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Via Electronic Mail

Steven V. King
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Re: Reply Comments of Avista Corporation Related to the Proposed Service Quality Measures Program - Docket Nos. UE-140188 and UG-140189 (*Consolidated*)

Avista Corporation, dba Avista Utilities (“Avista” or “Company”), submits the following Reply Comments in accordance with the Washington Utilities and Transportation Commission’s (“Commission’s”) Notice of Opportunity to Respond to Compliance Filing (“Notice”) issued June 3, 2015 in Docket Nos. UE-140188 and UG-140189 (*Consolidated*).

A. Introduction

Avista provides this reply to the comments filed by the Staff of the Washington Utilities and Transportation Commission (“Commission”) and the Public Counsel Unit of the Attorney General (“Public Counsel”), regarding the proposed Service Quality Measures (“SQM”) program filed by Avista on May 29, 2015.

The Company was disappointed to find the comments of Commission Staff suggesting additional tariff changes beyond what was negotiated and agreed to in the May 29th compliance filing by Avista¹. In developing the SQMs, Avista, as well as other Parties, made concessions and agreed to certain provisions, that otherwise would not have been agreed to, as part of working toward what Avista understood to be consensus.

Avista's objectives in developing the SQMs were essentially two-fold: 1) design measures such that the actual results would demonstrate Avista's commitment to reliable service and high customer satisfaction, and 2) minimize the cost associated with the reporting requirements related to the SQMs, as well as the additional operations and maintenance (O&M) costs and capital investment that may be necessary to meet the established benchmarks on a regular basis. These two objectives will be discussed in more detail below.

Staff has previously filed testimony in the Company's 2014 general rate case², proposing the adoption of service quality measures for Avista, with associated penalties. That testimony outlined Staff's perspectives, and articulated its case for the need for such a program and penalties. Until now, Avista has not had the opportunity or need to share its perspectives on these issues, believing that (other than penalties) these issues were resolved for this filing. Given the comments filed by Staff, we believe it is important to provide more context and the reasoning behind our proposals in the compliance filing.

Avista's reply comments first identify the areas where we agree with the clarifications proposed by the Staff and Public Counsel, and then will focus on the areas of disagreement, which include the following:

- **Penalties:** Avista does not agree that penalties should be adopted in these Dockets or in the pending general rate case Dockets.

¹ Prior to the May 29th filing, Avista contacted each party via e-mail to affirm that there was agreement on the language in both the transmittal letter representing "consensus," as well as the tariffs. No party objected.

² UE-140188 and UG-140189 (Consolidated).

- **Electric System Reliability Benchmarks:** The Company does not agree that benchmarks for measuring electric system reliability should be adopted in these Dockets, or in the pending general rate case Dockets.
- **Proposed New Measure – Natural Gas Turn-On:** Avista does not agree that an additional measure should be adopted for turning on natural gas supply.
- **Reporting Results – System and Washington:** The Company does not agree that Washington-only results should be the basis for measuring customer satisfaction or reporting electric system reliability.

B. Areas of Agreement

Avista agrees with the clarification of Public Counsel and Staff that the cost of Customer Guarantee Credits will be borne by the Company's shareholders. Accordingly, Avista agrees with proposed edits of the electric (Schedule 85) and natural gas (Schedule 185) tariffs, under the section "Customer Guarantee Credits," to prohibit the Company from recovering the cost of paying Customer Service Guarantees from its customers. Finally, Avista agrees with the clarification of Public Counsel that, in addition to using its system results as the basis for measuring its performance under Customer Service Measures 1 and 2, it will also report the results for Washington-only, for informational purposes only. Attached to these comments as Exhibit A, are revised tariff pages (Schedule 85 and Schedule 185) reflecting these changes, included for illustrative purposes only.

C. Penalties

The area where the Parties could not reach consensus was in establishing a penalty framework to apply to portions of Avista's Service Quality Measures program. Staff made the initial proposal to start the negotiations for Avista's Program, which like its prior testimony, included the application of penalties associated with Avista's performance. The Parties quickly recognized that the issue of penalties could not be resolved in the negotiation, and in an effort to reach agreement on the measures and benchmarks for a Program that Avista could timely file to

become effective July 1, 2015, they agreed to set this issue aside for later resolution by the Commission.

