage. CUB’s change to the  
19 LRIC study is reasonable because interruptible customers are seldom, if ever,  
20 interrupted.

21 **Q. What are the results of CUB’s LRIC study?**

22 **A.** Table No. 1 below shows the relative margin-to-cost ratio at present rates for each  
23 schedule.

1

**Table No. 1: Long Run Incremental Cost Study**

| <b>Customer Class</b>               | <b>Avista's Margin-to-Cost at Present Rates</b> | <b>CUB's Margin-to-Cost at Present Rates</b> |
|-------------------------------------|---|--|
| Residential Service Schedule 410    | 1.00  | 1.00   |
| General Service Schedule 420        | 0.95  | 0.96   |
| Large General Service Schedule 424  | 1.10  | 1.12   |
| Interruptible Service Schedule 440  | 1.87  | 1.68   |
| Seasonal Service Schedule 444       | 1.68  | 1.70   |
| Transportation Service Schedule 456 | 1.25  | 1.03   |
| <b>Total Oregon Natural Gas</b>     | <b>1.00</b>                                     | <b>1.00</b>                                  |

2

3 **Q. What is CUB's proposal around allocating the capacity portion of core**  
4 **main costs in the LRIC?**

5 **A.** CUB does not find Staff's argument to be persuasive. CUB recommends that  
6 Schedule 440 and 456 be allocated 75% of capacity core mains costs. For Avista's  
7 system, CUB recognizes the role of interruptible customers on design day for the  
8 natural gas system. Therefore, CUB's capacity core main cost allocation provides a  
9 discount to capacity core mains costs to interruptible customers.

10

11

**IV. Rate Spread**

12

**Q. Please summarize Avista's rate spread proposal.**

13

**A.** Avista proposes to allocate the margin revenue increase on an equal percent of  
14 revenue basis. If the Commission were to order a revenue requirement lower than  
15 the Company's initial request, the Company proposes that Residential Service

1 Schedule 410 and Large General Services Schedule 424 receive an equal  
2 percentage of revenue increase. Avista, proposes that the lower revenue  
3 requirement be applied equally to Schedules 440, 444, and 456, until the point  
4 these schedules receive no base rate increase, with the offsetting amount being  
5 applied to Schedule 420.

6 **Q. What is CUB's position on rate spread?**

7 **A.** Overall, CUB finds Avista's rate spread proposal to be reasonable. However,  
8 based on CUB's LRIC study, CUB proposes one change to Avista's rate spread  
9 proposal. CUB proposes that Residential Service Schedule 410, Large General  
10 Service Schedule 424, and Transportation Schedule 456 receive an equal percent of  
11 revenue increase. CUB included Transportation Schedule 456, based on relative  
12 margin to cost of that rate schedule in CUB's LRIC study. Rate Spread is decided  
13 on a number of factors, but the parity ratio of each customer class is that starting  
14 point for determining rate spread. Based on the reduction in revenue requirement  
15 and these schedules margin-to-cost, CUB recommends no increase for Schedule  
16 440, and 444. If the Commission were to order a revenue requirement lower than  
17 the current case, CUB recommends that lower revenue requirement apply equally  
18 to Schedules 410, 424, and 424, with the offsetting amount being applied to  
19 Schedule 420.

20 **Q. Can you provide a table comparing CUB's and Avista's rate spread**  
21 **proposal?**

22 **A.** Table No. 2 below compares Avista's, and CUB's rate spread proposal.

1 **Table No. 2: Avista and CUB Rate Spread Comparison at Avista's current**  
 2 **revenue requirement.**

| <b>Revenue Requirement at 2.583 million increases</b> |                          |  |
|---|--------------------------|--|
| <b>Customer Class</b>                                 | <b>Avista's Proposal</b> | <b>CUB's Margin-to-Cost at Present Rates</b> |
| Residential Service Schedule 410                      | 3.44%                    | 3.44%  |
| General Service Schedule 420                          | 4.264%                   | 3.75%  |
| Large General Service Schedule 424                    | 3.44%                    | 3.44%  |
| Interruptible Service Schedule 440                    | 0%                       | 0  |
| Seasonal Service Schedule 444                         | 0%                       | 0  |
| Transportation Service Schedule 456                   | 0%                       | 3.44%  |
| <b>Total Distribution Revenue Increase</b>            | <b>3.44%</b>             | <b>3.44%</b>                                 |

- 3 **Q. What is the impact of the CUB proposal to amortize Schedule 486 and 487?**  
 4 **A.** The amortization of Schedule 486 over five years and Schedule 487 over two years,  
 5 will have each rate class experiences a rate decrease on the rate effective date.  
 6 **Q. Does this conclude your testimony?**  
 7 **A.** Yes.

