BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-19_____

DOCKET NO. UG-19_____

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission Avenue, Spokane, Washington. I serve as the Director of Regulatory Affairs.

Q. Would you briefly describe your educational background and professional experience?

A. Yes. I am a 1995 graduate of Gonzaga University with a Bachelors degree in Business Administration. In 1997 I graduated from Gonzaga University with a Masters degree in Business Administration. I started with Avista in April 1997 as a Resource Management Analyst in the Company's Demand Side Management (DSM) department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company's educational and governmental customers. In 2000, I was selected to be one of the Company's key Account Executives, where I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in that role included being the discovery coordinator for the Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to Manager of Rates and Tariffs, and later promoted to be Senior Manager of Rates and Tariffs. My primary areas of responsibility included electric and natural gas rate design, decoupling, power cost and natural gas rate adjustments, customer usage and revenue analysis, and tariff administration. In October 2017, I was promoted to my present position.

Q. What is the scope of your testimony in this proceeding?

A. My testimony will provide an overview of the Company's electric and natural gas Decoupling Mechanisms ("Decoupling Mechanisms") that were made effective on January 1, 2015 and which would expire at the end of this general rate case absent our request to extend the life of the mechanisms in this proceeding.[1] The Company requests that the Commission authorize the approval of changes to the Company's electric and natural gas Decoupling Mechanism tariff Schedule's 75 and 175. These changes seek to:

1) Extend the current Decoupling Mechanisms through March 31, 2025;

2) Modify the Decoupling Mechanisms related to the treatment of new customers added after a new decoupling base is set in a general rate case;

3) Change the effective date of the annual tariff revisions from November 1st to August 1st of every year;

4) Implement an annual true-up to the mechanisms;

5) Extend the natural gas quarterly reporting requirement from 45 to 60 days;[2] and

6) Approve a natural gas conservation target of 5 %, with penalties.

Q. In summary, why should the Commission extend the Mechanisms through March 31, 2025?

A. Based on proven benefits to both the customer and the Company that the Decoupling Mechanisms have shown to date, as validated in the Independent Final Report, and the lack of adverse impacts associated with these mechanisms, the Company requests the Commission approve the continuation of the Decoupling Mechanisms. By extending the

[1] In Order 09 in Docket UE-140188, the Commission approved an all-party settlement stipulation which extends the life of the Decoupling Mechanisms until the end of this general rate case, or April 1, 2020, whichever comes first.
[2] Should the Decoupling Mechanisms be discontinued, the Company's Earnings Test, which was approved as part of the Decoupling Mechanisms, would no longer remain in effect.

mechanisms and providing some certainty to the Company that it can recover a significant portion of its fixed costs of providing service, the Company is able to maintain its central focus of being a trusted energy advisor to its customers without adverse or uncertain financial impacts from evolving customer choice in the future. The Company believes, consistent with the Commission's conclusion when they approved the mechanisms in 2014, that the Decoupling Mechanisms continue to be in the public interest, promote the policy goals of increased conservation, and result in fair, just, reasonable, and sufficient rates.

Q. Has the Commission recently approved Puget Sound Energy's request to extend their Decoupling Mechanisms?

A. Yes. In Dockets UE-170033 and UG-170034, the Commission approved, albeit not on a permanent basis, Puget Sound Energy's request to keep their Decoupling Mechanisms in effect. In Order 08 in those dockets, the Commission found "that decoupling is working as intended" and that decoupling is "a rate methodology for recovering a defined portion of the fixed costs PSE incurs to deliver electricity and natural gas to its customers."[3] Respectfully, given that Avista's Decoupling Mechanisms are similar in most ways to Puget Sound Energy's mechanisms (Avista designed our mechanisms based on Puget's), and further that the same independent third-party evaluator found that Avista's Decoupling Mechanisms were working as intended (as approved by the Commission), we believe that our mechanisms likewise should be extended, as discussed in great detail below.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. Yes. I am sponsoring Exh. PDE-2 which is the "Avista Decoupling Evaluation – Final Report" prepared by H. Gil Peach & Associates LLC. A table of contents for my

[3] Dockets UE-170033 and UG-170034, Order 08, ¶260.

testimony is as follows:

II. BACKGROUND

Q. Would you please provide the background of the Company's Decoupling Mechanisms?

A. Yes. On November 25, 2014, the Commission issued Order 05 in Docket Nos. UE-140188 and UG-140189, approving the settling parties' request to implement electric and natural gas Decoupling Mechanisms for five years commencing January 1, 2015 and ending after December 31, 2019.[4] In its approval of the Decoupling Mechanisms, the Commission stated, "[w]e find that the decoupling mechanisms presented in the Settlement are in the public interest, will promote the policy goals of increased conservation, and will result in fair, just, reasonable, and sufficient rates."

The purpose of the Decoupling Mechanisms is to decouple the Company's Commission-authorized revenues from energy sales, such that the Company's revenues will

[4] In Order 09 in Docket UE-140188, the Commission approved an all-party settlement stipulation which extends the life of the Decoupling Mechanisms until the end of this general rate case, or April 1, 2020, whichever comes first.

be recognized based on the number of customers served under the applicable service schedules. The Decoupling Mechanisms allows the Company to: 1) defer the difference between actual decoupling-related revenue approved for recovery in the Company's last general rate case; and 2) file a tariff to surcharge or rebate, by rate group, the total deferred amount accumulated in the deferred revenue accounts for the prior January through December time period.

Q. Did the Company contract with an independent, third-party to evaluate its Decoupling Mechanisms?

A. Yes. As part of the approval, the Commission required a third-party evaluation, paid for by Avista shareholders, to be completed by the end of the third full-year (2018) of the implementation of the mechanisms. The Commission required the Company to consult with its Energy Efficiency Advisory Group ("Advisory Group") in the development of the Request for Proposals (RFP) and the selection of the consultant to perform the evaluation. After incorporating input from the Advisory Group, Avista was required to file its draft RFP, including the scope of the evaluation query, with the Commission for approval. At a minimum, the evaluation was to address decoupling's effect on revenues, its impact on conservation, the extent to which the allowed revenues are recovering their allocated cost of service by customer class, and the extent to which fixed costs are recovered in fixed charges for the customer classes excluded from the Decoupling Mechanisms.

In compliance with Order 05, the Company filed its draft RFP on June 1, 2017. In preparation of completing the draft RFP, the Company engaged with the Advisory Group in the development of the RFP over the course of several months and included all requested edits, modifications, and suggestions into the RFP document. On July 13, 2017, the

Commission issued Order 08 approving the Company's Request for Proposals.

Upon the Commission's approval of the RFP, the Company issued the approved RFP to a group of consultants that were shared with the Advisory Group. H. Gil Peach & Associates was ultimately selected as the consultant for this project. In addition to meeting the requirements set forth in the Statement of Work contained within the RFP, H. Gil Peach & Associates had recently completed a similar review for Puget Sound Energy, which in the Company's view, added to their qualifications. On October 1, 2018 the Company filed the final report conducted by H. Gil Peach & Associates with the Commission. On November 14, 2018 the Commission issued an acknowledgment letter stating: "The Commission accepts the third-party evaluation filed October 1, 2018 as compliant with Order 05." The final report, labeled "Avista Decoupling Evaluation" ("Independent Final Report"), is included as Exh. PDE-2.

