

**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION  
COMMISSION,

Complainant,

v.

AVISTA CORPORATION, D/B/A  
AVISTA UTILITIES,

Respondent.

DOCKETS UE-240006 &  
UG-240007

**CROSS-ANSWERING TESTIMONY OF DR. LANCE D. KAUFMAN**

**ON BEHALF OF**

**ALLIANCE OF WESTERN ENERGY CONSUMERS**

**August 16, 2024**

**TABLE OF CONTENTS**

I. Introduction and Summary ..... 1

II. Cost of Service Study and Rate Spread..... 2

III. Response to Sierra Club ..... 5

**EXHIBIT LIST**

Kaufman, Exh. LDK-7 – Proposed Increase by Base Schedule

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

3 A. My name is Lance D. Kaufman. I am a consultant representing utility customers before state  
4 public utility commissions in the Northwest and Intermountain West. My witness qualification  
5 statement can be found on Exhibit LDK-2.

6 **Q. ARE YOU THE SAME LANCE KAUFMAN WHO PROVIDED RESPONSE**  
7 **TESTIMONY IN THIS PROCEEDING?**

8 A. Yes.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. I provide cross answering testimony on the following items:

- 11 • Cost of service;
- 12 • Rate spread;
- 13 • Rate design; and
- 14 • Sierra Club Recommendations.

15 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

16 A. I make the following recommendations:

- 17 • If the Commission approves a change to the Schedule 99 to a generation allocation, include  
18 Schedule 99 Colstrip Tracker revenues in base revenues when spreading revenue changes, as  
19 set forth in my Response Testimony.
- 20 • If the Commission approves a change to the Schedule 99 allocation, I recommend that the rate  
21 applicable to Schedule 25 be a block design rate, with separate rates charged for the first  
22 6,000,000 kWh per month. I recommend setting the first block equal to \$0.00392 per kWh and  
23 the second block equal to the current rate of \$0.00092 per kWh.

- 1 • The Commission should reject Sierra Club’s recommendation to limit Avista’s electric line  
2 extension allowances to only those locations with all-electric new construction projects. If the  
3 Commission approves Sierra Club’s proposal, the Commission should exempt Schedule 25  
4 from proposed changes.
- 5 • The Commission should decline to order specific implementation directives for Avista related  
6 to NPA analysis, and instead allow Avista to exercise its discretion when conducting NPA  
7 analysis for its Washington customers.
- 8 • The Commission should decline to address Avista’s decarbonization plan as part of this general  
9 rate case proceeding. If, however, the Commission is inclined to address planning processes in  
10 this general rate case, rather than proscribing specific planning requirements as proposed by  
11 Sierra Club, the Commission should direct Avista to conduct a more comprehensive  
12 decarbonization study, such as Puget Sound Electric’s (“PSE”) most recent Updated  
13 Decarbonization Study.

## 14 II. COST OF SERVICE STUDY AND RATE SPREAD

15 **Q. DOES ANY PARTY OTHER THAN AWEC OFFER ALTERNATIVES TO AVISTA’S**  
16 **COST OF SERVICE STUDY?**

17 A. No. AWEC was the only party that filed response testimony recommending changes to  
18 Avista’s cost of service study.

19 **Q. DOES ANY PARTY OTHER THAN AWEC OFFER ALTERNATIVES TO AVISTA’S**  
20 **RATE SPREAD OR REVENUE ALLOCATION?**

21 A. No party other than AWEC proposes alternative rate spread for base rates. However, NVEC  
22 witness William Gehrke recommends alterative rate spread for the Colstrip Schedule 99 rate  
23 adder. NVEC notes that the Schedule 99 costs are spread on an equal percent of revenue and

1 argues that these costs are more appropriately spread based on Avista's generation allocator  
2 S01.<sup>1</sup>

3 **Q. CAN YOU EXPLAIN WHY SCHEDULE 99 IS CURRENTLY SPREAD BASED ON**  
4 **REVENUE RATHER THAN A GENERATION ALLOCATOR?**

5 A. Yes. As noted in my Response Testimony, the costs included in Schedule 99 are typically base  
6 rate costs and are only included in Schedule 99 to streamline the removal of Colstrip from  
7 rates. Spreading Schedule 99 on the basis of revenue ensures that rate spread efforts to move  
8 rates towards cost of service while accounting for gradualism is successful.