### WITNESS QUALIFICATION STATEMENT

**NAME:** William Gehrke

**EMPLOYER:** Oregon Citizens' Utility Board

**TITLE:** Senior Economist

**ADDRESS:** 610 SW Broadway, Suite 400  
Portland, OR 97205

**EDUCATION:** MS, Applied Economics  
Florida State University, Tallahassee FL

B Economics  
Florida State University Tallahassee FL

**EXPERIENCE:** Provided testimony for the Oregon Citizens' Utility Board in numerous depositions such as U 3 , U 3 , U 3 . U 3 , UG 6, UE 374, UG 388, E 9 , and UE 39 provided as an economist for the Florida Department of Revenue Workers Utility Unit at the Florida Public Service Commission providing advice on electric rate cases. Attended the Institute of Public Utilities Annual Regulatory Trends program in 2018.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

|               |              |                |                            |
|---------------|--------------|----------------|----------------------------|
| JURISDICTION: | Oregon       | DATE PREPARED: | 11/08/2021                 |
| CASE NO.:     | UG 433       | WITNESS:       | Joel Anderson              |
| REQUESTER:    | CUB          | RESPONDER:     | Justin Dorr                |
| TYPE:         | Data Request | DEPT:          | Energy Supply              |
| REQUEST NO.:  | CUB – 009    | TELEPHONE:     | (509) 495-8494             |
|               |              | EMAIL:         | justin.dorr@avistacorp.com |

**REQUEST:**

Refer to UG 433 / Avista / 900 / Anderson / Page 8 / Lines 5-7, please provide the following information about curtailment events in Oregon from the past ten years.

- a. The date(s) of the curtailment event.
- b. The number of interruptible customers that received a curtailment notice
- c. The number of customers that had unauthorized usage during the curtailment event.

**RESPONSE:**

Avista had one curtailment event in Oregon over the past ten years:

- a. Avista curtailed Oregon interruptible customers beginning on October 9<sup>th</sup>, 2018 through October 11<sup>th</sup>, 2018.
- b. 46 interruptible customers received the notice of curtailment.
- c. 3 interruptible customers had unauthorized usage during the curtailment event.