III. PURPOSE AND BENEFITS OF DECOUPLING

Q. What is the purpose and benefits of Decoupling?

A. As described in the Commission's *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, To Encourage Utilities To Meet Or Exceed Their Conservation Targets* in Docket U-100522, ("Decoupling Policy Statement"), decoupling is "a means to separate a utility's recovery of costs and return from the amount of energy it sells."[5] Said another way, decoupling is a mechanism designed to sever the link between a utility's revenues and consumers' energy usage. As noted in the Commission order approving Avista's Decoupling Mechanisms, decoupling removes the so-called throughput incentive and is intended to promote more aggressive pursuit of cost-effective conservation. As shown in

[5] Docket U-100522, Para. 7

Table Nos. 1 and 2 below for both electric and natural gas residential customers, Avista has continued to see a decline in use per customer for the past several years which is illustrative of the need and importance of the Decoupling Mechanisms:

Table No. 1: Electric Residential Use-Per-Customer

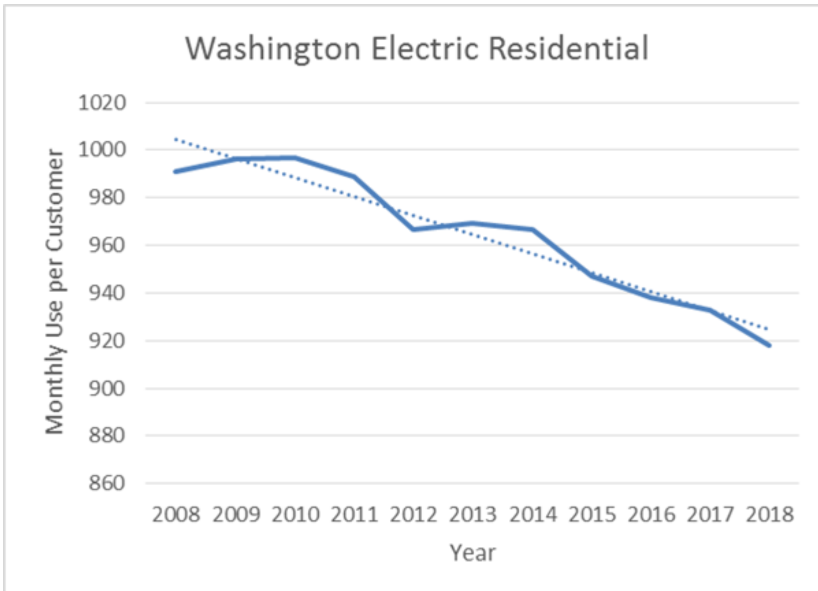
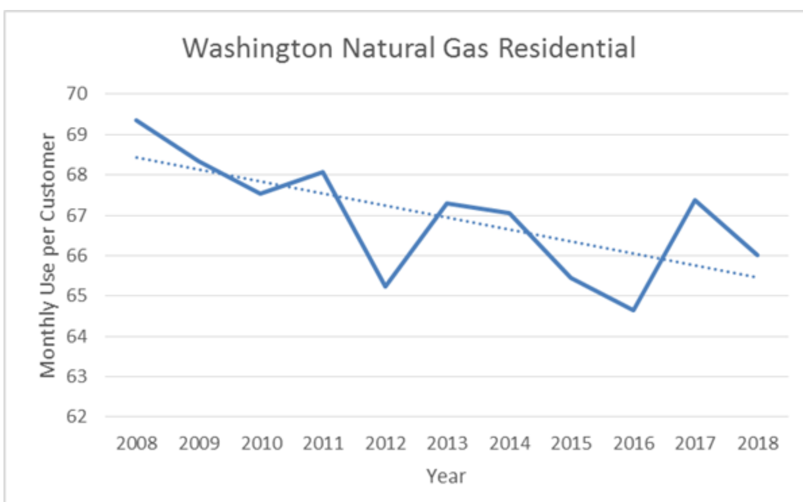


Table No. 2: Natural Gas Residential Use-Per-Customer



Absent the Decoupling Mechanisms, in periods of declining use-per-customer similar to what the Company has experienced, Avista would under-recover its fixed costs of providing service to its customers in the periods in between general rate case filing (given that a majority of the Company's fixed costs are recovered in variable energy rates). To the extent use-per-customer declines from programmatic and non-programmatic DSM, or distributed generation resources between general rates cases, the Decoupling Mechanisms provide the Company recovery of its fixed costs for providing service to its customers. These are the same fixed costs, on a revenue-per-customer basis, that the Commission approves for recovery in a general rate case. In addition, the mechanisms ensure that to the extent there is customer growth in the rate year and beyond, the revenues are available to offset the growth in utility costs following the test year. By allowing the Company to recover a significant portion of its fixed costs of providing service, the Company is able to maintain its central focus of being a trusted energy advisor to its customers without uncertainty as to the financial impact customer choice may have on the Company.

Q. Would you say that the Decoupling Mechanisms have provided benefits to the Company and its customers?

A. Yes. As further detailed in the analysis provided in the Independent Final Report, the Decoupling Mechanisms have proven to be a vital and meaningful program for both the Company and its customers. Not only has the program accomplished its original objectives of removing the disincentive for the Company to promote the efficient end-use of energy through conservation, it has also been beneficial to customers in times of a colder than normal winter, or a hotter than normal summer, when the Company has returned those additional revenues back to customers. Specifically related to conservation, as part of the approval of the Decoupling Mechanism, Avista has increased its electric energy efficiency target by 5%, directly benefiting customers through greater electric efficiency acquisition. As described by the Alliance To Save Energy:[6]

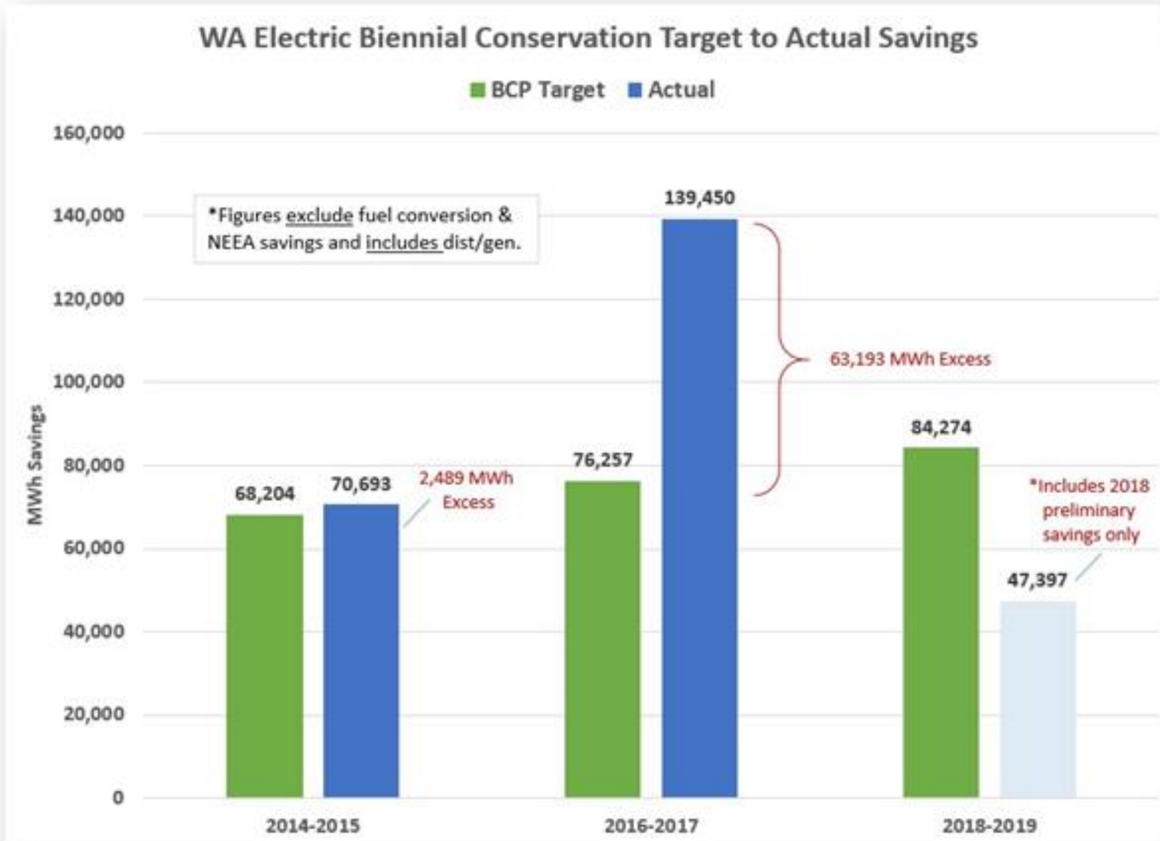
> As consumers broadly engage in energy efficiency, all ratepayers may benefit as the high costs of new power plants, transmission lines and pipelines may be reduced or avoided. Decoupling may also reduce volatility in energy bills due to weather and other factors, and it reduces risk for utilities too. It preserves customers' incentive for efficiency while removing utilities disincentives.