9 **Q. HOW DOES NVEC'S PROPOSAL AFFECT SCHEDULE 25?**

10 A. AWEC's cost of service model indicates that Schedule 25's rates are above parity. Movement  
11 towards rate parity requires that Schedule 25 receive a lower-than-average rate increase.  
12 Avista's filed case results in an 11.7 percent increase for Schedule 25 which is slightly lower  
13 than the 12.6 percent overall average increase.<sup>2</sup> NVEC's reallocation of Schedule 99 does not  
14 change Avista's net revenue requirement but increases Schedule 25's rates by an additional  
15 \$1,898,000. This increases Schedule 25's revenue increase from 11.7 percent to 15.5 percent.  
16 Thus, rather than receiving a lower-than-average rate increase, as warranted by Avista's cost of  
17 service study, NVEC's proposal leads to a higher-than-average rate increase for Schedule 25.

18 **Q. CAN NVEC'S RECOMMENDATION TO SPREAD RATES BASED ON**  
19 **GENERATION BE IMPLEMENTED WITHOUT DISRUPTING THE MOVEMENT**  
20 **OF RATES TOWARDS COST OF SERVICE?**

21 A. Yes, this can be accomplished by spreading the combined revenue from base rates and  
22 Schedule 99 according to the approved allocation, then subtracting the generation-based

---

<sup>1</sup> Gehrke, Exh. WG-1T at 8-9.

<sup>2</sup> Miller, Exh. JDM-4.

1 allocation of Schedule 99 from the combined revenue to determine the appropriate base rate  
2 revenue. This method is consistent with AWEC's Response Testimony, in which I recommend  
3 including Schedule 99 Colstrip Tracker revenues in base revenues when spreading revenue  
4 changes. Exhibit LDK-7 illustrates this method using NVEC's proposed spread of Schedule  
5 99 revenues and Avista's proposed spread of revenue.

6 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH ALLOCATING SCHEDULE 99**  
7 **BASED ON GENERATION COSTS?**

8 A. Yes, allocating Schedule 99 based on generation costs result in Schedule 99 allocations driven  
9 by both demand and energy. Currently Schedule 99 has a flat charge per kWh rate design for  
10 each base rate schedule. If the Commission approves a change to the Schedule 99 allocation, I  
11 recommend that the rate applicable to Schedule 25 be a block design rate, with separate rates  
12 charged for the first 6,000,000 kWh per month. I recommend setting the first block equal to  
13 \$0.00392 per kWh and the second block equal to the current rate of \$0.00092 per kWh. A  
14 block design is appropriate because within Schedule 25, there is a high positive correlation  
15 between annual energy and load factor.<sup>3</sup> This means that within Schedule 25, large customers  
16 have a relatively small share of demand costs compared to small customers. My recommended  
17 block design shifts recovery of Schedule 99 towards low load factor customers, which is  
18 consistent with the application of the S01 generation allocator.

---

<sup>3</sup> Correlation coefficient of 0.6. See 240006-07-Miller-RS-RD-WPs-RY1-Elec.xlsx tab named "WA Sch 25".

1 **III. RESPONSE TO SIERRA CLUB**

2 **Q. HAVE YOU REVIEWED SIERRA CLUB’S RESPONSE TESTIMONY IN THIS**  
3 **CASE?**

4 A. Yes. I have reviewed Sierra Club’s Response Testimony and have both general and specific  
5 concerns. In order to provide context for its recommendations, Sierra Club discusses its  
6 interpretation of relevant Washington law related to climate policy.<sup>4</sup> Generally speaking,  
7 Sierra Club argues that Washington’s Climate Commitment Act (“CCA”), State Building Code  
8 Council’s 2021 residential and commercial building codes, Senate Bill 5295 and House Bill  
9 1589 all provide a supportive policy environment for its recommendations. AWEC will  
10 address legal requirements and Washington policy more extensively in briefing, but notes that  
11 none of the laws or policies cited by Sierra Club dictate specific decarbonization actions for  
12 Avista’s natural gas system. I have specific concerns with aspects of Sierra Club’s proposals  
13 related to electric line extension allowances that would only be available to all electric  
14 buildings, non-pipe alternatives, and a gas decarbonization plan for Avista.

