

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
v.)	DOCKETS UE-160228 and UG-160229 (Consolidated)
)	
AVISTA CORPORATION, DBA AVISTA UTILITIES,)	
)	
Respondent.)	
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**CROSS-ANSWERING TESTIMONY OF BRIAN C. COLLINS
ON BEHALF OF
THE NORTHWEST INDUSTRIAL GAS USERS**

September 19, 2016

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a consultant in the field of public utility regulation and a Principal of Brubaker &
6 Associates, Inc., energy, economic and regulatory consultants.

7 **Q. ARE YOU THE SAME BRIAN C. COLLINS WHO PREVIOUSLY FILED**
8 **TESTIMONY IN THIS PROCEEDING?**

9 **A.** Yes, on August 17, 2016, I filed Response Testimony on behalf of the Northwest
10 Industrial Gas Users (“NWIGU”).

11 **Q. HAVE YOU REVIEWED THE TESTIMONIES OF WASHINGTON**
12 **UTILITIES AND TRANSPORTATION COMMISSION (“WUTC” OR**
13 **“COMMISSION”) STAFF AND INTERVENOR WITNESSES AS THEY**
14 **RELATE TO THE ISSUES THAT YOU ADDRESSED IN YOUR RESPONSE**
15 **TESTIMONY?**

16 **A.** Yes, I have.

17 **Q. DO THE RESPONSE TESTIMONIES OF STAFF OR INTERVENOR**
18 **WITNESSES CAUSE YOU TO CHANGE ANY OF THE POSITIONS THAT**
19 **YOU TOOK IN YOUR RESPONSE TESTIMONY?**

20 **A.** No, they do not.

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

22 **A.** I will address the testimony of Staff witness Jason L. Ball¹ as it relates to natural gas
23 cost of service and rate spread.

24 The fact that I do not address any particular issue should not be interpreted as
25 tacit approval of any position taken by Avista Corporation (“Avista” or the
26 “Company”) or any other party.

¹Exhibit No. JLB-1T, revised August 24, 2016.

1 **Q. PLEASE SUMMARIZE YOUR CROSS-ANSWERING TESTIMONY.**

2 **A.** My cross-answering testimony can be summarized as follows:

3 1. I agree with Staff's recommendation that the Commission initiate a generic
4 proceeding to review natural gas cost of service methodologies for all investor-
5 owned utilities in Washington.

6 2. I conditionally agree with Staff's recommendation that the Commission defer all
7 major decisions regarding any specific natural gas cost of service methodology in
8 the present case in the event that the Commission chooses to initiate the generic
9 proceeding recommended by Staff.

10 3. I disagree with Staff's recommendation to maintain the status quo with respect to
11 the natural gas rate spread, i.e., to spread the proposed rate increase across all
12 customer classes on an equal percentage basis. Such an approach would
13 needlessly continue the large cost disparity between Schedule 101 revenues and
14 cost of service. As a result, I continue to recommend that the Company recover its
15 revenue deficiency from the Schedule 101 class and that all other classes' rates be
16 held at current levels.

17 **Q. AT PAGE 4, MR. BALL STATES STAFF'S POSITION REGARDING THE**
18 **INITIATION OF GENERIC COST OF SERVICE PROCEEDINGS, ONE FOR**
19 **ELECTRIC AND ONE FOR NATURAL GAS. HE GOES ON TO OPINE**
20 **THAT SUCH A PROCEEDING WOULD**

21 **"OFFER THE COMMISSION THE OPPORTUNITY TO**
22 **ARTICULATE A COHERENT AND CONSISTENT COSS**
23 **APPROACH FOR ALL IOUS IN WASHINGTON THROUGH A**
24 **SINGLE POLICY STATEMENT OR ORDER."**

25 **DO YOU AGREE?**

26 **A.** I generally agree. Both the Commission and the utilities could benefit from a
27 proceeding that establishes guidance to the utilities on determining the cost of serving
28 each customer class. However, unique circumstances as well as data availability may
29 necessitate the use of somewhat different approaches for a certain utility or utilities.
30 Nonetheless, the generic proceeding should afford the Commission the opportunity to
31 provide guidance to the class cost of service study methods. For example, the

1 Commission could require all utilities to also perform a class cost of service study that
2 allocates distribution main costs on both a coincident peak basis and on a customer
3 basis.

4 **Q. WHAT IS TYPICALLY THE LARGEST COST ITEM IN A NATURAL GAS**
5 **CLASS COST OF SERVICE STUDY UPON WHICH THE COMMISSION**
6 **COULD PROVIDE GUIDANCE?**

7 **A.** The classification and allocation of distribution main fixed costs is typically the largest
8 cost item in a natural gas class cost of service study. The classification of distribution
9 main costs as demand or customer related as well as the allocation methods for
10 distribution main costs are important factors in determining the cost of service.

11 **Q. AT PAGES 11 THROUGH 12 OF HIS TESTIMONY, MR. BALL IDENTIFIES**
12 **SEVERAL TOPICS THAT POTENTIALLY COULD BE EXPLORED IN THE**
13 **CONTEXT OF A GENERIC PROCEEDING. DO YOU AGREE WITH MR.**
14 **BALL'S LIST?**

15 **A.** Mr. Ball has captured the major points of impact in a natural gas cost of service study.
16 Some of these points are the same as the ones I addressed in my Response Testimony.
17 For example, I addressed the classification of distribution main costs on both a
18 demand and customer basis.

