**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**CROSS-ANSWERING**

**TESTIMONY OF BRADLEY G. MULLINS**

**ON BEHALF OF**

**THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**September 4, 2015**

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EXHIBITS

Exhibit No.\_\_\_(BGM-6) – Updated Revenue Requirement Calculations

1. Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite 400, Portland, Oregon 97204.

Q. ARE YOU THE SAME BRADLEY G. MULLINS THAT HAS PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. I have previously submitted Response Testimony in this proceeding on behalf of the Industrial Customers of Northwest Utilities (“ICNU”).

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. My Cross-Answering Testimony responds to Staff’s proposal to include an attrition adjustment of $14.7 million in the Company’s revenue requirement calculated using a new, trend-based revenue requirement methodology. Specifically, my testimony requests that the Commission decline to approve the attrition adjustment that Staff has proposed in this proceeding. Approval of Staff’s attrition proposal would set a poor precedent for all utility customers in this state by eliminating the key ratepayer protections afforded through the use of a modified historical test period, as discussed in my Response Testimony.

In addition to issues related to attrition, my Cross-Answering Testimony also responds to the testimony of Staff and Public Counsel on revenue requirement issues.

Q. HAVE YOU UPDATED YOUR REVENUE REQUIREMENT RECOMMENDATION?

A. Yes. I have prepared an updated revenue requirement recommendation in response to the testimony of Public Counsel and Staff and have updated the presentation of my recommendation so that it can be easily compared to those of other parties. In addition to conforming certain calculations to be consistent with those of Public Counsel and Staff, my updated analysis also presents the recommendation using the Company’s adjustment numbering. Table 1‑CA, below, details the updated calculations, representing a $20.6 million reduction to the Company’s current revenues. A description of each of the changes that I have made to these revenue requirement calculations follows my response to Staff’s proposed attrition adjustment.

TABLE 1-CA

Cross-Answering Revenue Requirement Recommendation

($000)



1. Attrition

Q. PLEASE SUMMARIZE YOUR CONCERNS WITH STAFF’S PROPOSED ATTRITION ALLOWANCE ADJUSTMENT.

A. Staff acknowledges that “[t]he Company over earned in the test year.”[[1]](#footnote-1)/ Notwithstanding, Staff continues to support the inclusion of a $14.7 million attrition adjustment in revenue requirement in this proceeding, which, if approved, would perpetuate this acknowledged pattern of overearning. Moreover, the approval of Staff’s attrition proposal would also set a precedent that would disregard key ratepayer protections afforded through the use of the modified historical test period, thereby resulting in broader impacts than just on the Company’s earnings.

I continue to support the notion that an attrition adjustment should be limited to extraordinary circumstances, and neither Staff nor the Company has demonstrated that extraordinary circumstances exist in this proceeding. Staff has not presented the issue of attrition as a means to address extraordinary circumstances. Rather, it has presented the issue as an insufficiency in the modified historical test period that does not provide a utility experiencing low load growth with the opportunity to earn a reasonable return.[[2]](#footnote-2)/ Notwithstanding, approximately five months ago, Staff supported, and the Commission reaffirmed, the use of revenue requirement calculated using a modified historical test period for Pacific Power & Light Company (“Pacific Power”).[[3]](#footnote-3)/ Accordingly, if the Commission were to approve Staff’s proposed attrition allowance, it would not be in response to extraordinary circumstances; instead, it would represent approval of an entirely new revenue requirement methodology, one that Avista—and presumably other utilities—will incorporate into annual rate case filings in order to perpetuate the level of overearning that it has experienced in recent years. A utility that is overearning and filing nearly annual rate cases does not need an attrition adjustment.

