

**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 & UG-170486  
(Consolidated)

JOINT MEMORANDUM IN  
SUPPORT OF THE MULTIPARTY  
PARTIAL SETTLEMENT

**I. Introduction**

1           Staff of the Washington Utilities and Transportation Commission, the Avista Corporation (“Avista”), the Public Counsel Unit of the Attorney General’s Office, The Energy Project, and the Northwest Industrial Gas Users (collectively, the “Settling Parties”) file this Joint Memorandum in Support of the Multiparty Partial Settlement Agreement<sup>1</sup> (“Joint Memorandum”) pursuant to WAC 480-07-740(2).

2           This Joint Memorandum summarizes the terms of the Multiparty Partial Settlement Stipulation (“Settlement”) in narrative form and explains why the Commission should adopt the Settlement as lawful and consistent with the public interest. To support that latter proposition, the Settling Parties have attached to this Joint Memorandum Exhibits A through E, which contain each of their testimony in support of the Settlement.

**II. Scope of Dispute**

3           On May 26, 2017, Avista filed revisions to its currently effective Tariffs WN U-28, Electric Service, and WN U-29, Natural Gas, with the Washington Utilities and

---

<sup>1</sup> The Multiparty Party Settlement Stipulation resolves some, but not all of the issues presented for consideration in these dockets, and most, but not all, of the parties have signed the settlement agreement. The settlement is therefore a multiparty partial settlement as WAC 480-07-730 uses those terms.

Transportation Commission (“Commission”) in Dockets UE-170485 and UG-170486, respectively. With these filings, Avista proposed a Three-Year Rate Plan, which would begin with new rates effective May 1, 2018, and run through April 30, 2021. Effective May 1, 2018, Avista requested an increase in electric base rates of \$61.4 million, or 12.5 percent (12.0% on a billed basis), and an increase in natural gas base rates of \$8.3 million, or 9.3 percent (5.4% on a billed basis). For the second year of the Rate Plan, Avista proposed an increase in electric base revenues of \$14.0 million, or 2.4%, and an increase in natural gas base rates of \$4.2 million, or 2.6%, effective May 1, 2019. For the third year of the Rate Plan, Avista proposed an additional electric base increase of \$14.4 million, or 2.5%, and an increase in natural gas base rates of \$4.4 million, or 2.7%, effective May 1, 2020.

4           The Commission suspended the tariff revisions and set these matters for hearing. After engaging in discovery, the parties began settlement discussions on three specific issues:<sup>2</sup> cost of service, rate spread, and rate design. These discussions were fruitful and the Settling Parties agreed to terms on each of those issues. They now present their Settlement to the Commission for approval.

### III. Settlement Terms

5           The Settlement disposes of three issues that the Settling Parties would otherwise litigate in Avista’s general rate case: cost of service, rate spread, and rate design. This section of the Joint Memorandum provides a narrative summary of the settlement and explains the effects of the settlement’s terms.

---

<sup>2</sup> Per the Commission’s prehearing order in these dockets, the first scheduled settlement conference concerning the remaining issues occurred on October 6, 2017. The discussions that lead to this agreement began before that scheduled settlement conference. *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Docket Nos. UE-170485 & UG-170486, Order 03, at Appx. B (July 5, 2017).

6            *Cost of Service.* The Settling Parties do not agree to the methodologies Avista’s cost-of-service studies follow, and therefore they do not collectively support Avista’s specific cost-of-service study results. Reflecting those disagreements, the Settling Parties agree to reserve all issues and arguments related to cost-of-service to the Commission-initiated generic cost-of-service collaborative.<sup>3</sup>

7            Nevertheless, the Settling Parties agree that Avista’s cost-of-service study results are directionally accurate and that certain Avista customer classes have revenue-to-cost ratios that are greater or less than unity. By reserving all cost-of-service issues to the generic proceeding, the Settling Parties effectively agree to refrain from challenging Avista’s cost-of-service study results for the limited and sole purpose of allowing those results to inform the Commission’s rate spread decision in these dockets, and only these dockets.

8            *Electric Service Rate spread.* If the Commission approves an increase in Avista’s revenue requirement, the Settling Parties agree that each of Avista’s electric customer classes save two will receive a percentage increase to base rates equal to the percentage increase to the revenue requirement in the 2018 rate year or in each year of any rate plan approved by the Commission. The two exceptions are (1) Residential Schedules 1/2, which will receive an approximate 106 percent increase as compared to all other classes but General Service Schedules 11/12 in the 2018 rate year or in each year of any approved rate plan, and (2) General Service Schedules 11/12, which will receive an approximate 80 percent increase as compared to all other classes except Residential Service Schedules 1/2 in the 2018 rate year or in each year of any rate plan.

