Exhibit No. JLB-1T
Dockets UE-160228/UG-160229
Witness: Jason L. Ball

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION d/b/a AVISTA UTILITIES,** **Respondent.**	**DOCKETS UE-160228 and UG-160229 (*Consolidated*)**

TESTIMONY OF

JASON L. BALL

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Cost of Service
Rate Design
Rate Spread

August 17, 2016

Revised 8/24/16 (redline)

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jason L. Ball. My business address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst. Among other duties, I am responsible for policy, economic, financial, and accounting analysis, and for evaluating certain power supply issues of the investor-owned electric and gas utilities under the jurisdiction of the Commission.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2013.

Q. Would you please state your educational and professional background?

A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-major in Economics and Government. In 2013, I graduated with honors from New Mexico State University with a Master of Economics degree specializing in Public Utility Policy and Regulation.

Q. Have you previously testified before the Commission?

A. Yes. I testified on power supply, operations and maintenance expense, and other accounting adjustments in Avista Corporation's (Avista or Company) general rate case (GRC) in Docket UE-150204. I presented power supply and load forecasting testimony in Avista's GRC in Docket UE-140188. I sponsored testimony in Pacific Power & Light Company's (Pacific Power) GRC in Docket UE-152253 on overall policy, revenue requirement, rate plans, decoupling, decommission and remediation reporting, and the Idaho Asset Exchange. I also sponsored testimony in Pacific Power's GRC in Docket UE-140762 on overall policy, revenue requirement, inflation factors, and the Merwin Fish Collector accounting deferral. I presented an economic feasibility study relating to line extensions in Docket UE-141335. I co-sponsored joint testimony in Puget Sound Energy's (PSE) power cost only rate case in Docket UE-141141.

Q. What topics will you be discussing in your testimony?

A. I will be presenting Staff's review of the Company's proposed cost of service study (COSS). I will also present Staff's proposed rate design and rate spread based on the analysis of the Company's proposed COSS.

Q. Please summarize Staff's recommendations regarding cost of service, rate spread and rate design.

A. Staff recommends that the Commission institute a generic proceeding to review cost of service methodologies for all IOUs in Washington. Further, Staff recommends

that the Commission defer all major decisions regarding any specific cost of service methodology in the present case to that generic proceeding.

Consistent with this proposal, Staff recommends maintaining the status quo with respect to rate spread and rate design. Maintaining the status quo would include:

1. Spreading the proposed rate increases across all customer classes on an equal percentage basis;
2. Accepting the Company's proposal regarding modest increases to demand charges; and,
3. Rejecting the Company's proposal to increase basic charges.

Q. Have you prepared any exhibits to show Staff's proposed rate design and rate spread using Staff's proposed revenue requirement?

A. Yes.

- Exhibit No. JLB-2 is a comparison of Staff and the Company's proposed rate spread.
- Exhibit No. JLB-3 is a breakdown of Staff's proposed electric rate design with the $25,565,000 revenue requirement increase discussed by Staff witness Ms. Joanna Huang.
- Exhibit No. JLB-4 is a breakdown of Staff's proposed natural gas rate design with the $2,143,000~~700,000~~ revenue requirement increase discussed by Staff witness Ms. Joanna Huang.

II. COST OF SERVICE

A. Overview

Q. Did Staff review the Company's proposed COSS?

A. Yes. The Company presents separate COSS for both electric and natural gas service. I discuss each of these individually, as well as Staff's specific recommendation for handling COSS, in the following sections.

Q. In general, what are Staff's recommendations regarding COSS?

A. Staff recommends maintaining the status quo with regard to cost of service in the current case; any substantive changes to COSS are more appropriately addressed through generic cost of service proceedings.[1] The generic proceedings would be designed to address cost of service methodologies in Washington for *all* investor owned utilities. Focusing the time and resources of the Commission, Staff, and intervenors in a generic proceeding would be prudent, help settle disputes, and avoid disparate outcomes over COSS in rate cases. Additionally, it would offer the Commission the opportunity to articulate a coherent and consistent COSS approach for all IOUs in Washington through a single policy statement or order.

[1] Staff envisions two concurrent cost of service generic proceedings – one for electric and one for gas.