15 *Line Extension Allowances*

16 **Q. WHAT IS THE STATUS OF AVISTA’S CURRENT GAS LINE EXTENSION**  
17 **ALLOWANCE POLICY?**

18 A. Avista is in the process of phasing out its gas line extension allowances (“LEAs”) as a result of  
19 the settlement in its 2022 general rate case proceeding, with a complete phase-out by January  
20 1, 2025.<sup>5</sup> No party to this proceeding objected to Avista’s continued implementation of this  
21 2022 settlement requirement in this case.

---

<sup>4</sup> Dennison, Exh. JAD-1T at 4:5-10:11.

<sup>5</sup> Docket Nos. UE-220053 and UG-220054, Final Order 10/04 at ¶ 86 (Dec. 12, 2022).

1 **Q. PLEASE SUMMARIZE SIERRA CLUB’S RECOMMENDATION RELATED TO**  
2 **ELECTRIC LINE EXTENSION ALLOWANCES.**

3 A. Sierra Club argues that Avista is not going far enough to align its line extension allowances  
4 with Washington state decarbonization policy, despite the full phase-out of line extension  
5 allowances for natural gas, because Avista “is still providing a subsidy for new buildings that  
6 rely on gas in the form of its electric line extension allowance, which is available to both all-  
7 electric and mixed-fuel new construction projects.”<sup>6</sup> Thus, Sierra Club recommends that  
8 Commission direct Avista to change its electric line extension allowance tariffs to restrict  
9 allowances to only all-electric new construction projects.<sup>7</sup> Electric line extension allowances  
10 would not be available to “mixed-fuel construction projects that rely on gas or propane.”<sup>8</sup>

11 **Q. DOES AWEC HAVE CONCERNS WITH SIERRA CLUB’S RECOMMENDATION?**

12 A. Yes. Sierra Club’s recommendation ignores the economic basis for line extension allowances,  
13 which are designed to offset some or all of the costs of connecting customers to utility service.  
14 These programs ensure equitable access to utility service while minimizing subsidies both  
15 within customer classes and among customer classes and should be applied consistently among  
16 utility customers. Additionally, Sierra Club’s recommendation raises cost equity issues among  
17 similarly situated customers within the same customer class by providing financial incentives  
18 for some customers, but not others. This is of particular concern for customers that would be  
19 excluded from obtaining cost-effective service if fully electrifying is not an option. Such  
20 treatment may constitute rate discrimination under RCW 80.28.100 and may create an  
21 unreasonable preference for electric-only service under RCW 80.28.090, despite the fact that

---

<sup>6</sup> Dennison, Exh. JAD-1T at 12:13-15.

<sup>7</sup> *Id.* at 13:14-18.

<sup>8</sup> *Id.*



1 Avista maintains an obligation to provide natural gas service. AWEC will address these legal  
2 concerns in the briefing.

3 **Q. IS THE ELIMINATION OF LEAS FOR DUAL FUEL CONSTRUCTION PROJECTS**  
4 **CONSISTENT WITH THE CCA?**

5 A. No. The primary feature of the CCA is a cap-and-trade market based approach to reducing  
6 carbon emissions. Market based approaches to carbon reduction are economically efficient  
7 because they align consumer costs with the social cost of carbon emissions without restricting  
8 consumer choice. Sierra Club's LEA proposal is not consistent with the CCA because it is an  
9 *ad hoc* and highly indirect effort to reduce gas use regardless of the social cost of carbon or  
10 consumer preference. The CCA directly increases the cost of consuming goods and services  
11 that have carbon emissions. Limits on electric line extensions are ineffective because they are  
12 not directly related to carbon emissions, do not treat all sources of carbon emissions  
13 consistently, and have asymmetric impacts on existing and new customers.