---

<sup>3</sup> See, e.g., *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 06, at 54-55 ¶¶ 94-100 (Dec. 15, 2016).

9

If the Commission orders a decrease to Avista's revenue requirement, the Settling Parties agree that each of Avista's electric customer classes save two will receive a percentage decrease to base rates equal to the percentage decrease to the revenue requirement in the 2018 rate year or in each year of any rate plan approved by the Commission. The two exceptions again are (1) Residential Schedules 1/2, which would receive an approximate 94 percent decrease as compared to the other classes save General Service Schedules 11/12 in the 2018 rate year or in each year of any rate plan, and (2) General Service Schedules 11/12, which would receive an approximate 125 percent decrease as compared to the other classes except Residential Schedules 1/2 in the 2018 rate year or in each year of any rate plan.

10

The Settlement's electric service rate spread term addresses the fact that certain classes have revenue-to-cost ratios that are far enough from unity to warrant action. The term moves those classes toward cost-service parity in the 2018 rate year. If the Commission approves a three-year rate plan, the Settlement would move those classes further toward parity ratios of unity in each year of the plan.

11

*Natural gas rate spread.* Each class of natural gas customers except Schedule 148 would receive a percentage increase or decrease to margin rates dictated by the percentage increase or decrease in base margin revenue approved by the Commission in the 2018 rate year or in each year of any approved rate plan.<sup>4</sup>

12

Like its electric rate-spread counterpart, this Settlement term addresses the fact that certain of Avista's natural gas customer classes have revenue-to-cost ratios far enough from

---

<sup>4</sup> Schedule 148 serves customers taking service under special contracts.

unity to warrant action. The term moves those classes towards parity ratios of unity in the 2018 rate year, and in any subsequent year of any Commission-approved rate plan.

13           *Electric rate design.* The Settling Parties agree to certain increases in basic and demand charges in the 2018 rate year. Residential Schedules 1 and 2 would receive a \$0.50 increase in their basic charges and General Service Schedules 11 and 12 and Pumping Service Schedules 31 and 32 would each receive a \$2.00 increase to their basic charges. The fixed demand charges paid by Extra Large General Service Schedule 25 will increase by \$3,000. The variable demand charge will increase by \$0.50 per kW for General Service Schedules 11 and 12 and Large General Service Schedules 21/22 and by \$0.50 per kVa for Extra Large Service Schedule 25.

14           All remaining revenue changes for the 2018 rate year will be spread on a uniform basis to each block of each schedule's volumetric energy rates.

15           If the Commission approves a three-year rate plan, Avista's electric service customers would not see any changes to their basic or demand charges in the plan's second and third years. Avista would instead administer any changes to each class's allocated revenue requirement through a uniform percentage basis to the class's variable energy rates using Schedules 96 and 93.

16           *Natural gas rate design.* For the 2018 rate year, the Settling Parties agree to a \$0.50 increase to the basic charge for General Service Schedules 101 and 102 and a \$25 increase to the basic charge for Transportation Schedule 146; increases based on Schedule 101 rates to the minimum charge for Large General Service Schedules 111 and 112 and High Annual Load Factor Large General Service Schedules 121 and 122; and uniform percentage increases or decreases to all volumetric energy rate blocks.

17           If the Commission approves a three-year rate plan, Avista's natural gas customers, like their electric service counterparts, would not see any increases to their basic or minimum charges in the plan's second or third years. Avista would instead administer the increase or decrease in each class's allotted revenue requirement using a uniform percent change to volumetric energy rates.

18           Avista will create two new natural gas transportation service schedules. Eligible customers for the new Schedules 116 and 126 include those Large General Service Schedules 111 and 112 customers with a minimum annual average usage of 30,000 therms and all customers served under High Annual Load Factor Large General Service Schedules 121 and 122. Customers taking service must do so for a minimum of one year and will pay base and adder schedule rates (DSM, Decoupling, LIRAP, etc.) based on Schedules 111 and 112 (for Schedule 116) or 121 and 122 (For Schedule 126). Both new schedules will be subject to Avista's decoupling mechanism and its Tariff Sheets 146A through 146D, which govern transportation customers.

