

Exhibit No. ____ (CSH-09T)
Dockets UE-150204/UG-150205
Witness: Christopher S. Hancock

**BEFORE THE WASHINGTON
STATE UTILITIES AND TRANSPORTATION COMMISSION**

**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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1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

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

6

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

9 A. Yes.

10

11 Q. What topics will you be testifying to?

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

14

15 II. RESPONSE TO PETITIONERS

16

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

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

¹ BGM-1CT, pg 24, lines 5-6.

² Response testimony of Brad G. Mullins, Exhibit No. BGM-1CT, pg. 24, lines 22-23.

1 Staff proposed a \$6.3 million threshold for electric service projects, and \$1.2
2 million threshold for natural gas service projects. No other party states an explicit
3 figure as a threshold for determining which projects are worthy of further review.
4

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

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

13 In this case, the vast majority of the Company's assets – over 84% – are
14 associated with its electric service.³ This bias shows itself in the list of projects
15 generated from ICNU's approach: five hydroelectric projects, Project Compass, and
16 the Aldyl-A pipe replacement project.⁴ ICNU's testimony demonstrates how this
17 approach would be implemented, and it is worthwhile to point out the ramifications
18 of such an approach. The use of one "major" threshold creates a bias that operates to
19 exclude relatively large projects that support the smaller natural gas industry.
20

³ Test year restated Total Rate Base for electric service was \$1,267,795,000, vs. \$240,814,000 for natural gas.

⁴ BGM-1CT, pg 25, line 5. Aldyl-A, a gas-only project, is then rejected, as Mr. Mullins' testimony only addresses electric service.

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

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

7 However, ICNU's approach and Staff's approach deviate in principle in how
8 to properly apply a major threshold. Specifically, ICNU first applies the \$10.0
9 million threshold to determine which projects will be reviewed. It then *re-applies* the
10 same threshold to the reviewed projects in order to determine the projects placed into
11 rates. For example, ICNU reviewed the Little Falls Plant Upgrade project, and found
12 that "only \$3.6 million of capital has been transferred to plant between January and
13 June of 2015."⁵ The project is then rejected on the grounds that it no longer qualifies
14 as a major project, even if the project had otherwise been found to have been a
15 prudent, used-and-useful, known-and-measurable plant addition, because less than
16 \$10.0 million of plant has been transferred. ICNU's approach therefore asks major
17 projects to clear the \$10.0 million hurdle twice. Under ICNU's approach, a *pro*
18 *forma* plant addition would either be \$0, or greater than \$10.0 million, and nothing in
19 between.

20 ICNU's approach also operates to exclude projects that aggregate costs over
21 the course of a year. In this instance, a project estimated to exceed \$10.0 million in
22 size *over the course of an entire year* has been rejected simply because it has not

⁵ BGM-1CT, page 27, lines 3-7.

1 reached the \$10.0 million threshold *halfway through the year*. The first threshold
2 served to focus efforts on “major” projects; the second threshold is serving to
3 constrain the size of *pro forma* rate base additions. Staff believes ICNU’s approach
4 goes too far.

5 In Staff’s view, after a project has been identified as major (such as greater
6 than \$10.0 million per Mr. Mullins), then the next level of review should focus on
7 whether a project’s costs are known and measurable, whether it is used and useful to
8 provide service to ratepayers and whether it is prudent. There is no need for
9 reapplying the \$10.0 million threshold, because the question of the magnitude of the
10 planned project has already been answered. The practice of applying the \$10.0
11 million threshold twice only serves to constrain *pro forma* rate base additions by
12 requiring that over \$10.0 million of transfers-to-plant have occurred by June 30,
13 2015. The end result of ICNU’s approach is that only one capital addition, Project
14 Compass, can clear this highly selective hurdle.

15
16 **Q. Ms. Ramas, representing Public Counsel, proposes increasing Avista’s natural**
17 **gas plant-in-service by roughly \$4,000,000 as a means to address consistent**
18 **under-earnings for Avista’s natural gas operations.⁶ Does Staff agree with this**
19 **approach?**

20 A. No. While Staff agrees that it is appropriate to “pro form” the transfers-to-plant that
21 Avista has made from October 1, 2014 to May 1, 2015 (and indeed through June 30,

⁶ Response testimony of Donna M. Ramas, Exhibit No. DMR-1CT, page 61, lines 1-3.

1 2015) related to the Aldyl-A project, Staff's reasoning to do so differs from that of
2 Public Counsel.

3 Staff recommends including transfers-to-plant related to the Aldyl-A project
4 because these system improvements are known and measurable, used and useful,
5 prudent, and major. Public Counsel is proposing this addition specifically as a
6 mechanism to alleviate attrition, despite its stance that this project may be "border-
7 line for consideration as a 'major' capital addition."⁷

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

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15 **Q. Does this conclude your testimony?**

16 A. Yes.

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⁷ DMR-1CT, page 60, lines 18-20.