* 1. The Company’s Circumstances Are Not Extraordinary

Q. DID STAFF DEMONSTRATE THAT EXTRAORDINARY CIRCUMSTANCES EXIST IN THIS PROCEEDING?

A. No. Staff’s justification for the approval of an attrition adjustment is not premised on the existence of extraordinary circumstances. Rather, Staff’s proposed attrition adjustment is based on the assumption that the “modified historical test year generate[s] revenues that fall short of those necessary to provide Avista with a reasonable opportunity to earn a fair rate of return.”[[4]](#footnote-4)/ Staff argues that an attrition allowance is warranted in circumstances when “load growth is insufficient to generate the revenues necessary to cover growth in expenditures (including return on rate base) between the historical test year and the rate year.”[[5]](#footnote-5)/ I disagree.

Extraordinary circumstances should be limited to those conditions that threaten the financial integrity of a utility. In contrast to the conditions experienced by utilities in the early 1980s, however, the circumstances surrounding the Company’s low load growth pose no threat to the Company’s financial integrity and are not extraordinary. Varying levels of load growth represent an ordinary business risk to a utility, which, provided that it is not so drastic as to threaten a utility’s financial health, is not appropriately addressed through an attrition adjustment.

Q. HOW DOES THE COMPANY’S LOAD GROWTH COMPARE TO OTHER UTILITIES?

A. The Company is expecting modest load growth in the rate period, which is demonstrated by the 1.3% production factor in the attrition analysis.[[6]](#footnote-6)/ This level of load growth is comparable to the conditions forecast by Pacific Power in its recently decided general rate case. In approving Pacific Power’s revenue requirement, based upon the use of a modified historical test period in that case, the Commission concluded, in consideration of low load growth, that its long-standing revenue requirement methodology provided Pacific Power with the opportunity to earn a fair rate of return. If the use of a methodology based on the use of a modified historical test period provided Pacific Power with the opportunity to earn a fair return, then the same methodology ought to provide the same opportunity to Avista.

* 1. Staff’s Attrition Adjustment Is Inconsistent With the Use of a Modified Historical Test Period

Q. HOW DID STAFF DEVELOP ITS $14.7 MILLION ATTRITION ADJUSTMENT?

A. Under Staff’s recommendation, the $14.7 million attrition adjustment represents the “difference between Staff’s pro forma revenue requirement and the revenue requirement calculated using Staff’s attrition analysis.”[[7]](#footnote-7)/

Q. DO THE MODIFIED HISTORICAL TEST PERIOD RESULTS HAVE ANY IMPACT ON STAFF’S REVENUE REQUIREMENT RECOMMENDATION?

A. No. As a result of the mechanics of Staff’s proposal, the results calculated based on the modified historical test period have no impact on the overall level of revenue that Staff recommends. If Staff’s revenue requirement calculated using the modified historical test period were to be higher, for example, the difference would be offset by a reduction to the attrition allowance. Similarly, if Staff’s revenue requirement calculated using the modified historical test period were to be lower, the difference would be offset by an increase to the attrition allowance. Regardless of what the modified historical test period results are, Staff’s calculation would arrive at the same revenue requirement level, based on Mr. McGuire’s trending analysis presented in this case.

Q. IS STAFF’S PROPOSAL CONSISTENT WITH THE USE OF A MODIFIED HISTORICAL TEST PERIOD?

A. No. Mr. McGuire states that Staff’s proposed $6.2 million reduction to electric service revenues, including a $14.7 million attrition allowance, is “based on Staff’s modified historical test year approach.”[[8]](#footnote-8)/ The use of the attrition allowance methodology proposed by Staff, however, is not consistent with the use of a modified historical test period. The mechanics of Staff’s proposal replaces the revenue requirement calculated using a modified historical test period with Mr. McGuire’s attrition revenue requirement. Therefore, the detailed analyses performed by Messrs. Hancock, Gomez and Ball, regarding the use of the modified historical test period, ultimately have no impact on the overall level of revenues proposed by Staff.