#### **V.     The Settlement Is Consistent with the Commission's Approval Criteria**

19           The Commission supports informal efforts to resolve disputes and may approve such settlements by order where the settlement is lawful and consistent with the public interest.<sup>5</sup> The Settlement satisfies those criteria.

20           The Settlement is lawful. In order to reserve cost-of-service issues to the generic collaborative, the Settling Parties agree not to challenge cost-of-service data produced by Avista using methodologies approved by the Commission in previous dockets.<sup>6</sup> The

---

<sup>5</sup> WAC 480-07-700.

<sup>6</sup> For example, Avista's electric cost-of-service study uses the peak credit methodology that the Commission ordered Avista's predecessor to use in rate cases, *Wash. Utils. & Transp. Comm'n v. Wash. Water Power Co.*, Cause Nos. U-82-10, U-82-11, Second Supplemental Order, at 36-37 (Dec. 30, 1982) and which the

Settlement uses that data to support rate spreads and rate design terms that produce just, fair, reasonable, and sufficient rates by incrementally reducing cross-class subsidization and also increasing Avista's ability to recover its fixed costs.<sup>7</sup> In short, the Settlement's terms comply with the Commission's orders and the public service laws.

21           The Settlement is also consistent with the public interest, for five reasons.

22           First, the Settlement reserves question about the appropriate cost-of-service methodology to the Commission's recently-instituted generic cost-of-service collaborative. The parties to this docket, not just the Settling Parties, have disagreements about the appropriate cost-of-service methodologies for use in setting rates in Washington. The Commission will ultimately need to make policy decisions that address those disagreements. Although the Commission theoretically could still do so here, the Settling Parties recommend that it would be optimal for the Commission to make these policy decisions with the input of all relevant stakeholders in the generic case.

23           Second, the Settlement begins the process of reducing cross-class subsidization among Avista's customers. While the Settling Parties may disagree on the appropriate cost-of-service methodology, and therefore how far from unity each class's revenue-to-cost ratio actually is, each agrees that Avista's cost-of-service data is directionally accurate. Based on that agreement, the Settlement's rate spread terms moves those rate schedules furthest from unity closer to a parity ratio of one, meaning that the rate spread term reduces cross-class subsidization.

---

Commission has recently noted it has "long preferred" and "consistently approved." *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket Nos. UE-140762, UE-140617, UE-131384, UE-131384, UE-140094, Order 08, at 81 ¶ 190 (Mar. 25, 2015).

<sup>7</sup> See RCW 80.28.010; cf. RCW 80.28.090, .100.

24

Third, the Settlement allows the parties to avoid the expense inherent in litigating these issues. The Settling Parties need not expend resources contesting various cost-of-service methodologies or results or various rate spread and rate design proposals because, as noted, there is general agreement that Avista is not recovering the full cost of service from certain classes and over-recovering from others. That agreement means that it makes little sense to litigate the cost-of-service issue, especially given the collaborative: there is no reason to reinvent the cost-of-service wheel here when the Commission and stakeholders may reinvent it again there. There is also general agreement about what needs to be done given those under- and over-recoveries: certain classes of electric customers should receive larger or smaller than average increases or decreases to their allotted revenue requirement, and each natural gas class, except the special contracts class, should receive an equal percentage increase or decrease to their base margin rates. This moves the classes furthest from unity towards cost-of-service parity. Settlement accomplishes this but at the same time allows the Settling Parties to avoid expending resources to reach a fair end result.

25

Fourth, the Settlement accounts for the needs of Avista's most vulnerable ratepayers. For example, while the Settlement moves Avista's residential electric service customer class closer to cost-of-service parity, it does so in an incremental manner that avoids rate shock. The residential customer classes are assigned a larger percentage of any increase to base rates, or smaller decrease to base rates, than other classes, but not an unacceptably larger increase and not an unacceptably smaller decrease. Further, although the Settlement improves Avista's likelihood of fixed-cost recovery through increases in various basic charges or minimum bills, the Settling Parties have attempted to craft small increases to minimize any effects on vulnerable ratepayers.



26

Finally, the Settlement advances the public interest by expanding customer choice, as requested by Avista's customers. The Settlement creates two new natural gas rate schedules that allow Avista's customers to obtain transportation service, providing them with a requested service in a manner that does not affect other customers.

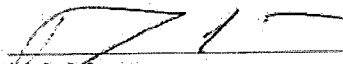
**V. CONCLUSION**

27

Per WAC 480-07-700, the Commission supports settlement when doing so is lawful and consistent with the public interest. The Settlement is lawful and consistent with the public interest. Accordingly, the Settling Parties request that the Commission approve the Settlement without conditions.