The Company has demonstrated, in a number of filings before this Commission, that it has been aggressively pursuing all cost-effective conservation for a number of years. In addition, as the Commission stated in its Decoupling Policy Statement, Washington's Energy Independence Act (EIA), enacted by the voters as the Washington Energy Independence Act (Initiative 937 or I-937) and codified as RCW 19.285, requires electric utilities to "pursue all available conservation that is cost-effective, reliable, and feasible."[7] Simply stated, the Company has aggressively sought all available cost-effective conservation in order to meet its required savings targets. The Company actively promotes technologies that are cost-effective, reliable, and feasible, with the goal of meeting and exceeding its required targets. As shown in Table No. 3 below, the Company has exceeded its Biennial Conservation Plan Targets in the prior two periods:

[6] www.ase.org/resources/utility-rate-decoupling-0

[7] Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets, November 2010, Page 3.

Table No. 3: Biennial Conservation Plan Achievement[8]



As was discussed in the Independent Final Report, pages 6-9, the Biennial Conservation Plan (BCP) for I-937 provided energy savings targets. In the 2014-2015 Biennium, Avista acquired 70,693 MWh (verified gross savings) in Washington or 104% of its two-year electric target of 68,204 MWh. The five-percent (5%) decoupling adder did not apply to this Biennium. In 2016-17, Avista acquired 139,450 MWh (total verified gross savings) in Washington, or 183% percent of its I-937 target of 76,257.[9] The five-percent (5%) decoupling adder is included. The Independent Final Report made this conclusion

[8] Please note for the 2018-2019 time period, the "BCP Target" is a two year value of 84,274 MWhs, while the actual shown of 47,397 MWhs is ONLY for 2018.

[9] The Independent Final Report, Page 6-9, stated an incorrect I-937 target of 141,331 MWh. The correct I-937 target should have stated 76,257 MWh.

regarding decoupling's role in energy conservation:

> Decoupling is not a driver for energy conservation. But it facilitates pursuit of all cost-effective energy conservation in accord with Commission direction. Anyone who has been present in a non-decoupled utility when a planned program budget cap is reached has heard staff telling customers that the budget cap has been reached, so they should consider tracking when the program will reopen in the next year and get their application in immediately. From experience, we have seen major programs (elsewhere) that are open for applications for one or two days a year. **With decoupling, that barrier is removed; so, programs can follow the direction of I-937 to pursue all cost effective conservation (Emphasis added)**.[10]

The Company would commit to continuing to increase its electric energy efficiency targets by 5% with the continuation of the electric Decoupling Mechanism.

Q. Does the Company presently have a natural gas efficiency target like it does for electric operations?

A. No, it does not. The Company's existing natural gas Decoupling Mechanism does not include a commitment to increasing its natural gas energy efficiency targets. If the Decoupling Mechanisms are extended as proposed in this Petition, Avista will commit to achieving 5% more natural gas conservation than required to meet from the Avista natural gas Integrated Resource Plan (IRP) over each of the same two-year reporting bienniums as is used to determine compliance with the electrical conservation requirements in RCW 19.285. In addition, if the Commission approves the Company's Petition, Avista commits to a penalty arrangement should it not achieve its conservation commitments. Avista proposes to pay $20,000 for meeting between 4.5 percent and 5.0 percent of its incremental natural gas conservation commitment, $50,000 for meeting between 3.75 percent and 4.5 percent of its incremental commitment, and $75,000 for less than 3.75 percent of its incremental

[10] Avista Decoupling Evaluation – Final Report, H. Gil Peach & Associates LLC p. 6-10

commitment. These penalties are consistent with what Puget Sound Energy (PSE) has for its natural gas Decoupling Mechanism.

Q. Please explain how the Decoupling Mechanisms have provided benefits to Avista.

A. Decoupling has been an essential means for providing the Company revenue stability each year, without impacting utility operations.[11] Decoupling has also been vital in ensuring the Company is able to recover the fixed costs of providing service to customers, therefore making the Company agnostic to the impacts of customers pursuing distributed generation (net metering) resources and conservation. Decoupling positively affects how Avista views the proliferation of distributed generation on our system. Accordingly, there is no reason to discourage the amount of net metering on our system, given the limited impact on cost recovery in between general rate cases. With decoupling, the Company has been supportive of customer choice towards distributed generation resources as a clean low cost generation resource that can provide benefits to Avista's system.[12]

The Decoupling Mechanisms also provide two important protections to customers both through an annual rate increase limitation and an Earnings Test. The 3 percent annual rate increase limitation ensures that the amount of an incremental rate adjustment for any of the rate groups does not exceed more than 3 percent in any given year, reducing the likelihood of rate shock. The Earnings Test ensures that, should the Company have an earned return in excess of its authorized return, one-half the rate of return in excess of authorized will be

[11] *Id*. p. 10-1

[12] In a two year period from April 30, 2016 to April 30, 2018, distributed generation resources have seen a 71% increase in nameplate capacity in Avista's Washington service territory, going from 390 total systems, with a nameplate capacity of 2,374 kW's, to 600 total systems, with a nameplate capacity of 4,049 kW's (Docket UE-131883, Avista Net Metering Distributed Generation Annual Reports)

returned to customers. The Earnings Test and rate increase limitations approved by the Commission as part of the Decoupling Mechanisms have provided, and will continue to provide, meaningful protections for customers.

IV. DECOUPLING MECHANISM PERFORMANCE

Q. How have the Decoupling Mechanisms performed?

A. The Decoupling Mechanisms have proven to work for both the customers' and the Company's benefit, as intended. Table No. 4 below, reproduced from the Independent Final Report (Table 2-2), shows the deferral balances for the Residential Customer Groups for both electric and natural gas were in the surcharge direction for 2015 and 2016 deferral period, and in the rebate direction for the 2017 deferral period. For the electric Non-Residential Group, the deferral balance was in the rebate direction in the 2015 deferral period, and in the surcharge direction for the 2016 and 2017 deferral period. For the natural gas Non-Residential Group, the deferral balance has been in the surcharge direction for all three deferral period years.

Table No. 4: Summary of Deferral Balances[13]

------------------------------ Electric ------------------------------							
		Residential Group			**Non-Residential Group**		
	Notes	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Deferred Revenue ($)		**7,167,748**	**10,288,205**	**-2,092,790**	**-2,373,472**	**1,967,777**	**1,735,911**
Requested Recovery ($)	A	7,360,678	10,913,950	-2,765,635	-3,081,249	864,012	1,170,966
Customer Surcharge (Rebate) Revenue ($)		6,485,021	10,913,950	-2,765,635	-3,081,249	864,012	1,170,966
Carryover Deferred Revenue ($)		875,657	0	0	0	0	0
Decoupling Rate (Schedule 75) ($/kWh)	B	0.00263	0.00445	-0.00116	-0.00143	0.00040	0.00054
Incremental Revenue (Percent)		3.00%	2.00%	-5.78%	-1.40%	0.40%	0.14%
Limited by 3% Cap?		Yes	No	No	No	No	No
------------------------------ Natural Gas ------------------------------							
		Residential Group			**Non-Residential Group**		
	Notes	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Deferred Revenue ($)		**5,317,198**	**7,152,977**	**-1,972,082**	**1,736,736**	**2,002,654**	**840,286**
Requested Recovery ($)	A	5,750,096	7,652,369	-3,441,586	1,879,152	2,212,881	407,719
Customer Surcharge (Rebate) Revenue ($)		3,488,984	6,951,431	-3,441,586	1,108,839	2,212,881	407,719
Carryover Deferred Revenue ($)		2,261,112	700,938	0	770,313	0	0
Decoupling Rate (Schedule 175) ($/therm)	B	0.02927	0.05580	-0.02720	0.02108	0.03904	0.00691
Incremental Revenue (Percent)		3.00%	3.00%	-10.08%	3.00%	2.95%	-6.13%
Limited by 3% Cap?		Yes	Yes	No	Yes	No	No
A: Requested recovery is equal to deferred revenue after adjusting for shared excess earnings (if applicable), deferral balance carryover from prior year (if any), interest, and revenue related expenses.							
B: Decoupling rates Schedule 75 (electric) and Schedule 175 (natural gas) take effect on November 1st of the following year. For example, rates shown in the 2016 column have an effective date of November 1, 2017							

The primary drivers of the changes in the deferral balances were deviations in use-per-customer primarily driven by actual weather being different from normal weather in any given year, and continued energy efficiency savings that were acquired beyond what was built into the Company’s test year. Table Nos. 5 and 6 from the Independent Final Report (Tables 2-3 and 2-4) shown below provide the estimated difference in use-per-customer comparing the deferral year to the test year, with an estimation of the amounts attributable to weather and energy efficiency.