19 **Q. DOES MR. BALL OFFER ANY SPECIFIC CRITICISM OF AVISTA'S CLASS**
20 **COST OF SERVICE STUDY RESULTS?**

21 **A.** No, he does not. In fact, at page 12 of his testimony Mr. Ball indicates that Avista's
22 cost of service study "can be used to inform rate spread for all customer classes."
23 However, as indicated in my response testimony, the Schedule 146 class is also
24 subsidizing the Schedule 101 class. The subsidy to the Schedule 101 class is larger
25 than that indicated by the Company's study.

1 **Q. IS IT POSSIBLE THAT THE COMMISSION'S DETERMINATION IN A**
2 **GENERIC COST OF SERVICE PROCEEDING ULTIMATELY WOULD**
3 **SHOW THAT SCHEDULE 101 IS NOT BEING SUBSIDIZED, I.E., THAT ITS**
4 **PARITY RATIO IS ACTUALLY GREATER THAN 1.00?**

5 **A.** This is unlikely because the classification and allocation methods used by Avista on
6 the major cost driver, distribution main costs, are already skewed heavily in favor of
7 low load factor classes, such as the Schedule 101 class. Specifically, because the
8 Company allocates distribution main costs on the basis of the Peak and Average
9 method and fails to include a customer classification and allocation of distribution
10 main costs, the results of the cost of service study favor low load factor customer
11 classes. I explain this in depth in my Response Testimony.

12 **Q. HAVE YOU REVIEWED STAFF'S PROPOSED RATE SPREAD FOR GAS**
13 **SERVICE?**

14 **A.** Yes, I have. Mr. Ball addresses this at pages 14 through 16 of his testimony.

15 **Q. WHAT IS STAFF'S POSITION ON RATE SPREAD?**

16 **A.** As explained at page 16 of his testimony, Mr. Ball indicates that the Company's
17 proposed rate spread is consistent with the Company's cost of service study, but that
18 the precision of the Company's cost of service study is concerning. Also on page 16
19 of his testimony, Mr. Ball goes on to state:

20 Without a completely accurate COSS, however, it is impossible to tell
21 if cross-class subsidization exists or, accordingly, whether a specific
22 customer class should be assigned a higher- or lower-than-average
23 increase.

24 Accordingly, Mr. Ball concludes at page 14 of his testimony "Staff proposes spreading
25 any increase to rates amongst the customer classes uniformly."

1 **Q. DO YOU AGREE WITH MR. BALL'S CONCLUSION?**

2 **A.** No, I do not agree. Under both the Company's class cost of service study and my
3 class cost of service study, the Schedule 101 rate class is being subsidized by other
4 customer classes. My study indicates that the Schedule 146 class is contributing to
5 this subsidy, and shows that the subsidy provided to the Schedule 101 class is even
6 greater than that calculated by the Company. As a result, I continue to recommend
7 that the Company's revenue deficiency be recovered from the Schedule 101 class and
8 that all other classes' rates be held at current levels.

9 **Q. DO YOU AGREE THAT THE PRECISION OF THE COMPANY'S COST OF**
10 **SERVICE STUDY IS CONCERNING?**

11 **A.** Yes, but only to a limited degree. My concerns are that the Company's study does not
12 show the full extent of the inequities present in current rates. As shown in my class
13 cost of service study, proper cost of service study techniques applied to the allocation
14 of distribution main costs reveals that the Schedule 101 class is being even more
15 heavily subsidized than Avista's class cost of service study suggests, and that the
16 Schedule 146 class is contributing to this subsidy.

17 **Q. DO YOU AGREE WITH MR. BALL'S ASSERTION THAT WITHOUT A**
18 **COMPLETELY ACCURATE COSS, IT IS IMPOSSIBLE TO TELL IF**
19 **CROSS-CLASS SUBSIDIZATION EXISTS?**

20 **A.** No, I do not agree. If there is a clear indication of cross-class subsidization in
21 reasonably accurate class cost of service studies, such as the cost of service studies
22 presented in this case, it is reasonable to conclude that a significant cross-class subsidy
23 exists. For the Schedule 101 class, refinement to the class cost of service study may
24 determine that the class parity ratio is something different from 0.84 as calculated by

1 the Company or 0.72 as calculated in my class cost of service study, but it is
2 unrealistic to think that a refinement would cause the ratio to be found anywhere near
3 parity, or even greater than one. The class cost of service information in this record
4 makes it quite clear that very significant cross-class subsidization continues to exist, at
5 least as it relates to Schedule 101.

6 **Q. HOW DO YOUR PARITY RATIOS COMPARE TO THE COMPANY'S**
7 **RATIOS UNDER THE COMPANY'S CURRENT RATES FOR NATURAL**
8 **GAS SERVICE?**

9 **A.** This is shown in Table 1 below:

TABLE 1		
Class Cost of Service Study Parity Ratios		
At Present Rates		
<u>Rate Class</u>	<u>NWIGU</u>¹	<u>Company</u>²
Schedule 101	0.72	0.84
Schedule 111	2.72	1.80
Schedule 121	3.05	1.70
Schedule 132	1.90	1.37
Schedule 146	1.69	0.82

Sources:
¹Response Testimony workpapers of Brian C. Collins, Filename "Exhibit Nos. BCC-3, BCC-4, BCC-5.xlsm", "Summary" tab, Row 50.
²Avista response to Data Request NWIGU-2.1: "NWIGU_DR_2.1 Attachment A.xlsm", "Summary" tab, Row 50.

1 Because I have allocated distribution main costs on both a coincident demand
2 and customer basis to better reflect cost causation, my study results indicate that the
3 subsidy to the Schedule 101 class is larger than that indicated by the Company's class
4 cost of service study.

5 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

6 **A. Yes, it does.**

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