From Avista's perspective, there are instances where penalties may be appropriate, such as when the Company has a record of poor performance, or there is compelling reason to believe it is likely to perform poorly in the future. Another example may be when the consequences of the failure to perform are widely recognized as significant to life, health or societal well being, such as natural gas pipeline safety.

As part of the rationale for proposing penalties to Avista's Service Quality Measures program, Staff advances the argument that the implementation of full decoupling creates a change in operating conditions that warrants the adoption of penalties. To support this, Staff first contends that, without support, absent decoupling, the Company may increase throughput in an effort to bolster earnings. Staff then suggests that Avista may compromise its customer service and satisfaction performance to bolster earnings under decoupling, because the old practice of increasing throughput would no longer be viable.

By its very design, decoupling has no bearing on whether the utility would take such action. Changes in Avista's O&M and administrative and general (A&G) costs related to maintaining reliability, customer service and customer satisfaction, are not tracked through Avista's decoupling mechanism. Therefore, Avista continues to be at risk to manage its O&M and A&G costs as they impact earnings, both before and after the adoption of decoupling. If anything, decoupling would actually reduce any pressure to impact service quality. If, for example, weather conditions result in throughput that falls below the 'normal' levels assumed for ratemaking, absent decoupling, utility revenue would be directly and proportionately impacted by the lower than normal throughput. In contrast, under decoupling, when weather conditions reduce the per-customer throughput, decoupling mitigates the revenue impact thereby actually diminishing any pressure to cut costs that would impair the level service.

Finally, the comments of Staff express the belief that penalties are necessary to ensure the Company's customer service performance remains at a reasonable level. Avista believes it is

important to consider an alternative perspective. Our Company has an excellent service record, reflected in consistently-high levels of customer satisfaction,³ which the Parties did not dispute during negotiations. The Company has no evident service deficits, gaps, issues, or trends that are in need of remediation, which again, the Parties did not dispute. Though we are always in the process of making improvements, the Company's level of service, in general, is appropriate and satisfies our customers while maintaining a reasonable balance between costs and benefits.

The establishment of benchmarks with penalties, especially sizeable penalties, would send a message to the Company that falling short of the benchmarks is unacceptable. This would lead the Company to increase O&M and A&G costs, and capital investment, as necessary, in order to comply with the established benchmarks on a regular basis. This would lead to higher costs to customers, which we believe is unnecessary given the current high level of reliability, customer service, and customer satisfaction already achieved in Avista's system.

In addition, Avista believes that if penalties were truly an effective tool in promoting service quality performance, it would be reflected in the performance results of Avista and its sister utilities serving in Washington. In recent years, the overall customer satisfaction scores for the three electric utilities regulated by the Commission were reasonably close to one another, as measured in the overall Customer Satisfaction Index (CSI) in the annual J.D. Power Electric Utility Survey. The CSI measures all aspects of customer satisfaction, including customer service, field services, power quality and reliability, etc. One of the three utilities has a service quality program that is subject to substantial penalties, while the penalties initially assigned to the service quality performance of the other have long since expired. And, Avista, absent a service quality program, had the highest combined CSI scores of these utilities in three of the last five years. This would suggest that there is no direct correlation between the existence of penalties and the performance of the companies.

³ For the past five years, the Company's overall customer satisfaction rating, as measured in its "Voice of the Customer" survey has been 94.9%, 94.5%, 93%, 93.7% and 92.9%.

In light of the issues discussed above, Avista requests that the Commission not adopt the proposal of Staff to consolidate the resolution of its proposed service quality penalties into Avista's pending general rate case, nor adopt penalties in this proceeding.