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[13] *Id*. p. 2.3 - Table 2-2. Summary of Deferral Balances and Decoupling Recovery Rates

<u>Table No. 5: Electric Use-Per-Customer</u>[14]

	2015			2016			2017		
	Usage (MWh)	**Customers**	**Use per Customer (kWh)**	**Usage (MWh)**	**Customers**	**Use per Customer (kWh)**	**Usage (MWh)**	**Customers**	**Use per Customer (kWh)**
	-------------------- Residential --------------------								
Test Year	2,437,508	207,850	11,727	2,378,478	205,172	11,593	2,378,478	205,172	11,593
Actual	2,323,300	207,371	11,204	2,288,227	209,864	10,903	2,492,293	212,495	11,729
Change from Test Year	(114,208)	(479)	(524)	(90,251)	4,692	(689)	113,815	7,323	136
Percent Change	-4.7%	-0.2%	-4.5%	-3.8%	2.3%	-5.9%	4.8%	3.6%	1.2%
Change from Test Year Due to:									
Weather	**(33,120)**		**(160)**	**(73,659)**		**(351)**	**113,472**		**534**
Cumulative Energy Efficiency	**0**		**0**	**(33,272)**		**(159)**	**(61,500)**		**(289)**
	-------------------- Non-Residential --------------------								
Test Year	2,150,843	35,277	60,970	2,144,857	34,823	61,593	2,144,857	34,823	61,593
Actual	2,179,747	35,265	61,810	2,158,998	35,617	60,618	2,184,830	35,994	60,700
Change from Test Year	28,904	(12)	840	14,142	794	(975)	39,974	1,171	(893)
Percent Change	1.3%	0.0%	1.4%	0.7%	2.3%	-1.6%	1.9%	3.4%	-1.5%
Change from Test Year Due to:									
Weather	**10,361**		**294**	**(7,200)**		**(202)**	**28,851**		**802**
Cumulative Energy Efficiency	**-**		**0**	**(41,935)**		**(1,177)**	**(81,076)**		**(2,252)**

<u>Table No. 6: Natural Gas Use-Per-Customer</u>[15]

	2015			2016			2017		
	Usage (MWh)	**Customers**	**Use per Customer (kWh)**	**Usage (MWh)**	**Customers**	**Use per Customer (kWh)**	**Usage (MWh)**	**Customers**	**Use per Customer (kWh)**
	-------------------- Residential --------------------								
Test Year	117,011,207	150,186	779	120,721,607	148,995	810	120,721,607	148,995	810
Actual	103,436,220	151,254	684	108,796,187	153,995	706	131,782,922	157,563	836
Change from Test Year	(13,574,987)	1,068	(95)	(11,925,420)	5,000	(104)	11,061,315	8,568	26
Percent Change	-11.6%	0.7%	-12.2%	-9.9%	3.4%	-12.8%	9.2%	5.8%	3.2%
Change from Test Year Due to:									
Weather	**(15,318,639)**		**(101)**	**(10,650,431)**		**(69)**	**4,404,967**		**28**
Cumulative Energy Efficiency	**0**		**0**	**(360,660)**		**(2)**	**(931,120)**		**(6)**
	-------------------- Non-Residential --------------------								
Test Year	51,764,097	2,548	20,316	52,606,812	2,584	20,358	52,606,812	2,584	20,358
Actual	45,886,568	2,651	17,309	48,208,894	2,770	17,404	55,684,308	2,918	19,083
Change from Test Year	(5,877,529)	103	(3,006)	(4,397,918)	186	(2,954)	3,077,496	334	(1,275)
Percent Change	-11.4%	4.0%	-14.8%	-8.4%	7.2%	-14.5%	5.8%	12.9%	-6.3%
Change from Test Year Due to:									
Weather	**(5,357,641)**		**(2,021)**	**(3,631,036)**		**(1,311)**	**1,407,324**		**482**
Cumulative Energy Efficiency	**-**		**0**	**(687,328)**		**(248)**	**(903,662)**		**(310)**

[14] *Id*. p. 2.5 - Table 2-3. Electric Use per Customer Variance from Test Year

[15] *Id*. p. 2.7 - Table 2-4. Natural Gas Use per Customer Variance from Test Year

As noted in the Independent Final Report, the impacts of decoupling on customer bills have been small over the first three calendar years of operation.[16] Table No. 7 below provides a summary of the billing rate effects from each of the Company's first three Decoupling Mechanism Rate Adjustments:

Table No. 7: Rate Changes (Percentage)

	Electric	
	Residential	**Non-Residential**
2015 Deferral Year	3.00%	-1.40%
2016 Deferral Year	2.00%	0.40%
2017 Deferral Year	-5.78%	0.14%
	Natural Gas	
	Residential	**Non-Residential**
2015 Deferral Year	3.00%	3.00%
2016 Deferral Year	3.00%	2.95%
2017 Deferral Year	-10.08%	-6.13%

V. COMMISSION APPROVAL OF DECOUPLING RATE ADJUSTMENTS

Q. Would you please provide a summary of the Commission's approvals of Decoupling rate adjustments?

A. Yes. The Company has made Commission filings related to its Decoupling Mechanisms for the 2015, 2016 and 2017 deferral years. The deferral period year and the corresponding Docket numbers for both electric and natural gas are detailed below:

Decoupling Deferral Year	Electric Docket Number	Natural Gas Docket Number
2017	180702	180701
2016	170939	170942
2015	161096	161094

[16] *Id*. p. 2-28.

For each of the these Dockets, Commission Staff reviewed the decoupling deferrals and recommended the Commission take no action on the Company's filing thereby allowing the proposed tariff changes to become effective by operation of law. In addition to Staff's review of the annual filings, H. Gil Peach & Associates reviewed each of the Company's annual filings and determined "that Avista has calculated rates and deferrals in accordance with the Commission Order approving the decoupling mechanisms for the first through the third Decoupling Years."[17] In the end, the Commission took no action on these filings, allowing the deferral tariff adjustments to take effect by operation of law.

VI. INDEPENDENT REPORT FINDINGS AND RECOMMENDATIONS

Q. What were the findings and recommendations from H. Gil Peach's Independent Report, included at Exh. PDE-2?

A. The Independent Final Report issued by H. Gil Peach and Associates is segmented into sections which were designed to address the requirements as fully described in the Company's RFP. As described in the introduction of the Independent Final Report, the evaluation was partly a compliance evaluation and partly a policy evaluation of Avista's Decoupling Mechanisms. The summary conclusion as stated on Page 1 of the Independent Final Report states that "(w)e find that Avista's decoupling is working well within the specific window of time examined." Sections 1 through 7 correspond to a specific task and sections 8 through 10 correspond to specific topics and recommendations. Excerpts of the summary of sections 1 through 9 and the report recommendations in Section 10 are detailed below:

Section 1 – *Did Avista comply with the specifics of the decoupling order?*

[17] *Id*. p. 1-74

Findings – The overall result in this section of the analysis is that we find the deferrals and rates to have been calculated by the Company in accordance with the Commission order and the Amended Petition, as determined by methodological specifications in Schedule 75 and Schedule 175.[18]

Section 2 – *Analyzes the billing impacts and recovery of cost of service related to decoupling.*

Findings – Impacts of decoupling on customer bills have been small over the first three calendar years of operation, partly due to the timing of billing impacts. The impact of the decoupling rate on electric bill ranged from a reduction of 1.7% for the pumping customer class to an increase of 3.0% for the residential customer class. The annual impact on natural gas customer bills followed a slightly higher path than electric due to greater exposure to the impacts of heating degree days on natural gas usage and deferral balances. Still, the impact on annual natural gas bills was small and nearly the same for all customer classes, around one half of one percent in 2016 and around 3.7% in 2017.