AVISTA UTILITIES  
OREGON JURISDICTION  
LONG-RUN INCREMENTAL COST OF SERVICE STUDY  
TWELVE MONTHS ENDED AUGUST 3, 2023

**RESULT SUMMARY (Component Allocation)**

| Line No.          |  | OREGON<br>TOTAL      | Residential<br>Service<br>SCH 410 | General<br>Service<br>SCH 420 | Large General<br>Service<br>SCH 424 | Interruptible<br>Service<br>SCH 440 | Seasonal<br>Service<br>SCH 444 | Special Contract<br>Service<br>SCH 447 | Transportation<br>Service<br>SCH 456 |
|-------------------|--|----------------------|-----------------------------------|-------------------------------|-------------------------------------|-------------------------------------|--------------------------------|--|--------------------------------------|
| <b>STATISTICS</b> |  |                      |                                   |                               |                                     |                                     |                                |  |                                      |
| 1                 | TEST YEAR ANNUAL THERM DELIVERIES  | 147,155,320          | 54,219,249                        | 29,021,461                    | 4,539,621                           | 15,153,934                          | 216,390                        | 6,663,690                              | 37,340,974                           |
| 2                 | TEST YEAR CUSTOMERS  | 106,853              | 94,663                            | 12,020                        | 93                                  | 38                                  | 6                              | 2                                      | 31                                   |
| 3                 | AVERAGE ANNUAL THERM DELIVERIES PER CUSTOMER                                       |                      | 573                               | 2,414                         | 48,813                              | 398,788                             | 36,065                         | 3,331,845                              | 1,204,548                            |
| 4                 | Gas Commodity Costs  | \$ -                 | -                                 | -                             | -                                   | -                                   | -                              | -                                      | -                                    |
| 5                 | Gas Supply Department (Scheduling)   | 1.02890 \$ 63,073    | 21,389                            | 11,449                        | 1,791                               | 5,978                               | 85                             | 3,389                                  | 18,992                               |
| 6                 | Gas Supply Department (Non-Scheduling)   | \$ 153,350           | 78,813                            | 42,186                        | 6,599                               | 22,028                              | 315                            | 516                                    | 2,894                                |
| 7                 | Meter Reading  | \$ 96,426            | 85,426                            | 10,847                        | 84                                  | 34                                  | 5                              | 2                                      | 28                                   |
| 8                 | Billing  | \$ 2,905,742         | 2,574,249                         | 326,870                       | 2,529                               | 1,033                               | 163                            | 54                                     | 843                                  |
|                   | Customer Installation Investment Cost  |                      | 0.752192102                       |                               |                                     |                                     |                                |  |                                      |
| 9                 | Meters   | \$ 5,412,076         | 4,070,921                         | 1,220,788                     | 45,437                              | 20,444                              | 4,038                          | 6,317                                  | 44,130                               |
| 10                | Services   | \$ 57,000,792        | 48,732,955                        | 7,621,745                     | 196,997                             | 210,005                             | 12,709                         | 5,271                                  | 221,109                              |
| 11                | Main Extensions  | \$ 116,416,679       | 64,280,633                        | 50,644,639                    | 438,198                             | 281,684                             | 28,271                         | 19,042                                 | 724,212                              |
| 12                | Total Customer Installation Investment Cost  | \$ 178,829,547       | 117,084,509                       | 59,487,173                    | 680,632                             | 512,134                             | 45,018                         | 30,630                                 | 989,451                              |
|                   | System Core Main Cost  |                      |                                   |                               |                                     |                                     |                                |  |                                      |
| 13                | Capacity   | \$ 30,233,902        | 14,352,880                        | 7,420,744                     | 668,104                             | 1,273,501                           | -                              | 472,996                                | 6,045,676                            |
| 14                | Commodity  | \$ 12,797,861        | 4,716,770                         | 2,523,199                     | 394,756                             | 1,317,758                           | 18,817                         | 579,462                                | 3,247,100                            |
| 15                | Total Core Main Cost   | \$ 43,031,763        | 19,069,651                        | 9,943,943                     | 1,062,860                           | 2,591,259                           | 18,817                         | 1,052,458                              | 9,292,776                            |