C. Electric System Reliability Benchmarks

As filed, and agreed to by the Parties, Avista's measures for electric system reliability require the Company to report its annual results, in the context of the rolling five-year historic average, and an explanation of the key factors influencing the results. Staff has proposed, instead, that the Commission adopt benchmarks for the electric system reliability measures, with the intent that financial penalties would also be adopted and assigned to the Company's performance related to these benchmarks. During the negotiations, the Parties discussed a range of ideas for electric system reliability reporting and benchmarks, and in the process, discussed and debated key factors to be considered and integrated into the development of meaningful measures.

For the reasons explained below, Avista requests that the Commission not adopt the electric system reliability benchmarks as proposed by Staff, and adopt the measures proposed by Avista, as filed.

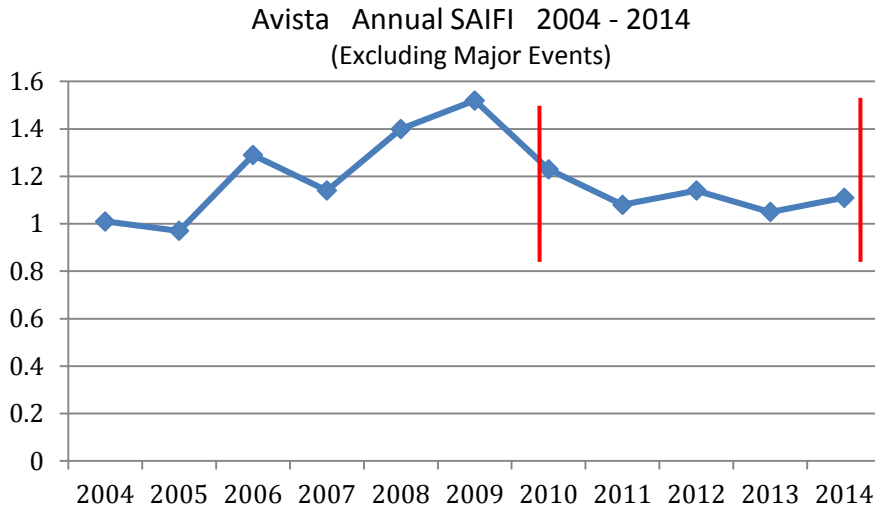
1. **Customer's satisfaction with a utility's electric system reliability is complex and multi-faceted** – J.D. Power has identified several utility practices that contribute to a customer's satisfaction with its utility's power quality and system reliability. These include: the number of outages each year, whether the utility provides the customer notice that it is aware of their outage situation, whether the utility posts map-based outage information online, whether the utility posts estimated restoration time for an outage, the accuracy of the restoration estimate, the length of the outage, and whether the utility calls the customer back after restoration is complete to ensure the customer's service is restored. Compared with the cost and the lag in benefits of making substantial physical improvements in the electric system to improve customer satisfaction related to power quality and reliability, many of the measures listed

above are relatively low cost, and have a more immediate impact on satisfaction. Avista has implemented many of these practices into its outage management process, helping it achieve the highest customer satisfaction for power quality and reliability for regulated utilities in Washington in 2014.

2. **A utility's results for its electric system reliability are variable from year to year, caused by a host of factors that are, to varying degrees, outside the immediate control of the utility.** Some of these factors include the age, design and condition of the utility's system, the operation of the system, the type and proximity of vegetation, the extent of the system that is rural, weather, including variability in weather, and utility equipment and staffing levels.