An important characteristic of the Avista decoupling mechanism is that the possibility of ever-increasing levels of carryover deferrals (snow-balling deferral balances) is greatly reduced by allowing the decoupling rate to adjust incrementally higher each rate year, subject to the annual 3% cap. This feature limits rate shock while also allowing the decoupling rate to amortize higher levels of requested recovery.

An assessment to determine if allowed revenues from the residential, non-residential, and customers not subject to decoupling rate classes are recovering their respective costs of service shows significantly different results for electric and natural gas. Avista's Washington electric system revenue exceeded total costs in all three years. Overall the non-residential rate group subsidizes the residential rate group and, to a much lesser extent, the non-decoupled rate group. These cross-subsidization results are consistent with GRC expectations. Avista's Washington natural gas system had a revenue shortfall in 2015 and a surplus in 2016 and 2017. Unlike the electric system, revenue surpluses and shortfalls have not been consistent across the three years or within rate groups. The change in natural gas GRC assumptions between 2015 and 2016/2017 appears to have materially shifted actual and planned earnings results for all rate groups.[19]

Section 3 – *This section provides an evaluation of trends in Low-Income Bill Assistance and the Low-Income Weatherization services during the study period (2012-2014 and 2015-2017).*

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[18] *Ibid*.
[19] *Id*. p. 2-28.

<u>Findings</u> – The decoupling deferral tracker adjustment, Schedule 75 for electric and Schedule 175 for natural gas, has had a relatively small impact on low-income customer bills. On a percentage of bill basis there is no meaningful difference in decoupling charges between low-income and all residential customers.

The average low-income customers used six percent (6%) more electricity per premise in 2017 than other residential customers. Low-income homes were also substantially smaller. With higher use in smaller homes, electric use per square foot in low-income homes was about forty percent (40%) higher than for other residential customers. Analysis to determine why this is the case is beyond the scope of this evaluation but older less efficient homes and greater reliance on electric space heating in low-income homes are at least part of the explanation.

The average low-income customer used 16% less natural gas per premise than other residential customers. On a per square foot basis, natural gas use was sixteen percent (16%) higher in low-income homes than other residential. Much of this difference is likely due to older less efficient building shells in low-income housing units.[20]

<u>Section 4</u> – *Analyzes the effects of the Decoupling Mechanisms on Avista's revenue.*

<u>Findings</u> – Avista's decoupling mechanism has had a stabilizing effect on revenue, reducing variability to between 30 and 70 percent of variability without decoupling. On the electric side, the 3% cap on annual rate increases from the decoupling rate was only reached one out of six possible times when it came into effect for electric residential in 2015. For natural gas, the rate cap was reached 3 of 6 times, twice for residential customers and once for non-residential. Electric non-residential is the only rate group that has not reached the rate cap. *None of the four rate groups were subject to the decoupling rate cap in 2017.*[21]

<u>Section 5</u> – *This section examined the extent to which fixed costs are recovered in fixed charges for electric and natural gas customer classes both in the Decoupling Mechanisms and customer classes excluded from the mechanisms.*

<u>Findings</u> – Avista recovers about 13 percent of total electric fixed cost through fixed customer charges, trending only slightly lower over the 2015-2017 period. On the natural gas side, fixed charges have averaged nearly 24 percent of fixed costs between 2015 and 2017. The percentage has moved higher for decoupled natural gas non-residential customer classes and lower for residential.[22]

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[20] *Id*. p. 3-36
[21] *Id*. p. 4-12
[22] *Id*. p. 5-3

Section 6 – *This section analyzes the impact from decoupling related to electric to natural gas conversions and electric and natural gas conservation savings.*

Findings – Decoupling was an important factor facilitating Conservation Achievement, but not a driver of Conservation Achievement. On the electric side the I-937 ten-year plan was the primary driver. On the natural gas side, Commission direction towards the use of the gross UCT test was a primary driver. Based on this analysis, we conclude that there is no evidence that decoupling has any meaningful impact as a driver for energy Conservation Achievement. However, in the presence of a strong driver like I-937 or a strong driver like Commission direction to use the gross UCT test, it provides revenue stability and more timely revenue recovery and so is a part of a "package" in that it eliminates the "throughput" incentive. Where a non-decoupled utility will turn away energy conservation customers, having reached its budget cap, Avista has demonstrated that a decoupled utility can keep on servicing to acquire all cost-effective energy conservation.[23]

Section 7 – *This section provides an analysis of possible adverse impacts from the Decoupling Mechanisms.*

Findings – We find no conclusive evidence of current adverse impact of decoupling on cost control, operational efficiency, price signals or service quality. We have expressed two concerns for the intermediate to long-term for two cost-control approaches: making hiring reviews more extensive and so possibly creating some short-staffing problems over time; and moving away from defined benefit pensions. [24]

Section 8 – *Low-Income Appendix.*

Findings – The Avista Decoupling Evaluation RFP No. R-41321 provided two related Attachments to the Scope of Work: Attachment G - An Estimate of the Number of Households in Poverty Served by Avista Utilities in Washington State[25] and Attachment H - The Self-Sufficiency Standard for Washington State 2014.[26] Attachment G provides an estimate of how many Avista customers are below the Federal Poverty Level in counties served by Avista. Attachment H estimates the level of income required by households to achieve self-sufficiency without public assistance. The Independent Final Report reviewed these two documents and correlated findings with the low-income energy assistance information that was reviewed for Task 3.[27]

[23] *Id*. p. 6-17.
[24] *Id*. p. 7-17.
[25] *An Estimate of the Number of Households in Poverty Served by Avista Utilities in Washington State,* Brian Kennedy, MS and D. Patrick Jones, Ph.D., Institute for Public Policy and Economic Analysis, May 2015.
[26] *The Self-Sufficiency Standard for Washington State 2014*, Diana M. Pearce, PhD, Center for Women's Welfare and the School of Social Work at the University of Washington, Revised August 2015.
[27] Avista Decoupling Evaluation – Final Report, H. Gil Peach & Associates LLC. p. 8-1.

Section 9 – *Weather Appendix.*

Findings – This section provides further discussion and analysis related to observations in recent weather trends.[28]

Section 10 – *This section provides a summary of the Independent Final Report recommendations.* **[Avista has inserted its' response below each recommendation]**

Report Recommendation 1 – The decoupling mechanisms have worked as expected to stabilize revenue without impacting utility operations and energy efficiency programs. We also found no evidence of adverse impacts to any customer groups. We recommend the electric and natural gas mechanisms be continued and certain modifications be considered.

Avista Response – This Petition addresses the continuation of the mechanisms, with certain modifications.

Report Recommendation 2 – If practical for Avista, move the decoupling tariff effective date up from November 1st to July 1st to substantially increase the likelihood that reported revenue will be collected within two years, as required by the Securities and Exchange Commission.

Avista Response – This recommendation is adopted, as discussed.

Report Recommendation 3 – Avista might consider adjusting the low-income "carve out" each year for inflation to keep its value more stable between rate cases.

Avista Response – The issue of increasing low-income conservation funding to at least match inflation will be taken up by Avista's energy efficiency group and Advisory Group, before further changes are made.

Report Recommendation 4 – We have a sense that staffing is a bit thin compared with other utility clients with whom we recently have been engaged for projects. What works as a short-run cost savings may not work as well long-term. We

[28] *Id*. 9-1.

recommend consideration of some additional hiring of some additional staff in Rates and in DSM (not short-term supplementary or temporary arrangements).

Avista Response – Proper staffing levels are a critical management issue that is carefully considered on a periodic basis by Avista's leadership, with a focus on balance between service and customer cost.