Q. Has such a generic proceeding been proposed in a previous case or settlement?

A. Yes. In the PSE cost of service collaborative, Docket UE-141368, the settling parties committed—

> to participate in a generic proceeding, initiated or allowed by the Commission, to address cost of service allocation methodologies for all system costs across all three electric investor-owned utilities. The Settling Parties intend for that proceeding to allow PSE and all interested interveners "to fully present their viewpoints on cost of service and allocation methodologies with the goal of receiving consistent policy direction from the Commission, and in that proceeding no party will be bound by any cost of service or allocation agreements in this [S]ettlement."[2]

Q. Why does Staff recommend engaging in a generic proceeding rather than simply presenting a preferred methodology in the current GRC?

A. Although Staff could have presented a COSS in the present case, such a presentation, and any resulting order by the Commission, would apply only to Avista. Staff is concerned that divergent cost of service treatment across the IOUs in Washington will impact similarly situated ratepayers inconsistently. For example, Pacific Power uses a Peak & Average method for calculated rates, but Avista uses the Peak Credit methodology. If Staff were to propose a change in methodology in the present case, the proposal would only apply to one company. A generic docket allows the Commission to address this issue in one fell swoop, avoiding ad hoc considerations of cost of service proposals across numerous general rate cases. Further, this promotes the development of a consistent methodology that can be applied to all IOUs.

[2] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-141368, Order 03, 3, ¶ 8 (Jan. 29, 2015) (internal citations omitted).

B. Background

Q. What is a Cost of Service Study?

A. A COSS identifies the costs to serve the customers of each schedule and compares the costs to the total revenue provided by each schedule. The rate base, revenue, and expenses are divided proportionally based on the service provided to each group of customers. This allows rates to be set properly for individual customer groups, called customer classes.

COSS principally relies on cost causation for assigning costs. However, multiple methodologies exist for assigning costs to individual customer classes. Each of these methodologies has a variety of strengths and weaknesses.

Q. How does a COSS affect rates?

A. A COSS is a useful guide for determining a rate spread that allows the Company to recover the appropriate level of revenue from each customer class. In rate design, the breakdown among fixed basic, demand, and volumetric charges is informed by the division of costs into each functional category. The principle output of a COSS, called a parity ratio, is an important input into developing a final cost-based rate, though other factors may be considered by the Commission. I discuss each of these factors in the rate spread section of my testimony.

Q. What is a parity ratio?

A. A parity ratio shows the extent to which a customer class or rate schedule is paying the cost to serve them. For example, a rate schedule with a parity ratio of 1.05 is paying 105 percent of the costs that are assigned to that schedule through the COSS.

Q. How should the Commission use the parity ratios from a COSS to allocate revenues?

A. The parity ratios are an important aspect of the allocation of any revenue requirement increase or decrease. A parity ratio that falls outside of a target range may be considered unreasonable or unfair. For example, a rate schedule with a parity ratio well below 1.00 means that schedule is essentially being subsidized by other rate schedule(s).

However, parity ratios are not the only consideration in establishing cost-based rates. Furthermore, the more uncertainty surrounding a COSS, the less precise these ratios should be considered to be.

Q. Is it important to achieve a parity ratio of 1.00 for all rate schedules?

A. No, especially if you consider that different intervenors may rely upon different cost of service studies with different resulting parity ratios for any given rate schedule. The results of any given COSS, and its associated parity ratios, should inform the Commission's judgment when it assigns proportions of an average rate increase.

C. Electric Cost of Service

Q. Please describe the Electric COSS presented by the Company in this Case.

A. The COSS presented by the Company is based on the peak credit methodology previously approved by the Commission and is the same COSS that has been used in the Company's last four GRCs.[3] The Company has proposed no change to its electric cost of service methodology in this case.

Q. What are your conclusions regarding the Electric COSS presented by the Company?

A. Overall, the Electric COSS is consistent with those of the Company's prior filings. However, Staff is concerned about the results of the proposed Electric COSS because the Commission has not explicitly approved a COSS for Avista since before 2005.[4] Through a generic proceeding, Staff sees potential in exploring the topics outlined below, among others.

- The breakdown of generation versus demand related costs and the use of additional data points, such as the 200 Coincident Peak or Average & Excess methodologies.
- The breakdown of customer versus distribution related costs. For example, whether pole transformers should be included in customer related costs.

[3] Knox, Exh. No. __ (TLK-1T) 12:6-7.
[4] Company Response to UTC Staff Data Request No. 151.

- The treatment of transmission related costs using different methodologies and the resulting breakdown between demand and energy.
- The assignment of costs directly related to specific customers or accounts.
- The impact of recent technology changes on measuring cost of service, such as smart grid and wider adoption of demand meters.
- The appropriate designation of similarly situated customers into unique classes and the impact of individual customers on specific schedules.
- The impact from new customer classes that may not be currently accounted for, such as distributed generation customers.
- The appropriate method for allocating attrition-derived costs in an electric COSS.