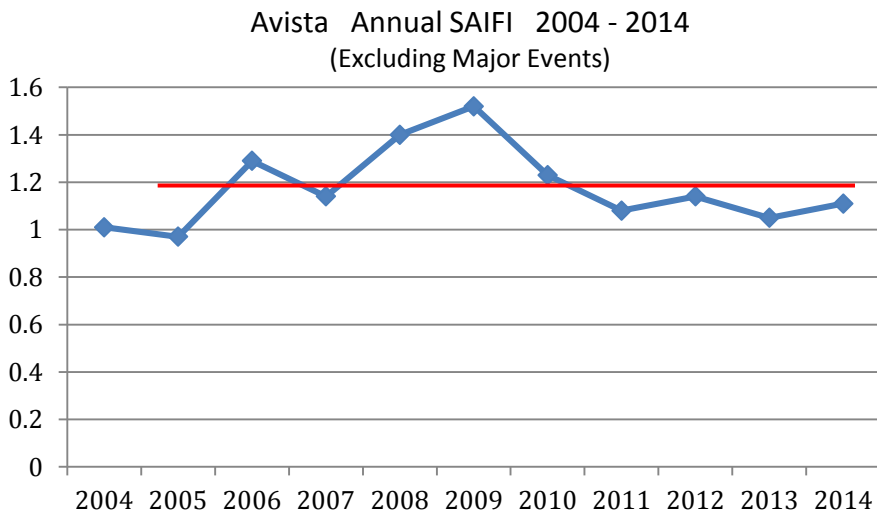
Staff's proposed benchmark is mathematically designed, as explained in its comments in footnote 8, to ensure the likelihood that Avista will not achieve it in every year. The rationale behind this benchmark is that it would operate as a "stretch goal," to provide motivation for the utility to improve its reliability performance. The proposed benchmark is also based on the Company's reliability results for the prior five years, which limits the degree of historical variability that's captured in the benchmark. The illustration, below, shows Avista's annual results for its System Average Interruption Index (SAIFI), for the period 2004 through 2014. The red lines mark the five-year period proposed by Staff for calculating its benchmark.

Illustration No. 1



Avista also calculated Staff’s proposed benchmark, which is the average of the annual SAIFI results for these five years, plus one standard deviation. That benchmark is shown on Illustration No. 2, below. In this simplified illustration, each year that Avista’s annual SAIFI result is above the red line, the Company would fail to meet its reliability obligation, and be subject to penalty.

Illustration No. 2



The reporting measures in Avista’s proposed SQMs, which do not include benchmarks, were based on an informal memo shared with the Parties, attached as Exhibit B. Instead of static measures, the approach seeks to identify the long-term trajectory of the Company’s system performance, whether it appears to be stable, declining, or improving, and points to areas of potential investment that would be likely to either sustain or improve the long-term performance of the system. We mentioned to the Parties that this analysis is already provided in the Company’s “Electric Service Reliability Report” we file with the Commission each year⁴, and that it is similar to the approach now used by the Commission in California to evaluate electric utilities’ system reliability. California moved to this approach after determining from many years experience that performance regulation based on static benchmarks, with penalties, were essentially ineffective⁵.

3. **To meaningfully improve a utility’s system reliability performance would require significant capital investments over an extended period of time.** This phenomenon is a function of the very long lives of the predominant utility assets that make up the system, as well the time that would be required to systematically change the design and construction standards for the system. Staff states in footnote 8 in its comments that the utility has control over many aspects of its system, using the examples of vegetation management and wood pole replacement. The issue for the utility where stretch benchmarks and penalties would apply, as Staff has proposed, is that it takes four to five years to complete a trim cycle to fully implement (to see the full benefits) new vegetation management standards, and a timeframe of 30 to 40 years to fully implement (to see the full benefits) a new practice for managing and replacing the utility’s wood poles. The majority of the electric system assets, including changes in design, would have long implementation horizons, such as for wood poles. Clearly, there are some measures the utility could implement with more immediate impact, but at the same time, there are also factors that impact reliability over which the utility has no control.

⁴ In compliance with WAC 480-100-398.

⁵ Approaches to Setting Electric Distribution Reliability Standards and Outcomes, pages 130 - 136. The Brattle Group, Ltd. 2012

As stated before, the establishment of benchmarks with penalties, especially sizeable penalties, would send a message to the Company that exceeding the benchmarks is unacceptable. This would lead the Company to increase O&M and A&G costs, and capital investment as necessary in order to comply with the established benchmarks on a regular basis. This would lead to higher costs to customers, which we believe is unnecessary given the current high level of reliability, customer service, and customer satisfaction. We believe this would unnecessarily increase rates, as well as take the Company's focus and resources away from other potentially more important aspects of its business and service.