Report Recommendation 5 – We notice that as a cost savings measure, Avista has moved from a defined benefit pension system to a system that puts employees at individual risk in developing funding for retirement. We agree this will represent cost-savings in the short term. Although such change is currently viewed as normal in the industry, reflecting the market in this case may not be useful long-term. Thinking of the five most recent "crashes" including the recent "Great Recession", Avista might want to consider a plan that would enable some form of pension that places institutional strength between employees as individual "nano-investors" and market forces.

Avista Response – Similar to staffing levels, benefits provided to our employees are carefully considered by Avista's leadership, with a focus on balance between customer service, employee retention and customer cost. This balance is periodically reviewed by management.

Report Recommendation 6 – Continue to work towards a possible low-income rate. Households in need of income to meet the expectations of American households prior to the income allocation reversal that began in the early 1970s, are likely about one-half of residential households (or at least 37.5%, as shown in the low-income appendix). A low-income rate would provide an additional tool to maintain service for all customers.

Avista Response – Avista, through consultation with its Low-Income Advisory Group, continues to review various mechanisms that would provide benefits to our low income customers. Avista presently has a pilot low-income discount rate (electric Schedule 2 and natural gas Schedule 102).

Report Recommendation 7 – In the low-income area, consider either moving to a higher level of rigor in evaluation and program administration by using the Self-Sufficiency standard; or use the 200% of the Federal Poverty Level as the program guideline for need for program payment assistance and weatherization services.

Avista Response – Avista will address this recommendation with its Low-Income Advisory Group.

Report Recommendation 8 – Consider a redefinition of normal weather that moves away from the 30-year moving average to a 20-year moving average, and also maintain a moving average indicator for 15 years and 10 years to see how that behaves empirically, since "normal" has become a flow variable and it is rapidly getting warmer as a secular trend.

Avista Response – Avista will consider this recommendation and make adjustments within the context of a general rate case filing, if deemed appropriate.

VII. PROPOSED MODIFICATIONS TO THE DECOUPLING MECHANISMS

Q. Is Avista proposing to modify its Decoupling Mechanisms in this case?

A. Yes. As discussed earlier, the Independent Final Report confirms that the Company's Decoupling Mechanisms are working well and have performed as intended. However, in our view several modifications are needed. Below are the six proposed modifications:

1) Extend the current Decoupling Mechanisms through March 31, 2025;

2) Modify the Decoupling Mechanisms related to the treatment of new customers added after a new decoupling base is set in a general rate case;

3) Change the effective date of the annual tariff revisions from November 1st to August 1st of every year;

4) Implement an annual true-up to the mechanisms;

5) Extend the natural gas quarterly reporting requirement from 45 to 60 days;[29] and

6) Approve a natural gas conservation target of 5%, with penalties.

Q. For the <u>first</u> proposed modification, why should the Commission extend the Mechanisms through March 31, 2025?

A. Based on proven benefits to both the customer and the Company that the Decoupling Mechanisms have shown to date, as validated in the Independent Final Report, and the lack of adverse impacts associated with these mechanisms, the Company requests the Commission approve the continuation of the Decoupling Mechanisms. By extending the mechanisms and providing some certainty to the Company that it can recover a significant portion of its fixed costs of providing service, the Company is able to maintain its central focus of being a trusted energy advisor to its customers without adverse or uncertain financial impacts from evolving customer choice in the future. The Company believes, consistent with the Commission's conclusion when they approved the mechanisms in 2014, that the Decoupling Mechanisms continue to be in the public interest, promote the policy goals of increased conservation, and result in fair, just, reasonable, and sufficient rates.

Q. Would you please explain the <u>second</u> proposed modification, related to the treatment of new customers in the Decoupling Mechanisms?

A. Yes. After informal discussions with Commission Staff leading up to the filing of this general rate case, Staff opined that we should consider looking at the treatment of new customers and how those customers generally impact the system. For electric operations, a

[29] Should the Decoupling Mechanisms be discontinued, the Company's Earnings Test, which was approved as part of the Decoupling Mechanisms, would no longer remain in effect.

utility does not need to incrementally construct new generation and transmission resources to serve new customers, unlike its need to do so for distribution-related facilities. On the natural gas side, Avista does not otherwise incrementally expand its portion of the Jackson Prairie Natural Gas Storage Facility every time it connects a new natural gas customer. We believe that general view we believe has merit, and are proposing to modify its Decoupling Mechanisms to reflect that belief. Further, such modifications would actually better align the Washington mechanisms to its Decoupling Mechanisms in Idaho.

Q. How are new customers treated in the Company's Idaho Decoupling Mechanisms?

A. In Idaho, the Idaho Public Utilities Commission approved an all-party settlement that established the mechanisms. In that all-party settlement the Parties agreed that the Decoupling-Revenue-per-customer for new electric customers will exclude fixed production and transmission costs. For new natural gas customers, recovery of costs related to fixed production and underground storage would also be excluded. This disparate treatment will limit fixed cost recovery for new customers in between rate cases to fixed costs that are more certain to occur. Idaho Commission Staff maintained that certain types of investments are "Iumpy" and may not actually be required to serve new customers in between general rate cases. Rather than assume these costs are incurred for automatic recovery in the Decoupling Mechanism, they are removed from new customer revenue and only those incremental costs directly related to serving new customers are included.

The new customer investment issue is further highlighted when, pursuant to the mechanics of the Decoupling Mechanism, we reconcile the monthly difference between fixed costs allowed to be collected on a per customer basis and fixed costs actually collected. As the number of customers increase between rate cases, the total fixed costs allowed to be collected increases beyond the amount reviewed and authorized by the Commission. Idaho Staff believed that limiting decoupling recovery to specific types of fixed costs better assures that costs recovered through the Decoupling Mechanisms are actually incurred to serve a new customer.

Q. Has the Company filed tariff modifications to Decoupling Schedules 75 and 175 to reflect the treatment of new customers?

A. Yes. Included in the filed tariffs with this case are the proposed tariff modifications to Schedules 75 and 175. The Company will, as per its usual custom, file its electric and natural gas Decoupling Mechanism base worksheets as a part of its Compliance Filing at the end of the general rate case (which of course updates the base Revenue Per Customer values after incorporating the final Commission-authorized revenue requirement).

Q. Would you please explain the <u>third</u> proposed change to the Decoupling Mechanisms related to the timing of deferral balance rate adjustments?

A. Yes. Recommendation 2, in Section 10 of the Independent Final Report stated:

> *If practical for Avista, move the decoupling tariff effective date up from November 1st to July 1st to substantially increase the likelihood that reported revenue will be collected within two years, as required by the Securities and Exchange Commission.*

GAAP reporting rules do not allow for recognition of revenues from a mechanism like decoupling in excess of the amount expected to be recovered within 24 months of the end of the deferral period. The combination of the 3% Cap, and the amount of time between the end of the deferral period and the beginning of the amortization period, means that whenever there is an expected surcharge carryover, a portion of the expected second year amortization may not be included in reported earnings until the following year. The Company accomplishes this through a contra-decoupling account that reduces earnings in the deferral year, then increases earnings in the following year (expected to be recovered within 24 months). In order to help mitigate the revenue recognition issue, the Company proposes to implement amortization of the deferred revenue balance earlier in the year following the deferral. The earliest practical timing for filing to request decoupling rate adjustments would be May 1, as the Earnings Test is a component of the filing which is dependent upon Commission Basis reporting that is filed by April 30 each year. Allowing the current two-month time period for review of the filing would result in a July 1 effective date. However, in order to minimize the number of annual rate changes customers' experience, the Company proposes to move up the effective date of the annual decoupling rate filing to August 1st to coincide with Company's annual Demand Side Management rate adjustment filings (Schedules 91 and 191 filed on June 1, each year).

Q. Would you please explain the <u>fourth</u> proposed change to the Decoupling Mechanisms related to an annual true-up?

A. Yes. Presently under the mechanics of the Decoupling Mechanisms, the annual revenue per customer is shaped based on the monthly kWh or therm usage from the test year. The mechanisms use the resulting monthly percentage of usage by month and multiply that amount by the annual decoupled revenue per customer to determine the 12 monthly values. The Company is proposing to add an additional step that would, at the end of a 12 month deferral calculation, take the annual decoupled revenue per customer (multiplied by the average annual number of actual customers) and compare that to the actual deferred revenue for the period. The benefit of this calculation is that the method of monthly shaping (i.e., using test period loads to shape decoupled monthly revenues) is not necessarily a perfect methodology. The proposed change in our view puts the actual results more on par with the derivation of the authorized amounts – i.e., authorized annual revenue per customer as compared to actual annual revenue per customer.