These issues are relevant to all IOUs' cost of service. Rather than litigate every issue for each company separately with different stakeholder groups and potentially arriving at inconsistent results, Staff proposes resolving all issues in a single, generic proceeding.

Q. Are you suggesting that the Company's electric COSS cannot be relied upon at all in the present case?

A. No. Although Staff is concerned with the precision of the results from the Company's proposed COSS, this does not render the current methodology or its presentation irrelevant. The Company's electric COSS should be considered *directionally* accurate for the purpose of setting rates.

Further, a COSS is not the sole factor used by the Commission in setting rates. As discussed in the rate spread section of my testimony, the Commission also relies on "fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability."[5]

D. Natural Gas Cost of Service

Q. Please describe the Natural Gas COSS presented by the Company in this case

A. The Company's proposal is based on Avista's previously proposed COSS in its 2015 GRC, Docket UG-150205. The principle basis for the Company's natural gas cost-of-service proposal is the peak and average methodology.[6] Here, as in the previous case, the Company proposes to split the allocation of distribution mains based on size, among other reasons, to better reflect Avista's distribution system.[7] Additionally, the Company uses a 4-factor allocator that blends several components to better reflect the relationship of administrative and general costs and general plant to their use.[8] The 4-factor allocator is also used in the Commission Basis Reports.

Q. Do you agree with the Company's proposed assignment of distribution mains and the use of a 4-factor allocator?

[5] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, 124-25, ¶ 350 (May 7, 2012).
[6] Miller, Exh. No. __ (JDM-1T) 10:15-23.
[7] *Id.* at 11:15-18.
[8] *Id.* at 11:1-7.

A. In principle, yes. The Company has proposed a well-designed allocation methodology for assigning costs among customer classes. The Company's proposed main allocation is consistent with the approach proposed by Staff in Avista's 2012 and 2014 GRCs.[9] The 4-factor approach for assigning general plant and other administrative and general costs was also proposed by Staff in the Company's 2014 GRC.[10] Staff is encouraged that the Company has presented these recommendations in this case. Even though these approaches are consistent with Staff's previous recommendations, a generic proceeding would provide the best forum to fully discuss and consider the Company's methodology.

Q. How will generic proceedings on electric and gas COSS help in deciding issues that are already before the Commission?

A. COSS generic proceedings will allow the Commission to analyze all aspects of natural gas (and electric) cost of service, for all IOUs. The Company has presented a reasonable approach to allocating costs across customer classes that reflects the operation of the system.[11] However, natural gas cost of service may be impacted by additional issues, including those listed below, that could be addressed in a generic proceeding.

- The breakdown of customer versus distribution related costs.
- The assignment of costs directly related to specific customers or accounts.

[9] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-120436 and UG-120437, Direct Testimony of Christopher T. Mickelson, Exh. No. CTM-1T 36:8-15; *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 and UG-140189, Direct Testimony of Christopher T. Mickelson, Exh. No. CTM-1T 57:8-15.

[10] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 and UG-140189, Direct Testimony of Christopher T. Mickelson, Exh. No. CTM-1T 52:10-12.

[11] Company's Response to NWIGU Data Request No. 2.8.

- The impact of recent technology changes on measuring cost of service.
- The appropriate designation of similarly situated customers into unique classes and the impact of individual customers on specific schedules. For example, special contracts may need to be a separate customer class.
- The classification and allocation of underground storage plant costs.
- The appropriate method of allocating attrition-derived costs in a natural gas COSS.

The Company's proposed distribution main allocation is not unique to Avista: it was also proposed by PSE in Docket UG-111049.[12] Deliberating such changes for the IOUs in a single proceeding is much more efficient than litigating each potential change in separate cases. Further, the impact of a single modification in methodology could be reduced or completely reversed by another. These offsetting changes reflect the inherit problem with one-off alterations and lend support for instituting generic proceedings. The generic proceedings allow the Commission to identify and address all inputs that could impact cost of service, before instating a new cost of service methodology.

Q. Can the Commission rely upon the gas COSS presented by the Company?

A. Yes. In Staff's opinion, the results of the Company's gas COSS can be used to inform rate spread for all customer classes.~~considered *directionally* accurate. For instance, the parity ratio for transport customers (Schedule 146) in the Company's~~

[12] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Direct Testimony of Janet K. Phelps, Exh. No. JKP-1T 20:19 - 21:7. Ultimately, PSE's proposal was not a component of the settlement stipulation in that docket.