14 **Q. WHAT ARE YOUR EQUITY CONCERNS WITH LEAS?**

15 A. Sierra Club's proposal introduces inequitable line extension treatment with only certain  
16 customers receiving LEAs. To illustrate equity concerns, consider the treatment of distribution  
17 service drops for two customer classes, one eligible for line extensions and one not eligible for  
18 line extensions. The customer class ineligible for line extensions will pay the whole cost of  
19 installing service drops, thus contributing no amount to rate base, return on rate base, or  
20 depreciation expense for these assets. The customer class eligible for line extensions will not  
21 pay Avista for the whole cost of installing service drops, with the balance being added to rate  
22 base. However, Avista does not consider customer contributions when allocating costs, thus

1 both customer classes will pay for service drops in rates. This double charges classes that are  
2 not eligible for line extensions.

3 **Q. WILL SIERRA CLUB'S LEA PROPOSAL HAVE ASSYMETRIC IMPACTS ACROSS**  
4 **CUSTOMER CLASSES?**

5 A. Yes, customer classes that face greater difficulty in electrifying gas consumption will be  
6 disproportionately impacted by Sierra Club's proposal. It is relatively economic for new  
7 residential construction to avoid gas use because most residential gas applications can be  
8 avoided through efficient electric alternatives, such as heat pumps and induction stoves.  
9 Industrial applications, which require higher temperatures than residential applications are not  
10 as easily electrified. It is reasonable to expect that large industrial customers will have a  
11 disproportionately high exclusion from LEAs under Sierra Club's proposal.

12 **Q. DOES SIERRA CLUB ACCURATLY PORTRAY THE CALIFORNIA PUBLIC**  
13 **UTILITIES COMMISSION'S ("CPUC") EXCLUSION OF ELECTRIC LEAS?**

14 A. No, Sierra Club fails to note that non-residential customers can apply for exemption to the  
15 exclusion. The CPUC provides an exemption process to provide gas extension allowances to  
16 non-residential customers.<sup>9</sup> When modifying electric LEAs, the CPUC applied the gas LEA  
17 exemption to electric LEAs.<sup>10</sup> However, this exemption process is lengthy and may discourage  
18 development.<sup>11</sup>

---

<sup>9</sup> California PUC Decision 22-09-026, Phase III Decision Eliminating Gas Line Extension Allowances, Ten Year Refundable Payment Option, and Fifty Percent Discount Payment Option Under Gas Line Extension Rules, No. R.19-01-011 (Sept. 20, 2022), <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M496/K987/496987290.PDF>.

<sup>10</sup> California PUC, Decision 21-12-037, Eliminating Electric Line Extension Subsidies for Mixed-Fuel New Construction and Setting Reporting Requirements, No. R.19-01-011 (Dec. 21, 2023), <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M521/K890/521890476.PDF>.

<sup>11</sup> *Id.* 21-12-037 at 35.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. I recommend that the Commission reject Sierra Club’s recommendation to limit Avista’s  
3 electric line extension allowances to only those locations with all-electric new construction  
4 projects. Instead, the Commission should make no changes to Avista’s current electric line  
5 extension allowance policy. If the Commission approves Sierra Club’s proposal, the  
6 Commission should exempt Schedule 25 from proposed changes.

7 *Non-Pipe Alternatives*

8 **Q. PLEASE SUMMARIZE SIERRA CLUB’S PROPOSAL RELATED TO NON-PIPE**  
9 **ALTERNATIVES.**

10 A. Sierra Club takes issue with Avista’s lack of progress to date regarding Non-Pipe Alternatives  
11 (“NPAs”), and therefore finds that the Commission needs to take a more proactive and  
12 prescriptive approach to the analysis that Avista should undertake to evaluate NPAs. To that  
13 end, Avista recommends that the Commission direct Avista to utilize the NPA framework  
14 ordered by the Oregon Public Utility Commission, subject to certain “improvements.”  
15 Specifically, Sierra Club recommends that the Commission require Avista to implement the  
16 Oregon Commission’s NPA framework in Washington, except that (1) all references to  
17 Oregon’s Climate Protection Plan should be replaced with references to Washington’s CCA  
18 and any other relevant Washington policies, (2) the project threshold for performing NPA  
19 analysis should be set no higher than \$500,000, and (3) Avista should perform NPA analysis  
20 for at least five gas infrastructure projects in its next Integrated Resource Plan (“IRP”), even if  
21 these are not projects that would otherwise meet applicable criteria.<sup>12</sup>

---

<sup>12</sup> Dennison, Exh. JAD-1T at 29:8-30:19.