Q. Looking back over the past four years of the mechanisms, what would have been the effect of such a calculation true-up?

A. Such a true-up would be extremely modest. Table No. 8 below provides the effect, for all rate groups for both electric and natural gas. The values located on the "Change" lines show the difference between the actual deferrals for 2015 through 2018, while the "Adjusted Deferral" includes the effect of the annual true-up. As you will see, the adjusted deferrals do not materially deviate from the actual deferral, but in our view going forward would make the actual deferral more accurate.

Table No. 8 – Backcast Results if Annual Adjustment was in Effect

Electric Decoupling	2015		2016	
	Residential	Non-Residential	Residential	Non-Residential
Adjusted Deferral	$ 7,075,384	$ (2,375,691)	$ 10,250,100	$ 1,965,885
Deferral As Booked	$ 7,167,748	$ (2,373,472)	$ 10,288,205	$ 1,967,777
Change	**$ (92,364)**	**$ (2,219)**	**$ (38,105)**	**$ (1,892)**

Natural Gas Decoupling	2015		2016	
	Residential	Non-Residential	Residential	Non-Residential
Adjusted Deferral	$ 5,248,983	$ 1,730,766	$ 7,069,642	$ 2,046,835
Deferral As Booked	$ 5,311,558	$ 1,736,736	$ 7,152,977	$ 2,002,654
Change	**$ (62,575)**	**$ (5,970)**	**$ (83,335)**	**$ 44,181**

Electric Decoupling	2017		2018	
	Residential	Non-Residential	Residential	Non-Residential
Adjusted Deferral	$ (2,161,173)	$ 1,728,119	$ 8,604,761	$ 7,035,764
Deferral As Booked	$ (2,092,790)	$ 1,735,911	$ 8,620,259	$ 7,051,825
Change	**$ (68,383)**	**$ (7,792)**	**$ (15,498)**	**$ (16,061)**

Natural Gas Decoupling	2017		2018	
	Residential	Non-Residential	Residential	Non-Residential
Adjusted Deferral	$ (2,031,279)	$ 854,393	$ 715,489	$ 986,022
Deferral As Booked	$ (1,972,082)	$ 840,286	$ 740,536	$ 984,241
Change	**$ (59,197)**	**$ 14,107**	**$ (25,047)**	**$ 1,781**

Q. Would you please explain the <u>fifth</u> proposed modification, related to the timing of natural gas quarterly reports?

A. Yes. Consistent with the rules governing results of operations reporting under WAC 480-90-275, the Company files quarterly reports related to its natural gas Decoupling Mechanism within 45 days of the end of each quarter (the corresponding WAC for electric utilities has a 60 day requirement). Throughout the first three years of the Decoupling Mechanisms there have been instances where the Company has not released its financial earnings prior to the due date of the natural gas quarterly report. This circumstance necessitates the need to file the natural gas quarterly report confidentially prior to the release of the Company's earnings (pursuant to WAC 480-07-160) and then re-filing the quarterly report again non-confidentially after the earnings release. To alleviate the need to file the quarterly reports twice in these instances, the Company proposes to file the natural gas report within 60 days after each quarter end to be consistent with the 60 day requirement for the electric quarterly reports.[30]

Q. Finally, please explain the <u>sixth</u> and final change the Company is proposing to its Decoupling Mechanisms.

A. As previously discussed, if the Decoupling Mechanisms are extended as proposed in this Petition, the Company will commit to achieving 5% more natural gas conservation than required to meet from the Avista natural gas IRP over each of the same two-year reporting bienniums as is used to determine compliance with the electrical conservation requirements in RCW 19.285. In addition, Avista commits to a penalty arrangement should it not achieve its conservation commitments as previously described.

<u>VIII. DECOUPLING POLICY STATEMENT</u>

Q. Does the Company's Decoupling Mechanisms continue to be in line with the Commission's "Report and Policy Statement on Regulatory Mechanisms, Including

[30] Per communications with Commission Staff, it was determined that the quarterly reporting requirements for the Decoupling Mechanisms should be consistent with the WAC rules governing reporting related to results of operations. The electric results of operations reporting requirements are governed by WAC 480-100-275 and the natural gas results of the operations reporting requirements are governed by WAC 480-90-275.

Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets" ("Decoupling Policy Statement")?

A. Yes. In its Decoupling Policy Statement in Docket U-100522, the Commission outlined a number of items that a utility should include, at a minimum, in its requests seeking a Decoupling Mechanism. Like the original mechanism approved by the Commission, this extension of the mechanism continues to satisfy the Policy Statement for the reasons identified in the Company's original request. The Commission set forth their "Criteria for Approval" at Page 18 of its Decoupling Policy Statement. The criteria consist of:

1. Application to Customer Classes
2. Weather Adjustment Mechanism
3. Incremental Conservation
4. Limited-income Impacts/Benefits
5. Duration of Program
6. Reports
7. Other Factors Impacting the Public Interest

In addition to the seven criteria noted above, the Commission elsewhere in its Decoupling Policy Statement set forth additional conditions that need to be addressed in order to evaluate, and potentially approve, a full Decoupling Mechanism. Those items include:

8. Address Managements Incentive to Control Costs
9. True-up Mechanism
10. Impact on Rate of Return
11. Earnings Test
12. Accounting for Off-System Sales and Avoided Costs

It is the Company's understanding that Decoupling Mechanisms do not necessarily need to meet all of the Commission's criteria. The Commission stated the following in its Order No. 7 approving PSE's Decoupling Mechanisms:

> A number of the arguments raised by those opposed to the decoupling mechanisms that PSE and NWEC propose are couched in terms of the failure of one aspect or another of the proposals to meet the "requirements" set out in the Commission's 2010 Decoupling Policy Statement. While we address these arguments individually below, it is appropriate to emphasize that interpretive and policy statements are advisory only. They are "advisory statements" and "have no legal or regulatory effect." Such statements generally set forth the Commission's preferences or clear guidelines in certain policy-related matters after extensive deliberation in a workshop setting. We recognize that the proposed decoupling mechanisms vary in certain respects from the Decoupling Policy Statement but this is not a sufficient legal basis for rejecting the mechanisms. Moreover, as the Commission stated in its Final Order in PSE's 2011/2012 GRC, the Decoupling Policy Statement did not set forth "immutable doctrine" on the issue of decoupling.[31] (footnotes omitted) (Emphasis added)

Below the Company will discuss how the Decoupling Mechanisms continue to address each of the criteria set forth by the Commission.

1. Application to Customer Classes - The Company's Decoupling Mechanisms consist of two rate groups for both the electric and natural gas mechanisms consisting of a Residential and Non-Residential Group. For the electric Decoupling Mechanism the Residential Group consists of the Company's Residential customers on Rate Schedules 1 and 2. The Company believes that the Non-Residential Group, consisting primarily of our commercial customers, is a somewhat homogeneous grouping in terms of their usage. The Non-Residential Group consists of Rate Schedules 11, 12, 21, 22, 31 and 32.[32]

For the natural gas Decoupling Mechanism, the Residential Rate Group consists of Rate Schedules 101 and 102. The Non-Residential Rate Group consists of Rate Schedules 111, 112, 116, 121, 122, 126 and 131.[33] For similar reasons noted for the electric Non-Residential Group, the Company believes it is appropriate to combine all

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[31] Docket Nos. UE-121697 and UG-121705, Order No. 7, ¶95.

[32] Keeping the non-residential customers, excluding Schedule 25 (Extra Large General Service), as its own group strikes a reasonable balance between a desire to minimize cross-subsidization between customer groups (i.e., customers switching rate schedules to avoid potential surcharges or to enjoy potential rebates) and the administrative complexity that could result from greater delineation of non-residential customers. Finally, Street and Area Light rate schedule customers are billed on a flat monthly rate. As such, the fixed costs of providing service to those customers is being recovered by the nature of their rate design and, therefore, have been excluded from the mechanism.