| 16                | Underground Storage Cost   | \$ 1,077,774         | 628,343                           | 322,953                       | 37,750                              | 43,517                              | 475                            | 6,774                                  | 37,962                               |
| 17                | Long Run Incremental Distribution Cost   | \$ 226,157,675       | 139,542,379                       | 70,145,421                    | 1,792,244                           | 3,175,983                           | 64,878                         | 1,093,825                              | 10,342,945                           |
| 18                | Distribution Margin Revenue at Present Rates                                       | \$ 75,188,099        | 48,602,523                        | 20,768,914                    | 689,575                             | 1,771,874                           | 37,308                         | 175,705                                | 3,142,200                            |
| 18                | <b>Distribution Margin Revenue at Present Rates</b>                                | <b>\$ 75,188,099</b> | <b>48,602,523</b>                 | <b>20,768,914</b>             | <b>689,575</b>                      | <b>1,771,874</b>                    | <b>37,308</b>                  | <b>175,705</b>                         | <b>3,142,200</b>                     |
|                   | Proposed Cost by Functional Classification Assigned to Schedule by LRIC components |                      |                                   |                               |                                     |                                     |                                |  |                                      |
| 19                | Cost of Gas Commodity  | \$ -                 | -                                 | -                             | -                                   | -                                   | -                              | -                                      | -                                    |
| 20                | Gas Supply Department Costs  | \$ 570,000           | 263,906                           | 141,258                       | 22,096                              | 73,760                              | 1,053                          | 10,286                                 | 57,640                               |
| 21                | Meter Reading, Billing, Etc. Costs   | \$ 3,327,000         | 2,947,449                         | 374,258                       | 2,896                               | 1,183                               | 187                            | 62                                     | 965                                  |
| 22                | Meters & Services Costs  | \$ 25,313,000        | 21,415,849                        | 3,586,297                     | 98,324                              | 93,464                              | 6,792                          | 4,700                                  | 107,574                              |
| 23                | System Core Main Costs   | \$ 46,247,000        | 24,175,216                        | 17,573,331                    | 435,372                             | 833,279                             | 13,657                         | 310,782                                | 2,905,363                            |
| 24                | Underground Storage Costs  | \$ 2,271,000         | 1,323,994                         | 680,502                       | 79,544                              | 91,695                              | 1,000                          | 14,275                                 | 79,990                               |
| 26                | Proposed Cost  | \$ 77,728,000        | 50,126,414                        | 22,355,645                    | 638,232                             | 1,093,381                           | 22,690                         | 340,105                                | 3,151,533                            |
| 25                | <b>LRIC Based Target Margin</b>  | <b>\$ 77,728,000</b> | <b>50,126,414</b>                 | <b>22,355,645</b>             | <b>638,232</b>                      | <b>1,093,381</b>                    | <b>22,690</b>                  | <b>340,105</b>                         | <b>3,151,533</b>                     |
| 26                | Current Distribution Margin Revenue to Proposed Cost                               | 0.97                 | 0.97                              | 0.93                          | 1.08                                | 1.62                                | 1.64                           | 0.52                                   | 1.00                                 |
| 27                | <b>Relative Margin to Cost at Present Rates</b>                                    | <b>1.00</b>          | <b>1.00</b>                       | <b>0.96</b>                   | <b>1.12</b>                         | <b>1.68</b>                         | <b>1.70</b>                    | <b>0.53</b>                            | <b>1.03</b>                          |
| 28                | Component LRIC Target Change by Schedule   | \$ 2,539,901         | \$ 1,523,891                      | \$ 1,586,731                  | \$ (51,343)                         | \$ (678,493)                        | \$ (14,618)                    | \$ 164,400                             | \$ 9,333                             |
| 29                | Target Increase as a Percent of Present Distribution Margin Revenue                | 3.38%                | 3.14%                             | 7.64%                         | -7.45%                              | -38.29%                             | -39.18%                        | 93.57%                                 | 0.30%                                |
| 30                | Avg Cost Per Month for Meter Reading, Billing, Meters & Services                   | \$                   | 21.45                             | \$ 27.46                      | \$ 90.70                            |                                     |                                |  | \$ 291.77                            |