1 **Q. DO YOU HAVE CONCERNS WITH SIERRA CLUB’S PROPOSAL?**

2 A. Yes. AWEC does not oppose Avista undertaking a more robust NPA analysis in its next IRP  
3 proceeding, as recommended by Sierra Club. However, AWEC is concerned with an overly  
4 prescriptive approach by the Commission based on the record and findings of the Oregon  
5 Commission in a completely separate proceeding. Avista has already stated that it will build  
6 from the Oregon NPA framework for use in Washington.<sup>13</sup> Avista should maintain the  
7 discretion to make appropriately tailored changes to that framework in order to best address its  
8 Washington customers’ needs.

9 **Q. WHAT IS YOUR RECOMMENDATION RELATED TO SIERRA CLUB’S**  
10 **PROPOSAL FOR NON-PIPE ALTERNATIVES?**

11 A. I recommend that the Commission decline to order specific implementation directives for  
12 Avista related to NPA analysis, and instead allow Avista to exercise its discretion when  
13 conducting NPA analysis for its Washington customers.

14 *Gas System Decarbonization Plan*

15 **Q. DOES AVISTA HAVE A CURRENT GAS SYSTEM DECARBONIZATION PLAN?**

16 A. Yes. Pursuant to the settlement in the Company’s 2022 rate case,<sup>14</sup> Avista included a Gas  
17 System Decarbonization Plan in its 2023 gas IRP.<sup>15</sup>

18 **Q. DO YOU SHARE SIERRA CLUB’S CONCERNS WITH AVISTA’S CURRENT GAS**  
19 **SYSTEM DECARBONIZATION PLAN?**

20 A. No. Sierra Club’s substantive criticisms are rooted in an erroneous interpretation of the CCA’s  
21 requirements and reliance on Oregon Public Utility Commission criticism, which has no

---

<sup>13</sup> *Id.* at 29:1-7.

<sup>14</sup> Docket Nos. UE-220053 and UG-220054, Final Order 10/04 at Appendix A at 12 (Dec. 12, 2022).

<sup>15</sup> Kinney, Exh. SJK-7 and SJK-7a.

1 bearing in the current proceeding before the Commission. Sierra Club’s primary criticism is  
2 that Avista’s decarbonization plan was presented as an appendix and that the decarbonization  
3 plan may not adequately identify cost-effective options to decarbonize.

4 **Q. WAS AVISTA’S 2023 DECARBONIZATION PLAN LIMITED TO AN IRP**  
5 **APPENDIX?**

6 A. No, the 2023 decarbonization plan was integrated into Avista’s IRP body. For example,  
7 Chapter 3 identifies electrification as a resource,<sup>16</sup> and the resource portfolio selection process  
8 includes consideration of the cost of meeting carbon commitments.<sup>17</sup>

9 **Q. WHAT IS THE APPROPRIATE TREATMENT IF SIERRA CLUB BELIEVES**  
10 **AVISTA’S 2023 IRP, INCLUSIVE OF THE DECARBONIZATION PLAN, IS NOT**  
11 **COST-EFFECTIVE ?**

12 A. If Avista’s 2023 IRP is not cost-effective Sierra Club should argue for a prudence disallowance  
13 for the imprudent aspects of associated rate requests. Sierra Club has not done so, indicating  
14 that it does not have sufficient evidence to support its assertion.