[33] As discussed by Company witness Mr. Miller, Avista is proposing in this case to consolidate Natural Gas Schedules 121, 122, and 126 into Schedules 111, 112 and 116, respectively. Should the Commission approve that proposal, Avista would modify Schedule 175 to reflect that change in its Compliance Filing at the end of this general rate case.

of the non-residential customers into its own group. The Transportation Schedule 146 customers are excluded from the mechanism, just as they are under the PSE mechanism. Finally, Special Contract customers served under Schedule 148 have been excluded, as the terms of service, including their rates, are fixed by contract.

2. Weather Adjustment Mechanism - The Decoupling Mechanisms do not have a weather normalization adjustment. The Company has a certain level of fixed costs that are recovered in its variable energy and demand rates. To the extent weather is incorporated into the mechanism and revenues are adjusted, the mechanism would not provide the same level of fixed cost recovery as determined in the last general rate case. With the Company's Decoupling Mechanisms, should sales be higher due to colder than normal winter weather, or hotter than normal summer weather, those additional revenues as calculated in the mechanisms are deferred and returned to customers.

3. Incremental Conservation – Discussed earlier in my testimony.

4. Limited-income Impacts/Benefits – As stated in the Independent Final Report, the Decoupling Mechanism has had a relatively small impact on low-income customer bills. On a percentage of bill basis there has been no meaningful difference in decoupling charges between low-income and all other residential customers.

Since Decoupling was implemented in 2015 the level of limited-income bill assistance funding has increased. The increase in funding was driven by the Avista LIRAP program and the Project Share program each of which showed significant increases while LIHEAP funding remained level and miscellaneous other funding declined. Because of the increases in LIRAP and Project Share funding, the number of customers receiving bill assistance increased from 18,212 to 24,355 households. During the same period average bill assistance benefits increased from $378 to $397 per grant.[34]

In concert with the approval of the Decoupling Mechanisms, the Company has agreed to increase its energy efficiency targets for both electric and natural gas above the current targets. Overall, we believe the Company's conservation programs do provide benefits to limited-income ratepayers that are comparable to other ratepayers. By far the largest benefit that accrues to all of our retail customers is that, through Avista's energy efficiency efforts, the Company has been able to reduce the need for higher cost incremental sources of energy. By avoiding higher cost power sources, the Company's overall power supply costs are lower than they otherwise would have been. Those savings would especially benefit limited-income customers whose energy burdens as a percentage of income is higher than that for non-limited-income customers.

[34] Avista Decoupling Evaluation – Final Report, H. Gil Peach & Associates LLC. p. 3-7.

The Independent Final Report, sections 3 and 8, focus on low-income customers and the contrast between low-income and residential customers generally.

5. Duration of Program - As stated above, the Decoupling Mechanisms are working as intended, with no adverse impacts associated with the mechanisms. As such, the Company requests that the Decoupling Mechanisms be approved for an additional five years (through March 31, 2025).

6. Reports - As part of the existing mechanism the Company files quarterly reports with the Commission showing pertinent information regarding the status of the current deferral. Upon the extension of the Decoupling Mechanisms, the Company will continue this practice of quarterly reporting (with the proposed modification to natural gas) and agrees to include all practical future information requests related to the mechanism.

7. Other Factors Impacting the Public Interest - For the reasons discussed elsewhere, and confirmed by the Independent Final Report, the Company believes that the design of the mechanisms are properly constructed to balance out both lost and found margin, providing benefits to both the Company and its customers.

Below the Company will discuss how the Decoupling Mechanisms continue to address the additional conditions set forth by the Commission.

1. Address Management's Incentive to Control Costs - The adoption of decoupling has not resulted in a reduction of efforts by the Company to operate efficiently. The Decoupling Mechanisms provide recovery of fixed costs, on a revenue-per-customer basis, that were previously approved by the Commission in a prior general rate case for recovery. To the extent fixed costs have increased over time, the mechanisms have not provided for recovery of the change in costs above the approved level already embedded in the allowed revenue-per-customer. The Company continues to bear the risk of changes in costs between general rate cases, and therefore must manage the business in a prudent manner. Further, the Commission in a general rate case can always make the determination that any of the Company's expenditures were not prudent. This potential for disallowance together with management's desire to provide attractive earnings for shareholders provides enough incentive for management to control costs, and the Decoupling Mechanisms do not change that. It is also important to see what the Independent Final Report showed. Namely, they found no conclusive evidence of current adverse impact of decoupling on cost control, operational efficiency, price signals or service quality.

2. True-up Mechanism - The mechanics of the Decoupling Mechanisms have been described previously and are described in detail in the tariff sheets accompanying this filing.

3. Impact on Rate of Return - Avista has had three general rate case filings since the Decoupling Mechanisms were approved in the 2014 GRC. It is the Company's belief that any reduction in risk attributable to the Decoupling Mechanisms are reflected in the proxy groups as identified in those filings and were taken into consideration when the Commission approved the allowed ROE for Avista. Further, the Commission addressed this issue, when approving PSE's Decoupling Mechanisms, and did not order an adjustment to the rate of return. In Order 15, the Final Order on the PSE Remand, in the Decoupling Case, the Commission devoted 16 pages to the evaluation of this issue. With regard to the impact of decoupling on a utility's return on equity, the Commission determined:

> We believe it is correct that cost of capital analysis cannot be expected to produce results that support measurement of decrements to ROE ostensibly due to approval of one risk mitigation mechanism or another. Nor would cost of capital analysis be adequate to the task of identifying increments to ROE that might be considered due to some measure of additional risk a company takes on at some point in time. The Commission has never tried to account separately in its ROE determinations for specific risks or risk mitigating factors, nor should it. Circumstances in the industry today and modern regulatory practice that have led to a proliferation of risk reducing mechanisms being in place for utilities throughout the United States make it particularly inappropriate and unnecessary to consider such an undertaking.[35]

The Commission concluded:

> In sum, we find persuasive the expert opinions of Dr. Morin and Mr. Gorman and find that the risk reducing effect of decoupling is reflected adequately in the data derived from the companies in their respective proxy groups. We reject the idea of a separate decrement to ROE to account for the same risk reduction. We also find persuasive the point that cost of capital analysis cannot achieve the level of granularity necessary to support a discrete adjustment to ROE to account for particularized risks—up or down.[36]

4. Earnings Test - As stated previously, the Decoupling Mechanisms contains an Earnings Test which is designed to protect customers should the Company earn above its commission basis allowed return.

5. Accounting for Off-System Sales and Avoided Costs - The Company's Energy Recovery Mechanism (ERM) is designed to capture any change in Off-System Sales and Purchased Power expense that may arise due to changes in retail load. The Retail Revenue Adjustment ("RRA") rate is applied to the change in retail sales to take into account that there would be a corresponding change in retail revenue. The RRA rate

[35] Docket Nos. UE-121697 and UG-121705, Order 15, ¶155.
[36] *Id*. ¶ 156.

> multiplied by actual retail sales (kWhs) represents the embedded volumetric retail revenue accounted for in the ERM. The Company's electric Decoupling Mechanism specifically excludes that embedded volumetric retail revenue accounted for in the ERM, because the same Retail Revenue Adjustment rate determines the amount of power supply revenue excluded from both the allowed and actual revenues measured in the Decoupling Mechanism. This ensures the Company is not double counting in the ERM and electric Decoupling Mechanism as it relates to power supply costs. This was confirmed in the Independent Final Report, where they reviewed whether the deferrals and rates were calculated in accordance with the Commission order approving the mechanisms.

The Company continues to believe that the Decoupling Mechanisms, inclusive of the changes the Company has proposed above, continue to meet the goals outlined in the Commissions Decoupling Policy Statement and satisfy concerns addressed as part of the original approval in 2014. The Independent Final Report found that the Decoupling Mechanisms are operating as intended and have produced no material adverse impacts to the Company or its customers.

Q. Does this conclude your pre-filed, direct testimony?

A. Yes it does.