~~COSS is 0.82.~~ The resulting parity ratios from the Company's proposed gas COSS are directionally the same for all but one customer class. ~~Using~~This holds true even when using Staff's proposed revenue requirement (which includes an attrition adjustment) and rejecting the Company's change in main allocations~~. decreases the relative costs assigned to transport customers by 19 percent. This still results in a parity ratio less than 1.00. In both cases, the COSS implies that the revenues from transportation customers are not recovering the full level of costs to serve those customers.~~ Below is a table comparing parity ratios between the Company's proposal and an unchanged gas COSS incorporating Staff's revenue requirement.

	Parity Ratios	
Natural Gas Service	Company Revenue Requirement & Proposed COSS	Staff Revenue Requirement W/O Changes to COSS
General (Sched 101)	.84	.83
Large General (Sched 111/112)	1.80	1.81
Large General– High Load (121/122)	1.70	1.71
Interruptible (Sched 131/132)	1.37	1.55
Transportation (Sched 146)	.82	1.00

Regarding four of the five customer classes, the parity ratios indicate the same directional movement towards unity under both the Company's and Staff's approaches. As determined by Staff, the parity ratio for Schedule 146 indicates that the total revenue collected from transportation customers is in balance with the costs of providing service. The Company's gas COSS sharply contrasts with Staff's, showing a parity ratio significantly less than 1.00. Staff believes this contrast decreases the precision of the Company's gas COSS, without rendering the gas COSS irrelevant for the purposes of setting rates. This difference is primarily driven

by the Company's proposed method of allocating mains, and merely illustrates the impact that a single change can have on cost of service. ~~While imprecise~~For the purposes of this case, the gas COSS presented by the Company does illustrate the relationship between particular customer classes and the service being provided to them. In conjunction with several other factors, ~~a~~ the Company's gas COSS may explain the appropriateness of a rate spread that is above (or below) the average overall increase (or decrease).

III. RATE SPREAD

Q. What is rate spread?

A. Rate spread is the division of a revenue requirement increase among the various customer classes. For example, given Staff's recommended average electric rate increase of 5.14 percent, then, depending on the COSS and other factors, some customer classes may receive an increase that is higher or lower than average.

Q. Please describe Staff's proposed rate spread for electric and natural gas service.

A. For all rate schedules, Staff proposes spreading any increase to rates amongst the customer classes uniformly. This proposal addresses several important factors that the Commission routinely considers in establishing rate spread, including those below.[13]

[13] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, 124-25, ¶ 350 (May 7, 2012).

- Appearance of fairness – a uniform rate spread treats all customers equally in the application of any rate increase.
- Perceptions of equity – as discussed above, the electric COSS presented by the Company is directionally accurate but not necessarily precise. Therefore, although certain classes are below or above parity, it may aggravate existing equity problems to apply anything other than the average rate increase to specific customer classes. For the most part, the same is true for the natural gas COSS. For customer classes that are at or near parity, a uniform rate spread is the most direct way to maintain an equal relationship between cost and revenue.
- Economic conditions in the service territory – under Staff's proposed rate design, the bulk of any rate increase is included in the demand and volumetric charges. Since these are based on usage, customers have the option of reducing electric or natural gas consumption to mitigate bill impacts.
- Rate stability – As discussed by Mr. Hancock, Staff's proposed rate is for an 18-month period, reducing the frequency of rate changes over the next year-and-a-half.

Attached as Exhibit No. JLB-2 is a comparison of Staff's proposed rate spread with the Company's.

Q. Please describe the Company's proposed rate spread for electric and natural gas service.

A. The Company's proposed rate spread for electric service attempts to align each of the electric schedules 17.5 percent closer to the parity point as determined by the COSS presented by the Company.[14] For gas service, the Company's proposed rate spread brings the schedules 25 percent closer to parity for all customer schedules.[15]

Q. Please describe the flaws you see in the Company's proposed rate spread for both electric and natural gas.

A. The Company's proposed rate spread is consistent with its proposed COSS. However, given Staff's analysis presented in the previous sections, the precision of the Company's COSS is concerning. Therefore, Staff recommends that the Company's proposed rate spread be tempered by other factors that the Commission normally considers when addressing rate spread. These factors are addressed by using Staff's proposed rate spread.