Q. WHY IS THIS CONCERNING?

A. If the attrition allowance is accepted, the issues identified by Staff in the context of the modified historical test period results become moot. For example, if the Commission were to reject any of Mr. Gomez’s recommendations regarding post-test-period capital, then such a rejection would have no impact on Staff’s overall revenue requirement, as the difference would be offset by a change in the attrition adjustment. Similarly, if the Commission were to reject Mr. Nightingale’s recommendations on accounting treatment for the AMI Meter Replacement program, and instead approves the Company’s proposed accounting, doing so will have no impact on Staff’s revenue requirement, because the increase in revenues resulting from the amortization of retired meters will be offset by the attrition adjustment.[[9]](#footnote-9)/

Q. IS STAFF’S PROPOSAL AN ENTIRELY NEW REVENUE REQUIREMENT METHODOLOGY?

A. Yes. Approval of Staff’s trend-based revenue requirement calculations would result in an entirely new methodology that the Company would presumably use each time it files a new rate case. The Company has indicated that it will likely be filing general rate cases every year in the foreseeable future.[[10]](#footnote-10)/ Therefore, if the Commission were to approve Staff’s adjustment, the same methodology will be reflected in all future filings by the Company, possibly resulting in a continuance of its recent pattern of overearning.

* 1. The Attrition Allowance Requires Approval of Capital That is Not Used and Useful

Q. WHAT USED AND USEFULNESS STANDARD DOES STAFF RECOMMEND THAT THE COMMISSION APPLY IN THIS PROCEEDING?

A. Staff states that “in order to be considered for inclusion in rates, a company must demonstrate ‘quantifiable’ benefits to ratepayers in Washington for each and every resource to be included in rates.”[[11]](#footnote-11)/

Q. IS STAFF’S ATTRITION ADJUSTMENT CONSISTENT WITH THIS USED AND USEFULNESS STANDARD?

A. No. Notwithstanding Mr. Gomez’s extensive analysis of post-test-period capital projects, Staff’s attrition revenue requirement would require the Commission to approve plant that has not been demonstrated to provide quantifiable benefits to Washington ratepayers. Specifically, Staff’s attrition analysis would disregard the Commission’s “long-standing practice … to consider post-test-year capital additions on a case-by-case basis following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases.”[[12]](#footnote-12)/

Q. HOW MUCH POST-TEST-YEAR CAPITAL WOULD BE REFLECTED IN RATES IF STAFF’S ATTRITION ALLOWANCE IS APPROVED?

A. Staff’s attrition analysis would escalate net plant in service by a 7.83% trend factor,[[13]](#footnote-13)/ resulting in an increase to gross plant of $177.0 million for electric service.[[14]](#footnote-14)/

Q. HOW DOES THIS COMPARE TO THE POST-TEST-YEAR CAPITAL ACTUALLY REVIEWED BY STAFF?

A. Based on the detailed review presented by Mr. Gomez, Staff determined that only $56.7 million of post-test-period capital satisfies the Commission’s used and useful standard for inclusion on a pro forma basis.[[15]](#footnote-15)/ Thus, if Staff’s attrition study were to be approved, $120.3 million in capital that has not been demonstrated to be used and useful would be added to rate base, contrary to the Commission’s long-standing practice.

* 1. Trends Are Not Known and Measurable

Q. ARE COSTS ESTABLISHED ON THE BASIS OF TRENDS KNOWN AND MEASURABLE?

A. No. Escalating expense items such as operating expense, depreciation expense and taxes, based on historical trends, do not, by definition, meet the known and measurable standard that has traditionally been used by the Commission. The Commission has re-articulated this policy in several cases, recently in Pacific Power’s, where it referred to an earlier order in a proceeding with Puget Sound Energy, as follows:

The known and measurable test requires that an event that causes a change in revenue, expense or rate base must be known to have occurred during, or reasonably soon after, the historical 12 months of actual results of operations, and the effect of that event will be in place during the 12-month period when rates will likely be in effect. Furthermore, the actual amount of the change must be measurable. This means the amount typically cannot be an estimate, a projection, the product of a budget forecast, or some similar exercise of judgment – even informed judgment – concerning future revenue, expense or rate base. There are exceptions, such as using the forward costs of gas in power cost projections, but these are few and demand a high degree of analytical rigor.[[16]](#footnote-16)/

Q. WHY DOES THE RELIANCE ON TRENDS NOT MEET THIS STANDARD?

A. Reliance on trends in major cost categories to establish rates, by definition, represents an estimate and projection of future expense and rate base. In addition, the use of a trending analysis for all categories is not consistent with the exceptions to the known and measurable rule, which have historically been limited to a “few” subsets of costs and rely on a high degree of analytical rigor. Applying escalation factors to the entirety of revenue requirement is inconsistent with how the Commission has historically implemented the known and measurable standard for ratemaking. Thus, I disagree that the reliance on trends satisfies the known and measurable standard.

1. Revenue Requirement

Q. PLEASE PROVIDE A SUMMARY OF THE CHANGES TO YOUR REVENUE REQUIREMENT RECOMMENDATION IN YOUR CROSS-ANSWERING TESTIMONY.

A. As detailed in Table 1-CA above, I have made several updates to my revenue requirement calculations in response to the positions of other parties in this proceeding. I have also made a few minor updates and corrections to calculations that were presented in my initial testimony. Collectively, I have reduced my revenue requirement recommendation from a $17.4 million to a $20.6 million reduction to the Company’s current revenues. Detailed revenue requirement calculations can be found in Exh. No.\_\_\_(BGM-6), which supersedes Exh. No.\_\_\_(BGM-3) included in my Response Testimony.

Q. HAVE YOU RESPONDED TO ALL OF THE ADJUSTMENTS PRESENTED BY OTHER PARTIES?

A. No. To the extent that my Cross-Answering Testimony does not respond to a particular issue raised by another party, that should not be construed as my rejection or acceptance of that party’s recommendation.

Q. HAVE YOU UPDATED THE STARTING POINT FOR YOUR RECOMMENDATION?

A. Yes. I have updated my recommendation to be based on the Company’s revised response to Staff Data Request (“DR”) 131 Attachment B, which was issued on June 18, 2015. My prior revenue requirement recommendations were based off of the Company’s original response to Staff DR 131, Attachment B, issued on May 15, 2015.

* 1. Rate Base Period

Q. WHAT CHANGES HAVE YOU MADE REGARDING YOUR PROPOSAL TO USE AVERAGE-OF-MONTHLY AVERAGE RATE BASE?

A. I have updated my recommendation to separately detail the impacts of removing the Company’s various pro forma cross check adjustments and the impact of moving from an end-of-period (“EOP”) to average-of-monthly average (“AMA”) rate base. Previously, several of these adjustments were captured collectively in adjustment “(a)” in my Response Testimony, which did not explicitly demonstrate that, relative to the use of a 2014 EOP rate base calculation, the use of AMA rate base results in a slight increase in the Company’s overall revenues. I have also detailed these adjustments using the reference numbers provided by the Company, consistent with Staff and Public Counsel. In addition to separately stating the impact of removing these adjustments, I conformed my calculations to be consistent with Public Counsel’s calculation of the revenue requirement impact of these items, as well as the impact of the Company’s revised response to Staff DR 131, Attachment B.

Q. WHAT IS THE IMPACT OF USING CALENDAR YEAR 2014 AMA RATE BASE, RATHER THAN EOP RATE BASE?

A. My principal recommendation regarding the rate base period in Response Testimony was to use 2014 AMA rate base. The impact of using a 2014 AMA rate base, relative to the use of 2014 EOP rate base, is a slight increase to the Company’s revenues of $0.1 million.