Avista is making sustained capital investments in its electric system, employing many of the new asset management tools that have become more common in the last decade. This approach allows the Company to better optimize the value for customers of each of the asset groups in the system, and we believe these investments will also result in a long-term improvement in its physical reliability. We believe we are making an appropriate level of investment today toward the improved reliability of our system, in the interest of the service and satisfaction of our customers. Avista requests that the Commission not adopt the electric system reliability benchmarks as proposed by Staff, and adopt the measures proposed by Avista, as filed.

D. Proposed New Measure – Natural Gas

In its comments, Staff proposed that the Commission adopt an additional measure under the Customer Service Guarantees, for turning on natural gas supply. For the reasons described below, Avista requests that the Commission not adopt this new measure proposed by Staff.

In our negotiations, some of the Parties expressed interest in a Customer Guarantee measure for turning on natural gas service. Avista performed some initial research on this idea, and informed the Parties that the processes of turning on natural gas service was more complex and different than that of energizing an electric service. Because of this, Avista did not support a natural gas measure equivalent to that for electric service. The compromise reached was that the

Company would do some additional research and report out to the parties (later in 2015) for a further discussion of a potential measure.

For an electric service to be energized, the process is completed by an Avista employee, and it does not require the customer to be involved in any way. Turning on the natural gas supply to the home (or business) is much more complex, and requires the involvement of the customer, and often parties other than Avista.

For a new natural gas service, for both new construction and to an existing home without gas service, Avista installs the service to the home, sets the meter, and then turns on the gas supply to the meter. The natural gas cannot yet flow past the meter, however. At this point, the customer will have chosen a natural gas dealer who will install the natural gas piping in the home and install the natural gas appliances selected by the customer. When installation is complete the dealer will turn on the gas supply from the meter to the house. The dealer will then inspect and test the piping and the appliances for any leaks or safety concerns before the process is complete.

The activity of turning on the natural gas supply where the service and gas appliances have already been installed, is completed by an Avista gas service person. But, unlike electric service, turning on natural gas requires that the Avista service person enter the home and perform a safety inspection of each appliance, and ensure any pilot lights are properly lit. If the customer contacts Avista before 4:00 pm on business days requesting a service turn on, the Company will perform the turn on that same day, without charge, providing the customer (or a responsible person 18 years of age or older) can be home to provide the required access. In addition, if the customer calls Avista between 4:00 and 7:00 pm on business days, or before noon on Saturday, we will still turn on the gas service that same day, providing the customer is willing to pay a tariffed after-hours service charge of \$32. Requests for turn on after those times will be done the next business day. If the customer would like their gas service turned on at a future date, they can schedule an appointment for the work to be performed. If no appointment times are available for the customer's desired day, the Company can still turn on their gas service that day, providing

the customer can meet the service person to provide access⁶. For Avista, we are flexible and very responsive in providing same day turn on, after hours and Saturday turn on, and next day service as preferred by the customer. But, ultimately, Avista does not control the availability of the customer, and as such, does not have control over the entire process of turning on supply.

Avista requests that the Commission not adopt the proposed Customer Guarantee Measure for natural gas service turn on at this time.

E. Reporting Results – System and Washington

Results for Customer Service Measures 1, 2 and 5

Staff's comments propose that Avista should use only results from its Washington service area for measuring customer satisfaction under Customer Service Measures 1 and 2, and for measuring response time to electric emergencies under Customer Service Measure 5. The language in Avista's filed tariff (Schedule 85), for measuring electric emergency response time, already specifies that results are for Washington.

For measuring customer satisfaction under Customer Service Measures 1 and 2, Avista requests, for the reasons described below, that the Commission not adopt the proposal by Staff to require Washington-only results, and instead, adopt the reporting of results on a system basis as proposed by Avista, and as clarified in the comments of Public Counsel with respect to providing Washington-only results for informational purposes.