15 **Q. PLEASE SUMMARIZE SIERRA CLUB’S RECOMMENDATION RELATED TO A**  
16 **GAS SYSTEM DECARBONIZATION PLAN BASED ON ITS CONCERNS.**

17 A. Sierra Club recommends that the Commission direct Avista to file a Gas System  
18 Decarbonization Plan in this docket no later than March 2027, which should include the  
19 following elements:

- 20 (1) incorporate findings from Avista’s Targeted Electrification Pilot, (2)  
21 evaluate a range of decarbonization and CCA compliance measures,  
22 including evaluation of building electrification as a proactive resource  
23 strategy, (3) address opportunities to coordinate Avista’s efficiency and  
24 electrification measures with other available funds and programs,  
25 including the IRA and Washington’s HEAR program, and (4) analyze at  
26 least one scenario in which Avista’s annual gas system emissions are not  
27 greater than its share of the statewide CCA emissions cap, without

---

<sup>16</sup> Kinney, Exh. SJK-7 at 65-72.

<sup>17</sup> *Id.* at 149-152.

1 relying on additional allowances. Estimate the percent reduction in gas  
2 system throughput by 2030 in this scenario, and identify strategies that  
3 would reduce Avista's gas system rate base by the same percentage in  
4 2030.<sup>18</sup>  
5

6 **Q. DOES SIERRA CLUB'S PROPOSAL ADD ANY MATERIAL PLANNING OR STUDY**  
7 **REQUIREMENTS TO AVISTA'S CURRENT OBLIGATIONS?**

8 A. No, Avista is currently obligated to identify the least-cost, considering risk method of meeting  
9 long-term customer needs. All of Sierra Club's recommendations reasonably fall within the  
10 current IRP framework. No additional direction from the Commission is required to obligate  
11 Avista to appropriately plan to meet long-term CCA compliance obligations cost-effectively.  
12 While the proposal does not add to Avista's planning burden, prescribing certain  
13 decarbonization planning requirements risks biasing the decarbonization plan towards  
14 ineffective solutions. While not explicitly required in Sierra Club's recommendation,  
15 prescribing a decarbonization plan implies that decarbonization is a planning goal. Avista's  
16 planning goal should not be decarbonization, but rather meeting CCA requirements in a cost-  
17 effective manner.

18 **Q. DO YOU SUPPORT SIERRA CLUB'S RECOMMENDATIONS RELATED TO A GAS**  
19 **DECARBONIZATION PLAN?**

20 A. No. A decarbonization plan prior to a more robust decarbonization study is premature and  
21 would likely lead to inefficient and expensive decarbonization measures that do not provide  
22 economic benefits to customers. It would also potentially provide no societal benefits through  
23 reduced emissions. Sierra Club has not provided material evidence that Avista's current  
24 planning process is deficient. Sierra Club's proposal does not add value to Avista's planning

---

<sup>18</sup> Dennison, Exh. JAD-1T at 45:11-46:2.

1 process. If the Commission finds that Avista’s 2023 IRP does not include cost-effective  
2 treatment of carbon needs, the Commission should disallow such costs in the future.

3 For the avoidance of doubt, AWEC does not oppose cost-effective decarbonization  
4 measures that continue to allow for customer fuel choice. However, determining whether and  
5 what cost-effective decarbonization measures may exist requires a deep understanding of the  
6 options, if any, for decarbonizing Avista’s natural gas system. AWEC welcomes further study  
7 of Avista’s decarbonization costs and benefits. However, a general rate case is not an  
8 appropriate venue for proscribing planning requirements. If the Commission is inclined to  
9 address planning processes in this general rate case, rather than proscribing specific planning  
10 requirements the Commission should direct Avista to conduct a more comprehensive  
11 decarbonization study, such as Puget Sound Electric’s (“PSE”) most recent Decarbonization  
12 Study.<sup>19</sup> PSE’s decarbonization study was developed with input from stakeholders regarding  
13 appropriate assumptions and scenarios, and evaluated potential rate and cost impacts for  
14 customers (albeit in a somewhat limited fashion). This is invaluable and necessary information  
15 that must be developed and understood prior to a decarbonization plan that would entail  
16 specific decarbonization measures.

17 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

18 A. Yes.

---

<sup>19</sup> Docket Nos. UE-220066/UG-220067 – PSE’s Updated Decarbonization Study (Dec. 21, 2023).