* 1. Major Pro Forma Plant Additions

Q. WHAT CHANGES HAVE YOU MADE TO YOUR CALCULATION OF MAJOR PRO FORMA PLANT ADDITIONS?

A. While I continue to recommend that Project Compass be the only pro forma plant addition reflected in the Company’s revenue requirement, I have updated my calculation to reflect a year’s worth of depreciation and deferred income taxes, consistent with the calculation performed by Public Counsel. This reduces the revenue impact of my adjustment related to pro forma plant additions. Notwithstanding this change in my recommendation, I continue to be concerned with how this depreciation expense should be treated in a subsequent proceeding, to the extent that the Company includes depreciation expense beyond the end of the test period in this proceeding and subsequently includes the same depreciation expense in a later proceeding. To the extent that the Company makes a general rate filing in 2016, it may be appropriate to address the overlapping depreciation expense at that time. In addition, I have presented my recommendation as an adjustment to the Company’s pro forma adjustment 4.01, concerning 2015 pro forma plant additions, rather than as an independent adjustment, as done in my Response Testimony.

Q. DO YOU SUPPORT STAFF’S RECOMMENDATION TO FIND A PORTION OF THE COSTS RELATED TO PROJECT COMPASS TO BE IMPRUDENT?

A. Yes. I believe that Mr. Gomez makes a strong argument that the excessive costs associated with Project Compass are a direct result of imprudent project management.[[17]](#footnote-17)/ Notwithstanding, because I have not undertaken an equally extensive analysis as Mr. Gomez, I have not reduced the impact of Project Compass for imprudent costs in my revenue requirement calculations.

* 1. Property Tax

Q. WHAT IS THE DIFFERENCE BETWEEN YOUR PROPERTY TAX ADJUSTMENT AND PUBLIC COUNSEL’S PROPERTY TAX ADJUSTMENT?

A. Public Counsel proposed a similar adjustment related to property taxes. The only difference between the two calculations is that Public Counsel proposed to exclude escalation in the property tax rates, whereas my calculation included the Company’s proposed escalation in property tax rates. I propose to accept Public Counsel’s recommendation to remove escalation on the property tax rates in the Company’s proposal because escalation to the property tax rates proposed by the Company does not represent a known and measurable change. Eliminating the property tax rate escalation results in an approximate $0.2 million increase to the adjustment presented in Response Testimony.

* 1. Corporate Jet

Q. HAVE YOU UPDATED YOUR CALCULATION OF THE ADJUSTMENT RELATED TO CORPORATE JET EXPENSES?

A. Yes. I have updated my calculation to be based on flight logs over the annual period ending September 2014, corresponding to the test period. In my Response Testimony, the calculation of the number of flights taken was based on the Company’s flight logs over the annual period ending April 2014. This period was originally selected because the Company appears to have migrated to a new flight log system around April 2014. Based on further review, it appears that the two systems overlapped in early 2014, resulting in the omission of some flight manifests in April 2014. In addition, the use of the flight logs corresponding to the test period more accurately matches the total cost of the private jet to the actual flights taken.

Q. DID THIS UPDATE MATERIALLY IMPACT THE RESULTS OF YOUR ANALYSIS?

A. No. The results of my analysis are presented in my revenue requirement workpapers at Exh. No.\_\_\_(BGM-6) at 13. As can be seen from the exhibit, the updated cost per person, per leg, is approximately $1,477, representing nearly $2,954 per round trip flight. Adjusting this amount to $159 per leg, or $318 per round trip flight, produced a revenue requirement adjustment of $0.8 million.

* 1. Pro Forma Labor

Q. DO YOU AGREE WITH PUBLIC COUNSEL THAT THE COMPANY SHOULD BE ALLOWED TO ESCALATE WAGES TO 2015?

A. No. While I agree with Public Counsel that the Company should not be allowed to escalate wages into 2016, I disagree that the Company’s labor model should be used to escalate labor expense based on salary and wage increases granted to date in 2015.[[18]](#footnote-18)/ As discussed in my Response Testimony, the Company did not use a Full Time Equivalent labor model to calculate its pro forma labor expense, and, as a result, it is impossible to demonstrate how changes in headcount between the test period and the rate period might impact labor expense. Similarly, it is not possible to isolate capitalized labor expense from the Company’s model for 2016. Because the Company’s model is too imprecise to meet the burden of proof to be used to establish a pro forma adjustment, I recommend that no pro forma labor adjustment be applied in this proceeding.

