**Exhibit No. \_\_\_ (CSH-09T)**

**Dockets UE-150204/UG-150205**

**Witness: Christopher S. Hancock**

**BEFORE THE WASHINGTON**

**STATE UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **AVISTA CORPORATION dba**  **AVISTA UTILITIES,**  **Respondent.** | **DOCKETS UE-150204 and UG-150205 *(Consolidated)*** |

**CROSS-ANSWERING TESTIMONY OF**

**Christopher S. Hancock**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Cross-Answering Testimony in Response to Petitioners***

**September 4, 2015**

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# Introduction

Q. Please state your name and business address.

A. My name is Christopher Scott Hancock. My business address is The Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, WA 98504.

Q. Are you the same Christopher S. Hancock that testified previously in this Docket?

A. Yes.

Q. What topics will you be testifying to?

A. I am responding generally to the response testimony of Ms. Donna Ramas and Mr. Bradley Mullins.

# RESPONSE TO PETITIONERS

Q. Have any of the intervening parties stated a dollar value at which a plant addition is considered to be major?

A. Yes. Mr. Mullins, on behalf of the Industrial Customers of Northwest Utilities (ICNU), proposed that the Commission limit its review of capital projects to those with a budget in excess of $10.0 million.[[1]](#footnote-2) He then eliminates “blanket capital accounts”[[2]](#footnote-3) from his analysis, and is left with six projects for review.

Staff proposed a $6.3 million threshold for electric service projects, and $1.2 million threshold for natural gas service projects. No other party states an explicit figure as a threshold for determining which projects are worthy of further review.

Q. Are there any problems with the approach advocated by ICNU?

A. Yes. ICNU uses a single figure for determining what constitutes a major project, regardless of whether the project supports the Company’s gas or electric service. Using a single threshold to determine what constitutes a major project for a combined utility is likely to bias “major” projects – that is, projects that meet a threshold defined in this manner – towards those that serve the larger segment of the Company’s operations. This approach does not take into consideration the relative sizes of the Company’s electric and natural gas operations in Washington.

In this case, the vast majority of the Company’s assets – over 84% – are associated with its electric service.[[3]](#footnote-4) This bias shows itself in the list of projects generated from ICNU’s approach: five hydroelectric projects, Project Compass, and the Aldyl-A pipe replacement project.[[4]](#footnote-5) ICNU’s testimony demonstrates how this approach would be implemented, and it is worthwhile to point out the ramifications of such an approach. The use of one “major” threshold creates a bias that operates to exclude relatively large projects that support the smaller natural gas industry.

Q. Are there other problems with ICNU’s approach to major projects?

A. Yes. Similar to Staff, and consistent with previous Commission guidance, ICNU sought to identify a level at which a project should be considered to be “major”. This is a worthwhile and practical exercise that focuses the review of Avista’s filing on a more manageable number of capital projects. As noted, ICNU chose a $10 million threshold as applied on a system-wide basis.

However, ICNU’s approach and Staff’s approach deviate in principle in how to properly apply a major threshold. Specifically, ICNU first applies the $10.0 million threshold to determine which projects will be reviewed. It then *re-applies* the same threshold to the reviewed projects in order to determine the projects placed into rates. For example, ICNU reviewed the Little Falls Plant Upgrade project, and found that “only $3.6 million of capital has been transferred to plant between January and June of 2015.”[[5]](#footnote-6) The project is then rejected on the grounds that it no longer qualifies as a major project, even if the project had otherwise been found to have been a prudent, used-and-useful, known-and-measurable plant addition, because less than $10.0 million of plant has been transferred. ICNU’s approach therefore asks major projects to clear the $10.0 million hurdle twice. Under ICNU’s approach, a *pro forma* plant addition would either be $0, or greater than $10.0 million, and nothing in between.

ICNU’s approach also operates to exclude projects that aggregate costs over the course of a year. In this instance, a project estimated to exceed $10.0 million in size *over the course of an entire year* has been rejected simply because it has not reached the $10.0 million threshold *halfway through the year*. The first threshold served to focus efforts on “major” projects; the second threshold is serving to constrain the size of *pro forma* rate base additions. Staff believes ICNU’s approach goes too far.

In Staff’s view, after a project has been identified as major (such as greater than $10.0 million per Mr. Mullins), then the next level of review should focus on whether a project’s costs are known and measurable, whether it is used and useful to provide service to ratepayers and whether it is prudent. There is no need for reapplying the $10.0 million threshold, because the question of the magnitude of the planned project has already been answered. The practice of applying the $10.0 million threshold twice only serves to constrain *pro forma* rate base additions by requiring that over $10.0 million of transfers-to-plant have occurred by June 30, 2015. The end result of ICNU’s approach is that only one capital addition, Project Compass, can clear this highly selective hurdle.

Q. Ms. Ramas, representing Public Counsel, proposes increasing Avista’s natural gas plant-in-service by roughly $4,000,000 as a means to address consistent under-earnings for Avista’s natural gas operations.[[6]](#footnote-7) Does Staff agree with this approach?

A. No. While Staff agrees that it is appropriate to “pro form” the transfers-to-plant that Avista has made from October 1, 2014 to May 1, 2015 (and indeed through June 30, 2015) related to the Aldyl-A project, Staff’s reasoning to do so differs from that of Public Counsel.

Staff recommends including transfers-to-plant related to the Aldyl-A project because these system improvements are known and measurable, used and useful, prudent, and major. Public Counsel is proposing this addition specifically as a mechanism to alleviate attrition, despite its stance that this project may be “border-line for consideration as a ‘major’ capital addition.”[[7]](#footnote-8)

Public Counsel does not state the means by which it arrived at its threshold for what a “major” adjustment is, or whether this threshold varies for each type of service, or even what the threshold level is. Whatever that level is, Public Counsel implicitly suggests that it is too high, by then having to relax its own standard for major adjustments in order to provide the Company a sufficient opportunity to avoid future attrition.

Q. Does this conclude your testimony?

A. Yes.

1. BGM-1CT, pg 24, lines 5-6. [↑](#footnote-ref-2)
2. Response testimony of Brad G. Mullins, Exhibit No. BGM-1CT, pg. 24, lines 22-23. [↑](#footnote-ref-3)
3. Test year restated Total Rate Base for electric service was $1,267,795,000, vs. $240,814,000 for natural gas. [↑](#footnote-ref-4)
4. BGM-1CT, pg 25, line 5. Aldyl-A, a gas-only project, is then rejected, as Mr. Mullins’ testimony only addresses electric service. [↑](#footnote-ref-5)
5. BGM-1CT, page 27, lines 3-7. [↑](#footnote-ref-6)
6. Response testimony of Donna M. Ramas, Exhibit No. DMR-1CT, page 61, lines 1-3. [↑](#footnote-ref-7)
7. DMR-1CT, page 60, lines 18-20. [↑](#footnote-ref-8)