AVISTA UTILITIES  
OREGON JURISDICTION  
LONG-RUN INCREMENTAL COST OF SERVICE STUDY  
TWELVE MONTHS ENDED AUGUST 31, 2023

INCREMENTAL INVESTMENT COSTS

| Line No. |   | Residential<br>Service<br>SCH 410 | General<br>Service<br>SCH 420 | Large General<br>Service<br>SCH 424 | Interruptible<br>Service<br>SCH 440 | Seasonal<br>Service<br>SCH 444 | Special Contract<br>Service<br>SCH 447 | Transportation<br>Service<br>SCH 456 |             |
|----------|---|-----------------------------------|-------------------------------|-------------------------------------|-------------------------------------|--------------------------------|--|--------------------------------------|-------------|
|          | <b>SERVICE INSTALLATIONS</b>                          |                                   |                               |                                     |                                     |                                |  |                                      |             |
|          |   | 48 yr life                        |                               |                                     |                                     |                                |  |                                      |             |
| 1        | TYPICAL SERVICE PIPE SIZE                             | 3/4"                              | 3/4"                          | 1 1/4" - 2"                         | 1/2" - 1.25"                        | 1 1/4" - 2"                    | 3/4" - 2"                              | 1/2" - 2"                            |             |
| 2        | AVERAGE SERVICE COST                                  | \$ 3,091.92                       | \$ 3,808.34                   | \$ 12,722.18                        | \$ 33,191.95                        | \$ 12,722.18                   | \$ 15,828.86                           | \$ 42,838.05                         |             |
| 3        | LEVELIZED PLANT COST FACTOR                           | 0.1665                            | 0.1665                        | 0.1665                              | 0.1665                              | 0.1665                         | 0.1665                                 | 0.1665                               |             |
| 4        | ANNUAL REVENUE REQUIREMENT                            | \$ 514.80                         | \$ 634.09                     | \$ 2,118.24                         | \$ 5,526.46                         | \$ 2,118.24                    | \$ 2,635.51                            | \$ 7,132.53                          |             |
|          | <b>METERS &amp; REGULATORS</b>                        |                                   |                               |                                     |                                     |                                |  |                                      |             |
|          |   | 36 yr life                        |                               |                                     |                                     |                                |  |                                      |             |
| 5        | METERS & REGULATORS                                   | \$ 249.88                         | \$ 590.14                     | \$ 2,838.85                         | \$ 3,126.14                         | \$ 3,910.66                    | \$ 18,353.88                           | \$ 8,271.67                          |             |
| 6        | LEVELIZED PLANT COST FACTOR                           | 0.1721                            | 0.1721                        | 0.1721                              | 0.1721                              | 0.1721                         | 0.1721                                 | 0.1721                               |             |
| 7        | ANNUAL REVENUE REQUIREMENT                            | \$ 43.00                          | \$ 101.56                     | \$ 488.57                           | \$ 538.01                           | \$ 673.02                      | \$ 3,158.70                            | \$ 1,423.55                          |             |
|          | <b>MAIN INVESTMENT</b>                                |                                   |                               |                                     |                                     |                                |  |                                      |             |
|          |   | 58 yr life                        |                               |                                     |                                     |                                |  |                                      |             |
| 8        | AVERAGE MAIN EXTENSION PER CUSTOMER                   | 83                                | 515                           | 412                                 | 500                                 | 412                            | 1,029                                  | 1,089                                |             |
| 9        | TYPICAL PIPE SIZE REQUIRED                            | 2 "                               | 2 "                           | sample                              | dedicated plt                       | same as 424                    | dedicated plt                          | dedicated plt                        |             |
| 10       | AVERAGE COST PER FOOT                                 | \$ 48.41                          | \$ 48.41                      | \$ 67.67                            | \$ 87.72                            | \$ 67.67                       | \$ 54.75                               | \$ 126.94                            |             |
| 11       | MAIN EXTENSION INVESTMENT                             | \$ 4,018.03                       | \$ 24,931.15                  | \$ 27,880.53                        | \$ 43,862.31                        | \$ 27,880.53                   | \$ 56,337.19                           | \$ 138,234.83                        |             |
| 12       | ESTIMATED DESIGN DAY LOAD FACTOR                      | 100%                              | 23.64%                        | 24.46%                              | 42.50%                              | 55.82%                         | 0.00%                                  | 88.12%                               | 28.97%      |
