

**Exh. ECO-1T  
Dockets UE-170485/UG-170486  
Witness: Elizabeth C. O'Connell**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**AVISTA CORPORATION d/b/a  
AVISTA UTILITIES,**

**Respondent.**

**DOCKETS UE-170485 and  
UG-170486 (*Consolidated*)**

**TESTIMONY OF**

**ELIZABETH C. O'CONNELL**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Cost of Service, Rate Spread and Rate Design*

**November 1, 2017**

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**LIST OF EXHIBITS**

- Exh. ECO-2, Electric Rate Spread
- Exh. ECO-3, Electric Rate Design
- Exh. ECO-4, Gas Rate Spread
- Exh. ECO-5, Gas Rate Design

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Elizabeth O’Connell. My business address is the Richard Hemstad  
5 Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,  
6 Washington 98504.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission  
10 (Commission) as a Regulatory Analyst in the Energy Regulation Section of the  
11 Regulatory Services Division. Among other duties, I am responsible for financial and  
12 accounting analysis; auditing records of regulated companies; analyzing cost of  
13 service studies, rate design, rate spread, and utility capital structure; and reviewing  
14 affiliated interest transactions.

15

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

17 A. I have been employed by the Commission since November 2015.

18

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

20 A. I graduated from the Universidad Central de Venezuela in Caracas, Venezuela, with  
21 a degree in economics with a specialization in Banking and Finance; from the  
22 University of Dundee in Dundee, United Kingdom, with a Master of Business  
23 Administration in International Oil and Gas Management; and from the University of

1 Washington, in Seattle, with a Certificate in Accounting. Before joining the  
2 Commission, I worked for three years in the financial sector assisting with the  
3 brokerage of agricultural bonds. I also previously worked for three years in the real  
4 estate sector as an advisor, specializing in the appraisal of realty.

5  
6 **Q. Have you testified previously before the Commission?**

7 A. Yes. I presented testimony related to prudence, pro forma ratemaking policy,  
8 property tax, and environmental remediation projects in Pacific Power's general rate  
9 case in Docket UE-152253. I also sponsored testimony related to additions to rate  
10 base, regulatory accounting principles, and general rate design in response to Puget  
11 Sound Energy's appliance leasing proposal in Dockets UE-151871 and UG-151872.  
12 Further, I presented testimony associated with plant held for future use in production  
13 and distribution activities, deferred debits and credits adjustment, and pro forma  
14 regulatory amortization adjustment in Avista's last general rate case in Dockets UE-  
15 160228 and UG-160229. Finally, I provided testimony addressing environmental  
16 remediation project costs and reporting, the future of Puget Sound Energy's natural  
17 gas water heater and conversion burner rental program, and the recovery of certain  
18 legal expenses in Puget Sound Energy's last general rate case, Dockets UE-170033  
19 and UG-170034.

1 **II. SCOPE AND SUMMARY OF TESTIMONY**

2

3 **Q. Please summarize the proposed Multiparty Partial Settlement (“Settlement”)**  
4 **filed concurrently with this testimony.**

5 A. The proposed Settlement represents a compromise between Avista, Commission  
6 Staff (“Staff”), the Public Counsel Section of the Attorney General’s Office (“Public  
7 Counsel”), and The Energy Project, but not the Industrial Customers of Northwest  
8 Utilities. The Settlement resolves three issues presented by Avista’s General Rate  
9 Case (GRC) filings: cost of service, rate spread, and rate design.

10

11 **Q. Please explain Staff’s position on the proposed Settlement.**

12 A. Staff has concluded that the Settlement is lawful and consistent with the public  
13 interest, and, accordingly, recommends that the Commission adopt it without  
14 conditions.

15

16 **Q. Why does Staff offer this recommendation?**

17 A. The Settlement resolves what are often contentious issues in a fair and reasonable  
18 manner, and it advances the public interest in three specific ways. First, by  
19 essentially maintaining the cost-of-service status quo, the Settlement reserves all  
20 policy disputes to the Commission-ordered generic cost-of-service proceeding.  
21 Second, the proposed rate spread moves several classes toward cost-of-service  
22 parity, reducing cross-class subsidization in a measured and incremental manner.

1 Finally, the rate design terms increase customer choice while ensuring Avista’s  
2 ability to recover its fixed costs, send important price signals, and limit rate shock.

