

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-170485

DOCKET UG-170486

TESTIMONY OF

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

IN SUPPORT OF

THE MULTIPARTY PARTIAL SETTLEMENT STIPULATION

**I. INTRODUCTION**

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**Q. Please state your names, titles, and the party you represent in this matter.**

A. Patrick D. Ehrbar, Director of Rates for Avista Corporation (“Avista” or “Company”).

**Q. Are you sponsoring Testimony in support of the Multiparty Partial Settlement Stipulation filed with the Washington Utilities and Transportation Commission (Commission) on November 1, 2017?**

A. Yes. This testimony recommends approval of the Multiparty Partial Settlement Stipulation (Settlement) by the Commission. The Settlement represents a compromise among differing points of view. Concessions were made by the Settling Parties to reach a reasonable balancing of interests. Its approval is in the public interest.

**Q. What is the scope of your testimony?**

A. This testimony addresses several issues raised in these dockets, as well as the scope of the Settlement and its principal aspects. It also includes a statement about why the Settlement satisfies Avista’s interests and the public interest, as well as any legal points that bear on the proposed Settlement.

**Q. Would you briefly summarize the Settlement?**

A. Yes. The Settlement resolves all issues pertaining to cost of service, rate spread, and rate design.

**Q. Who are the signatories to the Settlement?**

A. The Settlement, filed November 1, 2017, was signed by Avista, the Staff of the Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Unit

1 of the Washington Office of Attorney General (“Public Counsel”), Northwest Industrial Gas  
2 Users (“NWIGU”), and The Energy Project (collectively the “Settling Parties”). These  
3 represent all but one of the parties to these proceedings; the Industrial Customers of  
4 Northwest Utilities (“ICNU”) did not join the Settlement. Accordingly, this represents a  
5 “Multiparty Partial Settlement” under WAC 480-07-730.

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## **II. SETTLEMENT PROCESS**

8 **Q. Would you please describe the process that led to the filing of the**  
9 **Settlement?**

10 A. Yes. After some preliminary discussions among various parties,  
11 representatives of all Parties appeared telephonically, and in person, at a Settlement  
12 Conference held on September 15, 2017, which was held for the purpose of narrowing or  
13 resolving the contested issues in this proceeding. Discussions occurred on certain  
14 components of the Company’s filing, such as cost of service and rate spread/rate design  
15 issues. The Parties engaged in the “give-and-take” that characterizes settlement discussions  
16 and attempted to arrive at a reasonable balance of differing interests related to the settled-  
17 upon issues. Each of the Parties ultimately agreed to concessions on matters which would  
18 not have been agreed to if each of the Parties were to proceed to evidentiary hearings.

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## **III. COST OF SERVICE**

21 **Q. Please explain the Parties’ agreement in regards to Cost of Service.**

22 A. The Settling Parties agree that it is more appropriate to address, in the  
23 ongoing generic collaboration (arising out of Docket Nos. UE-160228/UG160229), cost of

1 service methodologies to be used in future cases. Accordingly, the Settling Parties do not  
2 agree on specific cost of service methodologies in this case and agree to reserve all cost of  
3 service issues for the generic cost of service collaboration.

4 **Q. Do you believe ICNU has been supportive of the generic Cost of Service**  
5 **collaborative effort in Docket Nos. UE-160228 and UG-160229?**

6 A. Yes. ICNU witness Mr. Robert Stephens stated in his cross-answering  
7 testimony in Docket No. UE-160228 “I agree with Staff’s recommendation that the  
8 Commission institute a generic proceeding to review cost of service methodologies for all  
9 investor-owned utilities in Washington.”<sup>1</sup>

10 **Q. Please provide the status of the generic cost of service collaborative?**

11 A. In its Order 06 dated December 15, 2016, in Docket Nos. UE-160228 and  
12 UG-160229, at paragraph 116, the Commission directed Staff to initiate, within 60 days  
13 after the date of the Order, a collaborative effort with interested stakeholders, to more  
14 clearly define the scope and expected outcomes of generic cost of service proceedings that  
15 will provide an opportunity to establish greater clarity and some degree of uniformity in  
16 cost of service studies going forward. As directed, Staff initiated the first cost of service  
17 meeting among interested stakeholders on February 8, 2017. The first cost of service  
18 meeting was attended either in person, or telephonically, by representatives of Commission  
19 Staff, ICNU, NWIGU, Public Counsel, The Energy Project, and all of the investor-owned  
20 utilities in Washington. Subsequent meetings will be planned in 2017 and 2018, with a  
21 Staff progress report in 2018.