* 1. Pro Forma Benefits

Q. WHAT ARE YOU PROPOSING RELATED TO PRO FORMA BENEFITS EXPENSE?

A. In my Response Testimony, I was concerned that the use of a 2016 valuation period for pension and post-retirement medical expense was too far into the future to be consistent with the modified historical test period. Upon further review of the actuarial reports, however, it appears the use of a 2016 valuation period was not the principal driver of the pro forma adjustment related to these expenses. Rather, it was the change in actuarial assumptions that caused the pro forma adjustment to increase in Staff DR 131, Attachment B. Because the expense based on a 2016 valuation did not exceed the expense based on a 2015 valuation, I propose to withdraw my adjustment related to pro forma benefits expense.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

1. / Exh. No.\_\_\_(CRM-1T) at 10:3. [↑](#footnote-ref-1)
2. / Id. at 16:8-19. [↑](#footnote-ref-2)
3. / WUTC v. Pacific Power, Dockets UE-140762 *et al.* (Mar. 25, 2015). [↑](#footnote-ref-3)
4. / Exh. No.\_\_\_(CRM-1T) at 28:8-10. [↑](#footnote-ref-4)
5. / Id. at 29:5-7. [↑](#footnote-ref-5)
6. / Exh. No.\_\_\_(CRM-2) at 1:1, column (b). [↑](#footnote-ref-6)
7. / Exh. No.\_\_\_(CRM-1T) at 28:12-14. [↑](#footnote-ref-7)
8. / Id. at 8:16-17. [↑](#footnote-ref-8)
9. / These are just two examples among many which could be stated to illustrate fundamental inconsistencies created by Staff’s attrition recommendations. [↑](#footnote-ref-9)
10. / See, e.g., Exh. No.\_\_\_(SLM-1T) at 11:6-12:3 (alleging that a mismatch in costs and sales is forecast to continue through 2018 (and, presumably, beyond), such that “retail rates must be increased” over this future period). [↑](#footnote-ref-10)
11. / Exh. No. \_\_\_(CRM-1T) at 13:2-4 (emphasis in original) (citing Dockets UE-140762 *et al.*, Order 08 at ¶ 166). See alsoWUTC v. Pacific Power*,* Docket UE-050684, Order 04 at ¶ 51 (Apr. 17, 2006). [↑](#footnote-ref-11)
12. / Dockets UE-140762 *et al.*, Order 08 at ¶ 165 (citing WUTC v. PacifiCorp, Docket UE-130043, Order 05 at ¶ 198 (Dec. 4, 2013)). [↑](#footnote-ref-12)
13. / Exh. No.\_\_\_(CRM-2) at 5:32, column F. [↑](#footnote-ref-13)
14. / Id. at 5:37, column G. [↑](#footnote-ref-14)
15. / Exh. No.\_\_\_(CSH-1T) at 21, Table 4. [↑](#footnote-ref-15)
16. / Dockets UE-140762 *et al.*, Order 08 at ¶ 167 (quoting Docket UE-130043, Order 05 at ¶ 205 (quoting WUTC v. PSE, Dockets UE-090704 and UG-090705, Order 11 at ¶ 26 (Apr. 2, 2010))). [↑](#footnote-ref-16)
17. / Exh. No.\_\_\_(DCG-1CT) at 58:4-60:3. [↑](#footnote-ref-17)
18. / Exh. No.\_\_\_(DMR-1CT) at 37:9-38:3. [↑](#footnote-ref-18)