3 The settling parties did not agree to a revenue requirement adjustment or a  
4 specific revenue requirement figure. Accordingly, I will discuss the changes to  
5 Avista’s electric and natural gas tariffed rates resulting from the Settlement as a  
6 percentage change to Avista’s current base tariffs.

7

8 **Q. What information did Staff draw on to reach its recommendation and**  
9 **conclusions?**

10 A. Staff bases its recommendation and conclusions on a review of information provided  
11 by the Company in its initial filing and on Avista’s answers to data requests.

12

13 **III. COST OF SERVICE**

14

15 **Q. Please summarize the Settlement’s cost-of-service terms.**

16 A. The Settlement provides that the parties will maintain the cost-of-service status quo  
17 by refraining from contesting the cost-of-service studies (COSSs) submitted by  
18 Avista in these dockets.

19

20 **Q. Please explain why Staff supports the Settlement’s cost-of-service terms.**

21 A. Staff has proposed, and the Commission has ordered, a generic proceeding to allow  
22 all the relevant stakeholders to discuss (and possibly contest) cost of service issues.<sup>1</sup>

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 06, at 55 ¶ 100, 57-58 ¶ 116 (Dec. 15, 2016).

1 The Settlement embodies the Settling Parties' agreement that the Commission should  
2 accept Avista's COSSs for the sole purpose of informing the rate spreads here. This  
3 provides the Commission a tenable basis for any determination it makes in these  
4 dockets while at the same time reserving all cost of service questions to the generic  
5 proceeding. This allows the Commission to avoid creating additional precedent that  
6 could interfere with the generic proceeding and ensures that the Commission makes  
7 policy decisions concerning cost-of-service issues in a setting where all investor-  
8 owned utilities and other stakeholders are participating, permitting the Commission  
9 to make decisions after a full and rich discussion of the issues.  
10

11 **Q. Has Staff initiated the generic cost of service proceeding?**

12 A. Yes. The kickoff meeting took place on February 8, 2017. Parties, including  
13 companies and other intervenors that usually participate in ratemaking proceedings,  
14 discussed their views, concerns, and objectives. Due to the numerous rate cases filed  
15 with the Commission this year it has been challenging to schedule more  
16 collaborative meetings where all stakeholders, including the utilities, Staff, Public  
17 Counsel, and other intervenors, could fully participate. However, Staff expects that it  
18 and the other stakeholders will have more time and bandwidth now that several of  
19 these major ratecases are nearing completion, and expects more frequent gatherings  
20 to take place in the near future.  
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1 **IV. RATE SPREAD**

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**Q. Please summarize the Settlement’s electric rate spread terms.**

A. The Settlement provides that each of Avista’s electric service customer classes, except for two, will receive a base rate increase or decrease equal to the overall base rate increase. The two exceptions are Avista’s Residential Service Schedules and its General Service Schedules. If the Commission approves a revenue requirement increase, the Residential Schedules will receive a base rate increase that is 106 percent of the overall base base increase; its General Service Schedules will receive a base rate increase that is 80 percent of the overall base rate increase. If the Commission approves a revenue requirement decrease, the Residential Schedules would receive a base rate reduction that is 94 percent of the overall base rate decrease; the General Service Schedules will receive a reduction that is 120 percent of the total base rate decrease. If the Commission approves a rate plan, the Settlement provides that each Schedule will in the second and third years of the plan receive an increase or decrease to base rates equal to the percent increase or decrease to base rates it received in the first year.

**Q. What are the results of the rate spread according to Staff’s electric revenue requirement?**

A. The results of rate spread for electric customers according to Staff’s recommendation are:



Type of Service	Schedule Number	Base Tariff Percent Increase	Proposed General Increase (000's of dollars)	Proposed Relative ROR
Residential	1/2	2.18	4,572.51	0.632
General Service	11/12	1.63	1,203.20	1.809
Large General Service	21/22	2.04	2,584.61	1.382
Extra Large General Service	25	2.04	1,311.98	1.056
Pumping Service	30/31/32	2.04	222.12	0.864
Street & Area Lights	41-48	2.04	140.08	0.672
Total		2.04	10,034.49	1

1 **Q. Please explain the Settlement's natural gas rate spread term.**

2 A. The Settlement provides that each of Avista's natural gas customer classes, except  
3 for Schedule 148, Special Contracts, will receive an equal percentage of margin  
4 increase or decrease equal to the overall base margin increase or decrease.