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<sup>1</sup> Docket No. UE-160228, Cross-Answering Testimony of Robert R. Stephens, pg. 2, ln 3-5.

**IV. RATE SPREAD/RATE DESIGN**

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**Q. Please explain the provisions in the Settlement related to the electric and natural gas rate spread and rate design.**

A. With regard to electric rate spread, the Settling Parties agreed, for all changes in revenue during the Three-Year Rate Plan, Schedules 11/12 will receive an increase that is 80% of the overall base rate percentage increase, and that all other schedules, with the exception of Residential Service Schedules 1/2, will receive a base rate percentage increase equal to the overall base rate percentage increase. The remaining revenue requirement will be spread to Residential Service Schedules 1/2 (an increase of approximately 106 percent of the overall base rate increase). Regarding natural gas rate spread, for all revenue changes in the Three-Year Rate Plan, the Settling Parties agreed to apply an equal percentage of margin increase for purposes of spreading the increase in the retail natural gas base margin revenue requirement.

**Q. What rate design was agreed to in the Settlement for Year 1 of the Rate Plan for electric service?**

A. The components of rate design for Year 1 of the Rate Plan are as follows:

- 1) The Schedules 1/2 basic charge will increase to \$9.00 per month, with the remaining revenue spread to the energy block rates on a uniform percentage basis.
- 2) The rate design for all other schedules will be as follows:
  - (a) Schedules 11/12 will have an increase in the basic charge from \$18.00 to \$20.00 per month, and a uniform percentage rate change to blocks.

- 1                   In addition, the demand charge will increase from \$6.00 to \$6.50 per  
2                   kilowatt for all demand in excess of 20 kW per month.
- 3                   (b) Schedules 21/22 will have no change to the current \$500 per month  
4                   fixed demand charge. The revenue increase for the schedule will be  
5                   spread on a uniform percentage increase to all blocks, and the demand  
6                   charge will increase from \$6.00 to \$6.50 per kilowatt for all demand  
7                   in excess of 50 kW per month.
- 8                   (c) Extra Large General Service Schedule 25 will have an increase in the  
9                   demand charge for the first 3,000 kVa or less from \$21,000 to \$24,000  
10                  per month. In addition, the variable demand charge increases from  
11                  \$6.00 to \$6.50 per kVa over 3,000 per month. The remaining revenue  
12                  change applicable to Schedule 25 will be spread on a uniform  
13                  percentage basis to the three energy block rates.
- 14                  (d) Schedules 31/32 will have an increase in the basic charge from \$18.00  
15                  to \$20.00 per month, and there will be a uniform percentage increase  
16                  to all blocks for the remaining revenue increase applicable to the  
17                  schedule.
- 18                  (e) Street Lighting Schedules 41-48 would see a uniform percentage  
19                  increase, and the proposed removal of High-Pressure Sodium Vapor  
20                  lighting options and the customer area light calculation methodology  
21                  described in Exh. PDE-1T, pp. 14-15 will be adopted.