Respectfully submitted this 1st day of November, 2017.

Company:

By:   
David J. Meyer  
VP, Chief Counsel for Regulatory and  
Governmental Affairs

Staff:

By: \_\_\_\_\_  
Christopher M. Casey  
Assistant Attorney General

Public Counsel:

By: \_\_\_\_\_  
Lisa W. Gafken  
Assistant Attorney General

NWIGU:

By: \_\_\_\_\_  
Chad M. Stokes  
Tommy Brooks  
Cable Huston LLP

EP:

By: \_\_\_\_\_  
Simon J. Fitch  
Attorney for The Energy Project

26

Finally, the Settlement advances the public interest by expanding customer choice, as requested by Avista's customers. The Settlement creates two new natural gas rate schedules that allow Avista's customers to obtain transportation service, providing them with a requested service in a manner that does not affect other customers.

**V. CONCLUSION**

27


Per WAC 480-07-700, the Commission supports settlement when doing so is lawful and consistent with the public interest. The Settlement is lawful and consistent with the public interest. Accordingly, the Settling Parties request that the Commission approve the Settlement without conditions.

Respectfully submitted this 1st day of November, 2017.

Company:

By: \_\_\_\_\_  
David J. Meyer  
VP, Chief Counsel for Regulatory and  
Governmental Affairs

Staff:

By:  \_\_\_\_\_  
Christopher M. Casey  
Assistant Attorney General

Public Counsel:

By: \_\_\_\_\_  
Lisa W. Gafken  
Assistant Attorney General

NWIGU:

By: \_\_\_\_\_  
Chad M. Stokes  
Tommy Brooks  
Cable Huston LLP

EP:

By: \_\_\_\_\_  
Simon J. ffitich  
Attorney for The Energy Project

26 Finally, the Settlement advances the public interest by expanding customer choice, as requested by Avista's customers. The Settlement creates two new natural gas rate schedules that allow Avista's customers to obtain transportation service, providing them with a requested service in a manner that does not affect other customers.

## V. CONCLUSION

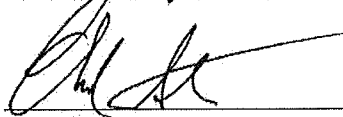
27 Per WAC 480-07-700, the Commission supports settlement when doing so is lawful and consistent with the public interest. The Settlement is lawful and consistent with the public interest. Accordingly, the Settling Parties request that the Commission approve the Settlement without conditions.

Respectfully submitted this 1st day of November, 2017.

Company: By: \_\_\_\_\_  
David J. Meyer  
VP, Chief Counsel for Regulatory and  
Governmental Affairs

Staff: By: \_\_\_\_\_  
Christopher M. Casey  
Assistant Attorney General

Public Counsel: By: \_\_\_\_\_  
Lisa W. Gafken  
Assistant Attorney General

NWIGU: By:  \_\_\_\_\_  
Chad M. Stokes  
Tommy Brooks  
Cable Huston LLP

EP: By: \_\_\_\_\_  
Simon J. ffitch  
Attorney for The Energy Project

26

Finally, the Settlement advances the public interest by expanding customer choice, as requested by Avista's customers. The Settlement creates two new natural gas rate schedules that allow Avista's customers to obtain transportation service, providing them with a requested service in a manner that does not affect other customers.

**V. CONCLUSION**

27

Per WAC 480-07-700, the Commission supports settlement when doing so is lawful and consistent with the public interest. The Settlement is lawful and consistent with the public interest. Accordingly, the Settling Parties request that the Commission approve the Settlement without conditions.

Respectfully submitted this 1st day of November, 2017.

Company:

By: \_\_\_\_\_  
David J. Meyer  
VP, Chief Counsel for Regulatory and  
Governmental Affairs

Staff:

By: \_\_\_\_\_  
Christopher M. Casey  
Assistant Attorney General

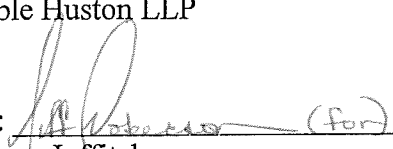
Public Counsel:

By: \_\_\_\_\_  
Lisa W. Gafken  
Assistant Attorney General

NWIGU:

By: \_\_\_\_\_  
Chad M. Stokes  
Tommy Brooks  
Cable Huston LLP

EP:

By:  \_\_\_\_\_ (for)  
Simon J. Ffitch  
Attorney for The Energy Project