5

6 **Q. What are the results of the rate spread according to Staff's gas revenue  
7 requirement?**

8 A. The result of rate spread for gas customers according to Staff's revenue requirement  
9 recommendation is to increase rates by 1.2 percent.

Type of Service	Schedule Number	Base Tariff Percent Increase	Proposed General Increase (000's of dollars)	Proposed Relative ROR
General Service	101/102	1.27	858.37	0.842
Large General Service	111/112	1.27	196.25	1.815
Large General Svc.-High Annual Load Factor	121/122	1.27	13.00	1.570
Interruptible Service	131/132	1.27	2.41	1.364
Transportation Service	146	1.27	37.07	0.898
Special Contracts	148	0.00	-	1.000
Total		1.25	1,107.30	1

1 **Q. Please explain why Staff supports these rate spread terms.**

2 A. Avista's COSSs show that it significantly over- or under-recovers from some of its  
3 classes. The Settlement's rate spreads address those over- or under-recoveries,  
4 reducing cross-class subsidization in an incremental way. Staff supports moving each  
5 class toward contributing its cost of service in a way that avoids rate shock, and the  
6 Settlement does this.

7

8 **V. RATE DESIGN**

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10 **Q. Please explain the Settlement's electric rate design term.**

11 A. The Settlement changes some of Avista's electric service basic and demand charges.  
12 Specifically, the basic charge for the Residential Schedules will increase by \$0.50  
13 and for the General Service and Pumping Schedules by \$2.00. The fixed demand  
14 charge for the Extra Large General Service Schedules will increase by \$3,000. The  
15 variable demand charge will increase by \$0.50 for the General Service, Large  
16 General Service, and Extra Large General Service Schedules. All other revenue  
17 changes would occur through changes to volumetric energy rates, with those changes  
18 made on a uniform percentage basis to each block applicable to each Schedule. For  
19 additional details please see Exh. ECO-3.

20 Avista will also eliminate high pressure sodium vapor lighting as an option  
21 for new installations for its Street Lighting Schedules.

22

1 **Q. Please explain the Settlement’s natural gas rate design terms.**

2 A. The Settlement changes some of Avista’s natural gas service basic and minimum  
3 charges. Specifically, the basic charges applicable to Avista’s General Service  
4 Schedules will increase by \$0.50 and for the Transportation Service Schedule by  
5 \$25.00. The minimum charge applicable to the Large General Service Schedules  
6 and the High Annual Load Factor General Service Schedules will increase. All other  
7 revenue changes would occur through changes to the volumetric energy rates. For  
8 additional details please see Exh. ECO-5.

9 There is one change to the existing natural gas rate structures. As a result of  
10 Settlement, Avista will introduce two new transportation services.

11

12 **Q. Does Staff support the rate design terms?**

13 A. Yes, for the purposes of settlement. The small increases in Avista’s basic and  
14 minimum charges increase the likelihood of the Company recovering its fixed costs  
15 while at the same time minimizing any rate shock. The increase in demand charges  
16 sends an important price signal, encouraging a reduction in peak demand and  
17 therefore reducing the need for additional investments in facilities and resources. The  
18 phaseout of the HPS lights to new electric customers is consistent with Avista’s  
19 biennial conservation plan. Finally, the new transportation schedules increase  
20 customer choice without negatively impacting other Avista customers.

21

22

23

1 **Q. How is the new transportation tariff in the public interest?**

2 A. Staff supports the expansion of natural gas transportation service as a necessary  
3 component critical to achieving a larger settlement. The expanded offering of  
4 transportation service will provide additional options for customers seeking to  
5 procure their own gas supplies. Staff understands that the expansion is small;  
6 approximately 300 customers currently taking service under the Schedule 111/112  
7 and 24 under 121/122 would qualify for the new transportation schedule. Expanding  
8 these types of options may lead to expansions of the natural gas system, in-line with  
9 the Commissions policy goals. Further, the Company has represented to Staff that  
10 the new schedules will not cause cost-shifts between customers.

11

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

13 A. Yes.