

Exhibit No. ____ T (KLE-7T)
Dockets UE-120436, et al.
Witness: Kenneth L. Elgin

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a
AVISTA UTILITIES,

Respondent.

DOCKETS UE-120436/UG-120437
(consolidated)

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA
UTILITIES,

Respondent.

DOCKETS UE-110876/UG-110877
(consolidated)

REBUTTAL TESTIMONY OF

Kenneth L. Elgin

STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

In support of the Multi-Party Settlement Stipulation

November 19, 2012

1 **II. RESPONSE TO PUBLIC COUNSEL**

2
3 **Q. Please state the main reasons why Public Counsel objects to the Settlement.**

4 A. The three main reasons why Public Counsel is objecting are: 1) the Settlement assumes
5 Avista will experience significant attrition in 2013 and 2014;¹ 2) the Settlement is a
6 “black box”, which means the Commission will not decide several issues Public Counsel
7 wants to litigate²; and 3) the Settlement uses a rate of return that is not valid.³

8
9 **A. ATTRITION**

10
11 **Q. Turning to the first reason, in evaluating the reasonableness of the Settlement and**
12 **the determination of Avista’s revenue deficiency, did Staff consider the effects of**
13 **attrition?**

14 A. Yes. Although each Settling Party may consider this issue differently, Staff considered
15 attrition in determining whether the Settlement is reasonable.

16
17 **Q. Does the Settlement identify a specific amount for attrition?**

18 A. No.

19
20 **Q. Does that mean Staff simply “assumed” the existence of attrition in this case?**

¹ Dittmer, Exhibit No. ____ (JRD-12CT) at 2:4-6

² Dittmer, Exhibit No. ____ (JRD-12CT) at 3:7 to 9; see also: Coppola, Exhibit No. ____ (SC-17CT) at 5:6 to 13:12; Daeschel, Exhibit No. ____ (LD-1CT) at 2:22 to 4:17.

³ Dittmer, Exhibit No. ____ (JRD-12CT) at 3:1 to 5.

1 A. No. Staff's attrition study shows that Avista will likely experience attrition in 2013.
2 Staff's attrition allowance is \$19.1 and \$2.8 million, respectively, for electric and natural
3 gas.⁴ Therefore, it was not necessary for Staff to simply "assume" the existence of
4 attrition. Indeed, it would be unreasonable for Staff to ignore the effects of attrition.
5 Notably, Public Counsel did not prepare an attrition analysis, nor did Public Counsel
6 testify no attrition exists.

7
8 **Q. What position did Public Counsel take with respect to attrition allowances in its**
9 **direct case?**

10 A. Public Counsel's position was that an attrition allowance is not appropriate unless the
11 Company's financial integrity is at stake. Public Counsel based this position on language
12 to that effect in a 1981 Commission order for Avista in Cause U-81-15 and U-81-26
13 (consolidated). Public Counsel was also skeptical about attrition because currently,
14 inflation and cost rates of capital are low.⁵

15
16 **Q. Were you aware of the language in that 1981 order regarding attrition and its**
17 **relationship to a utility's financial integrity?**

18 A. Yes. I cited and quoted that language from that order in my direct testimony. I noted that
19 Staff was not applying that "financial integrity" threshold in this case, but instead was
20 using attrition as a tool to analyze the Company's opportunity to earn a fair return.⁶

21

⁴ Breda, Exhibit No. ____ (KHB-1T) at 2:13-16.

⁵ Dittmer, Exhibit No. ____ (JRD-10T) at 3:13-21 and at 8:1 to 9:3.

⁶ Elgin, Exhibit No. ____ (KLE-1T) at 4:17 to 5:15.

1 Within this range are numerous contested adjustments¹⁶, but the biggest
2 difference between the \$29 million figure and the \$7 million figure is due to the estimate
3 of rate year attrition. The 3.0 percent increase for 2013¹⁷ contained in the Settlement can
4 be viewed as Staff moving its attrition allowance closer to the Company's request.

5 For natural gas, the \$5.3 million (or 3.74 percent increase) in 2013 under the
6 Settlement is the same figure one would calculate if the Commission accepted Staff's
7 case in total, except changing the rate of return to 7.64 percent.

8
9 **C. RATE OF RETURN**

10
11 **Q. Public Counsel also objects to the rate of return in the Settlement.¹⁸ What is Staff's**
12 **response on this issue?**

13 A. First, Public Counsel did not offer any testimony on what the appropriate rate of return
14 should be. Second, as Public Counsel points out, I provided direct testimony on rate of
15 return, and I testified to a fair return lower than the rate of return stated in the Settlement.

16 However, the rate of return in the Settlement is a compromise, and as I mentioned
17 earlier, it reflects the same return on equity the Commission recently decided was fair for
18 Puget Sound Energy (PSE) last spring. The Commission did not accept my rate of return
19 recommendation in that PSE case. I am comfortable with the Settlement in this regard.

20 Third, Public Counsel asserts there is a connection between a fair rate of return
21 and whether the Commission should accept an attrition adjustment.¹⁹ Public Counsel is

¹⁶ Including many adjustments for items Public Counsel prefers to be fully litigated.

¹⁷ The Settlement also calls for amortization of deferred power cost credit balances to reduce the increase from three percent to two percent.

¹⁸ Dittmer, Exhibit No. ____ (JRD-12CT) at 22:4 to 25:25.

1 wrong. A basic principle of ratemaking is that a utility is entitled to a reasonable
2 opportunity to earn a fair return. The Commission's policy is to provide additional
3 revenue if there is sufficient evidence to support an attrition allowance. To my
4 knowledge, the Commission has never conditioned an attrition allowance on a reduced
5 rate of return.

6
7 **D. MISCELLANEOUS ISSUES RAISED BY PUBLIC COUNSEL IN OPPOSITION**
8 **TO THE SETTLEMENT**
9

10 **Q. Public Counsel objects to the Settlement due to the January 1, 2013, effective date of**
11 **the new rates, arguing that provides significant additional revenue to Avista.²⁰ Is**
12 **this a reasonable objection?**

13 A. No. Public Counsel's testimony advocates that the Commission's policy should be to
14 ensure customers only pay higher rates after the full ten-month statutory suspension
15 period. However, regulatory lag is not a customer right. The Commission should retain
16 its discretion to determine when rates should take effect based upon the circumstances
17 present at the time. If the rates are reasonable, there is no reason to delay their effective
18 date.

19
20 **Q. Public Counsel also objects to the Settlement because the issue of executive**
21 **compensation and similar issues are not specifically resolved.²¹ Is this criticism**
22 **valid?**

¹⁹ Dittmer, Exhibit No. ____ (JRD-12CT) at 25:2-3.

²⁰ Dittmer, Exhibit No. ____ (JRD-12CT) at 5:12 to 6:5; Daeschel, Exhibit No. ____ (LD-1CT) at 6:15 to 7:5.

²¹ Coppola, Exhibit No. ____ (SC-17CT).