1           **Q.     What rate design changes were agreed to for Years 2 and 3 of the Rate**  
2 **Plan for electric service?**

3           A.     For Years 2 and 3 of the Rate Plan the revenue changes will be administered  
4 through Schedule 96 and Schedule 93 as originally proposed by the Company. For rate  
5 design, the Company will spread the revenue increases for each schedule on a uniform  
6 percentage basis to the variable energy rates (per kWh rates).<sup>2</sup>

7           **Q.     What rate design elements were agreed to for Year 1 of the Rate Plan in**  
8 **the Settlement for natural gas service?**

9           A.     The components for year 1 of the rate plan for natural gas rate design are as  
10 follows:

- 11                   1)     The Schedule 101/102 basic charge will increase to \$9.50 per month  
12                             from \$9.00, with the remaining revenue spread to the energy block  
13                             rates on a uniform percentage basis.
- 14                   2)     For Schedule 146, the monthly basic charge will increase from \$500  
15                             to \$525 per month, and the remaining revenue increase will be spread  
16                             on a uniform percentage basis to all blocks.
- 17                   3)     The rate design for other schedules will be as follows:
- 18                             a) Schedules 111/112 will have an increase in the monthly minimum  
19                             charge based on Schedule 101 rates (breakeven at 200 therms),  
20                             and a uniform percentage increase to all blocks.

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<sup>2</sup> To the extent that the power supply portion (Schedule 93) of the Three-Year Rate Plan results in a rate decrease, the revenue spread will be applied on a uniform percentage of base revenue.

1                   b) Schedules 121/122 will have an increase in the monthly minimum  
2                   charge based on Schedule 101 rates (breakeven at 500 therms),  
3                   and a uniform percentage increase to all blocks.

4                   c) Schedules 131/132 will have a uniform percentage increase to all  
5                   blocks.

6           **Q.     What rate design changes were agreed to for Years 2 and 3 of the Rate**  
7 **Plan for natural gas service?**

8           A.     For Years 2 and 3 of the Rate Plan, the revenue changes will be administered  
9 through Schedule 196 as originally proposed by the Company. For rate design, the Company  
10 will spread the revenue increases for each schedule on a uniform percentage basis to the  
11 variable energy rates (per therm rates).

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13                   **V. EXPANDED NATURAL GAS TRANSPORTATION SERVICE**

14           **Q.     Please describe what the Settling Parties have agreed to for expanding**  
15 **natural gas transportation service?**

16           A.     The Settling Parties agree that customers presently served on sales Schedules  
17 111/112 and 121/22 may elect to take service, for a minimum of one year, under new  
18 transportation service Schedules 116 or 126. The Settling Parties agree with the parameters  
19 of the expanded natural gas transportation service schedules as outlined below:

20                   1) Eligibility - For Schedules 111/112, qualifying sales customers must have  
21                   a minimum annual average usage of 30,000 therms, as determined by the  
22                   Company. All Schedule 121/122 customers otherwise qualify for



1 transportation service on Schedule 126 (as the minimum annual usage  
2 threshold for Schedule 121/122 is 60,000 therms).

3 2) The base rates for Transportation Schedules 116 and 126 will be the same  
4 as the base rates on Schedules 111/112 and 121/122, respectively.

5 3) For purposes of all future “adder schedule filings” (DSM, Decoupling,  
6 LIRAP, etc.), cost of service studies, and rate spread and rate design  
7 proposals, Schedule 116 will be grouped with Schedules 111/112 and  
8 Schedule 126 will be grouped with Schedules 121/122.

9 4) The Settling Parties further agree that customers served on Transportation  
10 Schedules 116 and 126 will be subject to the Company’s natural gas  
11 decoupling mechanism, and that any customers who are served on rate  
12 Schedules 112 and 122, which presently are not subject to decoupling,  
13 will now be subject to the decoupling mechanism.

14 5) Schedules 116 and 126 will contain the same provisions contained in the  
15 Company’s tariff sheets 146A through 146D, which relate to the  
16 transportation of customer-owned natural gas.

17 6) The Settling Parties agree that the Company will file Schedules 116 and  
18 126 as part of the compliance filing, along with the base tariffs, approved  
19 as part of the general rate case. Proposed Transportation Schedules 116  
20 and 126 are attached to the Stipulation as Exhibit A.

