Exhibit No. ___ CT (CRM-1CT)
Dockets UE-140188/UG-140189
Witness: Chris McGuire
REDACTED VERSION

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION d/b/a AVISTA UTILITIES,** **Respondent.**	**DOCKETS UE-140188 and UG-140189** **(*Consolidated*)**

TESTIMONY OF

Chris R. McGuire

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Revenue Requirement, Attrition Studies, REC Revenues Rebate

July 22, 2014
Revised July 31, 2014 (pp 5, 6, 35, 42)

Confidential Per Protective Order
REDACTED VERSION

- Ms. Betty A. Erdahl presents Staff's working capital adjustments for electric and natural gas service.
- Ms. Juliana M. Williams addresses low income issues and presents Staff's recommendation on Avista's Low Income Rate Assistance Program.
- Mr. Bradley T. Cebulko presents Staff's recommendation for a Service Quality and Reliability program.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibit No.___ (CRM-2) and Exhibit No.___ (CRM-3). These exhibits present my analysis of attrition and revenue requirements, for electric and natural gas operations, respectively. These exhibits use the same models Avista uses in its direct case. My Exhibit Nos.___(CRM-2) and ___(CRM-3) correspond to Avista Exhibit Nos.___(EMA-2) and ___(EMA-3), respectively.

I also have prepared Exhibit No.___ (CRM-4), which presents my calculation of the REC revenues rebate and the customer-class specific REC rebate rates.

III. SUMMARY OF REVENUE REQUIREMENTS AND STAFF'S PROPOSED REC REVENUES TRACKING MECHANISM

Q. What is Avista's revenue requirement for electric service and gas service, and how does this compare to Avista's current base rates?

A. Staff's analysis demonstrates Avista has a total attrition-adjusted electric revenue requirement for the 2015 rate year of ~~$472,695,000~~ $482,393,000. As shown in Exhibit No.__ (CRM-2), page 1, column (g), line 7, this is a decrease of $8,231,000 relative to

2014 base rate revenues. This represents a 1.7 percent decrease in electric revenues relative to 2014 base rate revenues. I recognize these 2014 electric base rates expire at the end of 2014, and discuss Staff's presentation relative to 2013 base rate revenues in Section IV(B)(1) of this testimony.

Staff's analysis also demonstrates Avista has a total attrition-adjusted natural gas revenue requirement for the 2015 rate year of ~~$157,114,000~~ $160,325,000. As shown in Exhibit No.__ (CRM-3), page 1, column (g), line 7, this is an increase of $7,085,000 relative to 2014 base rate revenues. This represents a ~~4.5~~ 4.4 percent increase in natural gas revenues relative to 2014 base rate revenues. I recognize these 2014 gas base rates also expire at the end of 2014, and discuss Staff's presentation relative to 2013 base rate revenues in Section IV(B)(1) of this testimony.

Q. Please summarize Staff's proposal for the REC revenues tracking and rebate mechanism.

A. I recommend the Commission accept Avista's proposed REC revenues tracking and rebate mechanism with three modifications: 1) Interest on the account balance after January 1, 2015, should accumulate at the Company's after-tax rate of return, and not the Company's cost of debt; 2) the REC revenues rebate should be returned to customers at a rate consistent with cost of service, and not on a uniform cents/kWh basis across all rate classes; and 3) REC expenses that are not directly related to specific REC revenues should be removed from the tracking account and be included instead as an element of energy costs.

Electric Attrition Study "Attrition Rate Base" and "Attrition Net Operating Income" balances in column (a) unadjusted for the revenue growth factor in column (b).

Column (d), labeled "After Attrition Adjustments," includes an increase of $357,000 to the Attrition Revenue Requirement amount in column (c), resulting from adjustments Avista states is necessary to restate the attrition-adjusted subtotal for the Lake Spokane deferral which was outside of the attrition-adjusted revenue requirement proposed in this case, but set to begin amortization in 2015. Staff does not contest this adjustment.

Column (e), labeled "Final Balances," shows the electric attrition adjusted revenue requirement after reflecting the After Attrition Adjustments included in column (d), resulting in an adjusted electric attrition total of $5,823,000. Line 11 shows the attrition-based 2015 overall revenue requirement of ~~$472,695,000~~ $482,393,000.

Column (f) shows the 2014 Temporary Rate Increase approved in Docket UE-120436 of $14,054,000, which is currently in effect, but expires at the end of 2014. Due to the total attrition revenue need in 2015 (over 2013 levels) as shown in column (e) of $5,823,000, which is lower than the 2014 temporary rate increase of $14,054,000, the Commission should allow the 2014 revenue increase to expire and replace it with a revenue increase of $5,823,000 over 2013 rates. This represents a ~~1.25~~ 1.22 percent increase in revenues relative to 2013 rates.

Column (g), labeled "2015 Revenue Requirement," shows the 2015 incremental revenue decrease of $8,231,000 relative to the 2014 temporary rates. This represents a ~~1.71~~ 1.68 percent decrease in revenues relative to 2014 rates.

growth factor of 1.021600, reflecting application of rates to the 12-months-ending June 30, 2013, test period billing determinants.

Column (c), labeled "Attrition Adjusted Balances," shows the calculation of the $8,167,000 revenue requirement at the proposed 6.77 percent rate of return, based on the Natural Gas Attrition Study "Attrition Rate Base" and "Attrition Net Operating Income" balances in column (a) unadjusted for the revenue growth factor in column (b).

Column (d), labeled "After Attrition Adjustments," includes an increase of $276,000 to the Attrition Revenue Requirement amount in column (c), resulting from adjustments that Avista states is to restate the attrition-adjusted subtotal for atmospheric testing expenses not included in the December 31, 2013, Commission Basis results, and not captured in trend analysis. Staff does not contest this adjustment.

Column (e), labeled "Final Balances," shows the natural gas attrition adjusted revenue requirement after reflecting the After Attrition Adjustments included in column (d), resulting in an adjusted electric attrition total of $8,443,000.

Column (f) shows the 2014 Temporary Rate Increase approved in Docket UE-120436 of $1,358,000, which is currently in effect, but expires at the end of 2014. For consistency of treatment with electric service, the Commission should allow the 2014 natural gas revenue increase to expire and replace it with a revenue increase of $8,443,000 over 2013 base rate revenues. This represents a ~~5.68~~ 5.56 percent increase in revenues relative to 2013 base rate revenues.

Column (g), labeled "2015 Revenue Requirement," shows the 2015 incremental revenue increase of $7,085,000 relative to the 2014 temporary rates. This represents a ~~4.51~~ 4.42 percent increase in revenues relative to 2014 base rate revenues.