| 13       | INCR CAPACITY MAIN INVESTMENT PER THERM               | 0.370107                          | \$ 1.565732                   | \$ 1.513279                         | \$ 0.870841                         | \$ 0.663019                    | \$ -                                   | \$ 0.420007                          | \$ 1.277353 |
| 14       | TEST YEAR AVERAGE THERMS PER CUSTOMER                 | 573                               | 2,414                         | 48,813                              | 398,788                             | 36,065                         | 3,331,845                              | 1,204,548                            |             |
| 15       | CAPACITY MAIN INVESTMENT                              | \$ 897.16                         | \$ 3,653.06                   | \$ 42,508.37                        | \$ 264,403.86                       | \$ -                           | \$ 1,399,397.89                        | \$ 1,538,633.56                      |             |
| 16       | 50% OF CAP MAIN INVESTMENT FOR INTERRUPTIBLE          |                                   |                               |                                     | \$ 198,302.90                       |                                |  | \$ 1,153,975.17                      |             |
| 17       | INCR COMMODITY MAIN INVESTMENT PER THERM              | 0.514545                          | \$ 0.514545                   | \$ 0.514545                         | \$ 0.514545                         | \$ 0.514545                    | \$ 0.514545                            | \$ 0.514545                          |             |
| 18       | TEST YEAR AVERAGE THERMS PER CUSTOMER                 | 573                               | 2,414                         | 48,813                              | 398,788                             | 36,065                         | 3,331,845                              | 1,204,548                            |             |
| 19       | COMMODITY MAIN INVESTMENT                             | \$ 294.83                         | \$ 1,242.11                   | \$ 25,116.47                        | \$ 205,194.27                       | \$ 18,557.06                   | \$ 1,714,383.31                        | \$ 619,793.83                        |             |
| 20       | TOTAL MAIN INVESTMENT PER CUSTOMER                    | \$ 5,210.03                       | \$ 29,826.32                  | \$ 95,505.37                        | \$ 513,460.44                       | \$ 46,437.59                   | \$ 3,170,118.39                        | \$ 2,296,662.23                      |             |
| 21       | LEVELIZED PLANT COST FACTOR                           | 58 yr life                        | 0.1690                        | 0.1690                              | 0.1690                              | 0.1690                         | 0.1690                                 | 0.1690                               |             |
| 22       | ANNUAL REVENUE REQUIREMENT                            | \$ 880.49                         | \$ 5,040.65                   | \$ 16,140.41                        | \$ 86,774.81                        | \$ 7,847.95                    | \$ 535,750.01                          | \$ 388,135.92                        |             |
|          | <b>UNDERGROUND STORAGE INVESTMENT</b>                 |                                   |                               |                                     |                                     |                                |  |                                      |             |
| 23       | BALANCING INVESTMENT PER TOTAL THROUGHPUT THERM       | \$ 0.006106                       | \$ 0.006106                   | \$ 0.006106                         | \$ 0.006106                         | \$ 0.006106                    | \$ 0.006106                            | \$ 0.006106                          |             |
| 24       | STORAGE INVESTMENT PER JANUARY SALES THERM            | \$ 0.386886                       | \$ 0.386886                   | \$ 0.386886                         | \$ 0.386886                         | \$ 0.386886                    | \$ 0.386886                            | \$ 0.386886                          |             |
| 25       | TEST YEAR AVERAGE THERMS PER CUSTOMER                 | 573                               | 2,414                         | 48,813                              | 398,788                             | 36,065                         | 3,331,845                              | 1,204,548                            |             |
| 26       | TEST YEAR AVERAGE JANUARY SALES THERMS PER CUSTOMER   | 94                                | 379                           | 5,531                               | 11,484                              | 659                            |  |                                      |             |
| 27       | UNDERGROUND STORAGE INVESTMENT                        | \$ 39.87                          | \$ 161.37                     | \$ 2,437.91                         | \$ 6,877.95                         | \$ 475.17                      | \$ 20,343.83                           | \$ 7,354.82                          |             |
| 28       | LEVELIZED PLANT COST FACTOR                           | 48 yr life                        | 0.1665                        | 0.1665                              | 0.1665                              | 0.1665                         | 0.1665                                 | 0.1665                               |             |
| 29       | ANNUAL REVENUE REQUIREMENT                            | \$ 6.64                           | \$ 26.87                      | \$ 405.91                           | \$ 1,145.18                         | \$ 79.12                       | \$ 3,387.25                            | \$ 1,224.58                          |             |
| 30       | <b>TOTAL INCREMENTAL INVESTMENT COST PER CUSTOMER</b> | <b>\$ 1,444.94</b>                | <b>\$ 5,803.17</b>            | <b>\$ 19,153.13</b>                 | <b>\$ 93,984.46</b>                 | <b>\$ 10,718.34</b>            | <b>\$ 544,931.46</b>                   | <b>\$ 397,916.58</b>                 |             |