The Parties' issue with Avista using its "system" results to measure customer satisfaction for Customer Service Measures 1 and 2, was raised for the first time the day prior to Avista's filing. In an attempt to reach consensus, Avista proposed, that in addition to our "system" results, the Company would also report the results for just our Washington customers, providing it was

⁶ In this instance, since the service person will not know the time they will be able to perform the turn on (because their service schedule has been booked), they will contact the customer up to 30 minutes before their estimated arrival at the home, to provide time for the customer to get home if they're not already there.

possible for Avista’s contractor, MDC Research, to separate the survey results for its Washington customers. As noted in footnote 3 of our May 29th filing, the Company also proposed that it would report back to the Parties on the cost and any technical issues that might be associated with expanding our survey effort in order to provide statistically significant⁷ results for our Washington service territory. This proposal was satisfactory to the Parties. Later that same day, after the Company’s filing had been made, we heard back from MDC Research that we could sort and report Washington-only results, and we confirmed this with the Parties, as noted in the comments of Public Counsel.

Avista relies on results on a “system” basis for many of its measures, such as electric system reliability, because it’s reflective of the fact that we operate one integrated natural gas and electric utility. In this respect, we do not have customer satisfaction targets that differ by jurisdiction, and we do not manage our customer service levels differently, based on the state of residence of our customers. The question for us is whether our system results reasonably reflect the service levels experienced by our Washington customers. The system survey results as well as the results for Washington for the past five years, sorted and provided by MDC Research, are as follows:

Year	Washington		System	
	Contact Center	Field Services	Contact Center	Field Services
2010	92.60%	94.00%	94.90%	95.00%
2011	93.90%	95.40%	93.80%	95.10%
2012	93.00%	90.80%	92.70%	93.30%
2013	94.00%	94.70%	93.30%	94.10%
2014	96.50%	96.20%	91.40%	94.30%
Total	94.00%	94.20%	93.20%	94.40%

Based on these results, we believe it is reasonable for Avista to use its “system” survey results as the measure of its customer satisfaction performance for Customer Service Measures 1 and 2. The separate results for Washington, however, will also be reported for informational purposes.

⁷ The same level of significance established for Avista’s system results.

We also asked MDC Research to estimate the annual cost associated with collecting a larger sample size for our Washington customers to establish the same level of statistical significance as our system results. The estimate is approximately \$50,000 per year. We believe it is unnecessary to increase utility costs for our Washington customers by \$50,000 when the system results already provide a meaningful measurement.

Electric System Reliability Measures 1 and 2

In its comments, Staff proposed the Commission adopt the requirement that the Company's electric system reliability be reported for these measures using only Washington results. For the reasons explained below, Avista requests the Commission not adopt Staff's proposal, and instead, adopt the system reporting as proposed and filed by Avista.

The Company historically has not collected or reported its electric system reliability results on a jurisdictional basis. In our annual reliability reports filed with the Commission, as required under the rules in WAC 480-100-398, the Company has always reported "system" results. All of the Company's historic reliability information, including the baselines and analyses required under the Washington rules, are based on Avista's system data. Concerns over the use of system results instead of Washington-only results was identified by the Parties very late in our negotiation. The Company proposed as a compromise, that, in addition to its system results, it would also develop and report the results for its Washington-only customers, on a going forward basis for informational purposes only.

F. Conclusion

Avista appreciated the opportunity to work closely with Staff, Public Counsel, and the Energy Project, in developing the proposed SQM program. The result represents a substantial commitment of time and effort made by each participant.

In the course of implementation, we understand the continuing interests of the Parties and commit to the shared work of refining our SQMs over time. In consideration of this, and in

particular, of the foregoing explanations of the basis of our proposals, we respectfully request that the Commission approve Avista's Service Quality Measures program as filed by the Company, as adjusted for those areas of our noted agreement with certain clarifications.

Avista again appreciates the opportunity to provide these reply comments. If you have any questions regarding these comments, please contact Larry La Bolle at 509-495-4710 or at larry.labolle@avistacorp.com.

Sincerely,

A handwritten signature in black ink that reads "Kelly Norwood". The signature is written in a cursive, slightly slanted style.

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