21 **Q. How did the Settling Parties arrive at the minimum annual usage**  
22 **threshold of 30,000 therms for Schedule 116?**

1           A.     The threshold of 30,000 therms was set in a an effort to balance allowing  
2 more customers to have access to transportation service, while at the same time not leading  
3 to a dramatic increase in the time and costs associated with scheduling and accounting for  
4 customer-owned natural.

5           **Q.     Why did the Settling Parties create two new transportation service**  
6 **schedules (116 and 126) instead of amending the current transportation service**  
7 **schedule (146)?**

8           A.     There are several reasons for why the Settling Parties did not simply amend  
9 Schedule 146. First, the expanded transportation service offering was designed to be revenue  
10 neutral for the Company. This is accomplished by keeping the “base” rates for Schedule  
11 116 the same as Schedules 111/112, and the “base” rates for Schedule 126 the same as  
12 Schedules 121/122. The second reason is that the cost to serve Schedules 111/112 and  
13 121/122 customers is different than Schedule 146. If customers were allowed to shift to  
14 Schedule 146, which has much lower margin or “base” rates, the costs to serve those  
15 customers likewise would shift to that schedule. The net effect would be increase rate  
16 pressure for the existing Schedule 146 customers. Lastly, by adding the two new rate  
17 schedules (116 and 126), and aligning them with their current rate schedules (111/112 and  
18 121/122) for purposes of adder schedule filings, there will be no changes to the current level  
19 of funding related to DSM, LIRAP and Decoupling.

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## **VI. PUBLIC INTEREST**

22           **Q.     Please explain why Avista believes the Settlement is in the public interest.**

1           A.     The Settlement strikes a reasonable balance between the interests of Avista  
2 and its customers on cost of service and rate spread and rate design issues included in the  
3 Settlement. The Settlement was a compromise among differing interests and represents  
4 give-and-take.

5           The Settlement allows the parties to focus on cost of service issues in the generic  
6 collaborative process without having to apply time and resources to both proceedings  
7 concurrently. The Company fully supports the collaborative process and will continue to  
8 participate in good faith in those proceedings.

9           The Settlement also provides consensus around all issues regarding electric rate  
10 spread and rate design. While the ultimate electric and natural gas revenue requirements are  
11 still to be determined, the Settlement moves us one step closer to arriving at new electric and  
12 natural gas rates in Washington that are fair and reasonable for our customers, the Company  
13 and our shareholders. In conclusion, the Settlement resolves major issues included in the  
14 Company's electric and natural gas general rate case filings, pertaining to cost of service,  
15 rate spread and rate design issues. For these reasons, the Settlement is in the public interest  
16 and should be approved by the Commission.

17           **Q.     What have the Settling Parties agreed to regarding the effect of the**  
18 **Settlement on any future rate proceedings?**

19           A.     The Settlement represents a negotiated compromise among the Settling  
20 Parties. Thus, the Settling Parties have agreed that no particular party shall be deemed to  
21 have approved the facts, principles, methods, or theories employed by any other Settling  
22 Party in arriving at these stipulated provisions, and that the terms incorporated should not  
23 be viewed as precedent setting in subsequent proceedings except as expressly provided. In

1 addition, the Settling Parties have the right to withdraw from the Settlement if the  
2 Commission adds any additional material conditions or rejects any material part of the  
3 Settlement.

4 **Q. Are there legal standards that must be satisfied with respect to any**  
5 **settlement?**

6 A. Yes. The Commission's charge is to regulate in the public interest. The terms  
7 of the Settlement must result in rates that are fair, just, reasonable and sufficient. (RCW  
8 80.28.010) As such, the Commission must assure fair and reasonable prices and services to  
9 customers, as well as "provide the utility with rates sufficient to cover its prudently incurred  
10 costs and an opportunity to recover a return on its investment." (WUTC v Avista  
11 Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 at p. 10 (December 21,  
12 2005)). In the final analysis, it is the "end result" that matters, not the methods by which  
13 rates are determined. (Id., at p.11). The Settlement represents the Parties' best efforts at  
14 arriving at an end result that satisfies these requirements.

15 **Q. Does that conclude your direct testimony?**

16 A. Yes it does.