**Avista Utilities**  
**Oregon - Natural Gas**  
**Pro Forma 12 Months Ended August 31, 2023**

| Line No.               | OREGON TOTAL   | Residential Service SCH 410 | General Service SCH 420 | Large General Service SCH 424 | Interruptible Service SCH 440 | Seasonal Service SCH 444 | Special Contract Service SCH 447 | Transportation Service SCH 456 |                   |
|------------------------|--|-----------------------------|-------------------------|-------------------------------|-------------------------------|--------------------------|----------------------------------|--------------------------------|-------------------|
| 1                      | CURRENT REVENUE  | \$ 75,188,000               | 48,603,000              | 20,769,000                    | 690,000                       | 1,772,000                | 37,000                           | 175,000                        | 3,142,000         |
| 2                      | COST OF GAS  | \$ -                        | -                       | -                             | -                             | -                        | -                                | -                              | -                 |
| 3                      | CURRENT DISTRIBUTION MARGIN  | \$ 75,188,000               | \$ 48,603,000           | \$ 20,769,000                 | \$ 690,000                    | \$ 1,772,000             | \$ 37,000                        | \$ 175,000                     | \$ 3,142,000      |
| 4                      | % of Current Margin excl Sch 447   | 100.00%                     | 64.79%                  | 27.69%                        | 0.92%                         | 2.36%                    | 0.05%                            |                                | 4.19%             |
| 5                      | Total Revenue Requirement  | 2583000                     |                         |                               |                               |                          |                                  |                                |                   |
| 6                      | Revenue Requirement as a Percent of Margin Revenue                                     | 3.44%                       |                         |                               |                               |                          |                                  |                                |                   |
| 7                      | Percentage Applied to Overall Margin Increase  |                             | 100.23%                 | 100.23%                       | 100.23%                       | 100.23%                  | 100.23%                          |                                | 100.23%           |
| 8                      | Increase as a Percent of Total Current Margin  |                             | 3.44%                   | 3.74%                         | 3.44%                         | 3.44%                    | 3.44%                            |                                | 3.44%             |
| 9                      | <b>PROPOSED MARGIN REVENUE INCREASE</b>  | <b>\$ 2,583,000</b>         | <b>\$ 1,673,597</b>     | <b>\$ 777,703</b>             | <b>\$ 23,759</b>              | <b>\$ -</b>              | <b>\$ -</b>                      |                                | <b>\$ 107,940</b> |
| 10                     | Percentage Distribution Revenue Increase   | 3.44%                       | 3.44%                   | 3.745%                        | 3.44%                         | 0.00%                    | 0.00%                            |                                | 3.44%             |
| <b>Cost of Service</b> |  |                             |                         |                               |                               |                          |                                  |                                |                   |
| 11                     | Proposed Margin  | \$ 77,771,000               | \$ 50,276,597           | \$ 21,546,703                 | \$ 713,759                    | \$ 1,772,000             | \$ 37,000                        | \$ 175,000                     | \$ 3,249,940      |
| 12                     | LRIC Based Target Margin (Line 25 of Anderson Exhibit 904 Page 1 of 3)                 | \$ 77,728,000               | 50,126,414              | 22,355,645                    | 638,232                       | 1,093,381                | 22,690                           | 340,105                        | 3,151,533         |
| 13                     | Relative Margin to Cost at Present Rates (Line 27 of Anderson Exhibit 904 Page 1 of 3) | 1.00                        | 1.00                    | 0.96                          | 1.12                          | 1.68                     | 1.69                             |                                | 1.03              |
| 14                     | Relative Margin to Cost at Proposed Rates  | 1.00                        | 1.00                    | 0.96                          | 1.12                          | 1.62                     | 1.63                             |                                | 1.03              |
| 15                     | Movement Towards Unity   |                             | -27%                    | 9%                            | -1%                           | 8%                       | 8%                               |                                | -2%               |
| 16                     | Billed Revenue   | \$ 123,033,891              | \$ 75,710,521           | \$ 34,933,999                 | \$ 2,816,659                  | \$ 6,103,778             | \$ 138,879                       | \$ 175,498                     | \$ 3,154,556      |
| 17                     | Percentage Billed Revenue Increase   | 2.1%                        | 2.2%                    | 2.2%                          | 0.8%                          | 0.0%                     | 0.0%                             | 0.0%                           | 3.4%              |