Q. Does Staff's proposal have the potential to exacerbate any cross-class subsidization that may currently exist?

A. Possibly. Without a completely accurate COSS, however, it is impossible to tell if cross-class subsidization exists or, accordingly, whether a specific customer class should be assigned a higher- or lower-than-average increase.[16] Further, it does not help to address out-of-balance parity ratios if, in the next case, those ratios flip due to

[14] Ehrbar, Exh. No. __ (PDE-1T) 7:6.
[15] *Id.* at 21:22.
[16] As I use it here, the phrase "completely accurate" has two components: 1) correct mathematical calculations regarding the chosen method; and, 2) alignment with the Commission's preferred methodology and goals for cost of service.

a change in methodology. In such circumstances, cross-class subsidization would simply be traded for intergenerational inequity.

IV. RATE DESIGN

Q. What is rate design?

A. Rate design is the breakdown into rates of the different costs identified by the COSS for each customer schedule. There are generally three types of charges: fixed basic charges, demand charges, and volumetric charges.

Q. Has the Company proposed any changes to rate design in this case?

A. No structural changes have been proposed by the Company. However, the Company has proposed to increase the basic charges of several schedules based on the results of the COSS. This is summarized in the tables below.

Electric Service	Current Rate	Company Proposed
Residential (Sched 1)	$8.50	$9.50
General (Sched 11)	$18.00	$20.00
Pumping (Sched 31)	$18.00	$20.00

Natural Gas Service	Current Rate	Company Proposed
General Service (Sched 101)	$9.00	$9.50
Transportation Service (Sched 146)	$525.00	$550.00

The Company also proposes a change to its offer of High Pressure Sodium Vapor ("HPS") lights under schedules 42 and 47, which closes it to new customers.

Q. Do you support the Company's proposal to increase the basic charges for electric and natural gas residential customers?

A. No. The Company has not sufficiently demonstrated that increases to the basic charge are justified, particularly given that 2016 is the first year that the Company's decoupling mechanism is in place. The Commission issued clear guidance on increases to basic charges in Pacific Power's 2010 GRC, Docket UE-100749, stating:

> [M]any customers will view any basic charge increase as an additional increase above and beyond the rates approved in this Order. Those customers will not take into account the offsetting decrease in energy charges that would accompany an increase in their basic charge. Given the significant increase in rates approved in this Order, we do not want to wish to add to the rate burden already imposed on customers, whether real or perceived. Not recovering some of the "basic" costs through the basic charge does not mean those costs will not be recovered; rather, those costs will just be recovered through the variable charges.
>
> Finally, . . . lower energy charges could result in reduced deployment of energy efficiency. While no party presented empirical evidence tying a reduced energy charge to the performance of the Company's energy efficiency program, there is sufficient testimony to establish a logical relationship between lower energy charges and customer interest in energy efficiency. As energy charges decrease relative to increased basic charges, a customer's energy efficiency investment recovery period is extended, which may negatively affect a customer's decision to invest in energy efficiency efforts.[17]

With the adoption of decoupling, the Company has a mechanism that guarantees the recovery of an approved level of revenue. Increasing basic charges is only justified, therefore, when: 1) there is a corresponding increase in specific customer related costs; and, 2) any offsetting impact on energy efficiency or

[17] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-100749, Order 06, 114, ¶¶ 333-34 (Mar. 25, 2011) (internal citations omitted).

conservation measures is sufficiently accounted for. The Company's only justification for this increase is that "the fixed costs of operating and maintaining our electric system are increasing."[18] This is not sufficient.

Q. Do you support the Company's proposal to increase demand charges across several electric schedules?

A. Yes. The Company's proposal ensures that demand-related price signals remain intact throughout the affected schedules.[19] It is important to provide incentives to customers to reduce their peak usage, which, in turn, reduces the Company's need for expensive peak energy resources.

Q. Do you support the Company's proposal to discontinue offering HPS lights to new customers?

A. Yes. The Company's proposal is consistent with the Company's biennial conservation plan to replace 15,148 HPS fixtures in Washington by 2019.[20]

Q. Have you prepared an exhibit detailing the differences between the Company's proposed rate design and Staff's?

[18] Ehrbar, Exh. No. __ (PDE-1T) 11:13-14.
[19] Ehrbar, Exh. No. __ (PDE-1T) 13:6-17.
[20] *In the Matter of Avista Corp.*, Docket UE-152076, Ten-Year Achievable Conservation Potential and Biennial Conservation Target, 21 (Nov. 9, 2015).

A. Yes. Included in Exhibit No. JLB-3 is the impact of changes described for each of the individual electric rate schedules. Exhibit No. JLB-4 is the same information for natural gas service.

Q. Does this conclude your testimony?

A. Yes.