Exh. PDE-9T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-170485

DOCKET NO. UG-170486

REBUTTAL TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the State and Federal Regulation Department as the Director of Rates.

Q. Have you filed direct testimony in this proceeding?

A. Yes. I have filed direct testimony in this case addressing rate spread and rate design, among other things (Exh. PDE-1T). I have also filed testimony in support of the Settlement Stipulation (Exh. PDE-8T).

Q. What is the scope of your rebuttal testimony?

A. My rebuttal testimony will provide the Company's response to the electric cost-of-service and rate spread proposals of the Industrial Customers of Northwest Utilities ("ICNU"). In addition, I will provide a response to the decoupling proposals of Commission Staff. Below I provide a summary of the Company's response to ICNU's proposals:

- <u>Cost of Service</u> – As agreed to in the Settlement Stipulation, it is more appropriate to address, in the ongoing generic collaboration (arising out of Docket Nos. UE-160228 and UG-160229), cost-of-service methodologies to be used in future cases. In addition, given the limited testimony and analysis related to cost-of-service in this proceeding, the Commission lacks a complete and informed record from which it could base its decisions.

- <u>Electric Rate Spread</u> – The electric rate spread as agreed to by the parties in the Settlement Stipulation addresses the fact that certain classes are far enough from unity to warrant action and the agreed upon rate spread would move those classes further toward parity ratios of unity in each year of the rate plan.

A table of contents for my testimony is as follows:

TABLE OF CONTENTS

Q. Are you sponsoring any exhibits that accompany your testimony?

A. No, I am not.

II. ELECTRIC COST OF SERVICE

Q. Please describe what the Settling Parties agreed to in Settlement Stipulation[1] in regards to cost-of-service?

A. The Settling Parties have agreed that it is more appropriate to address, in the ongoing generic collaboration (arising out of Docket Nos. UE-160228 and UG-160229), cost-of-service methodologies to be used in future cases. Accordingly, the Settling Parties did not agree on specific cost-of-service methodologies in this or in any other case and agreed to reserve all cost-of-service issues for the generic cost-of-service collaboration.[2]

Q. Given what the parties have agreed to in the Settlement Stipulation, do you believe the Commission should address cost-of-service issues in this proceeding?

[1] The only party to this proceeding that did not join the Settlement was ICNU.
[2] Settlement Stipulation, p. 3, paragraph 5.

A. No, I do not. As I stated in my testimony in support of the Settlement Stipulation, the Settlement allows the parties to focus on cost-of-service issues in the generic collaborative process without having to apply time and resources to both proceedings concurrently. It will also take into account positions of other utilities and interested parties – and is meant to be "generic" in that respect. It is the Company's view that the collaborative process should be allowed to run its course in order for the parties and the Commission to have an opportunity to resolve, and or provide guidance, on as many issues as possible before addressing cost-of-service in any immediate proceeding. The Company fully supports the collaborative process and will continue to participate in good faith in those proceedings.[3]

Q. Have any other parties other than Avista or ICNU conducted and/or provided analysis of the Company's cost-of-service study in this proceeding?

A. No. The Settling Parties have agreed to reserve of all issues related to cost-of-service for the generic collaborative proceeding.

Q. Given that no other parties have addressed cost-of-service in this proceeding, does the Commission have a robust enough record from which it could make policy decisions related to cost-of-service?

A. No, I don't believe it does. Typically the Commission would have the benefit of in-depth analysis from multiple parties to help inform them of the advantages and disadvantages of methodological differences in cost allocations from which they can base their decisions.[4] In this proceeding, only the Company and ICNU have conducted cost-of-service

[3] Ehrbar, Exh PDE-8T p. 10, ll. 5-8

[4] In prior Avista general rate cases both Commission Staff and Public Counsel have provided testimony and analysis addressing electric cost-of-service.

studies, and therefore the Commission lacks the benefit of a complete record with testimony from all interested parties from which the Commission could base its decisions.

Q. ICNU witness Mr. Stephens spends a considerable amount of his testimony objecting to the peak credit approach used by the Company to classify production and transmission costs on the grounds that investment in production and transmission is primarily incurred due to peak demands. Do you agree with his criticism of the peak credit approach?

A. No. The theory behind the peak credit approach is to provide a balance between the way the system is <u>designed</u> to meet peak load <u>and</u> how the system is <u>used</u> to provide energy every hour of every day. This approach reflects what customers receive from the system, which is both energy all year long, as well as all the energy they need at the time they need it the most.

Q. Has the Commission weighed in on the use of the peak credit methodology in any recent cases?

A. Yes. In the 2014 Pacific Power case, the Commission stated that it "has long preferred the Peak Credit methodology and consistently has approved its use in cost-of-service studies for Pacific Power, and for both PSE and Avista."[5]

Q. Do you agree with Mr. Stephens that the peak credit should not be applied to transmission costs?

A. No. In the State of Washington, the transmission function has consistently been treated as an extension of the production function since the 1980's. Starting with a Puget Sound Power and Light (now PSE) case in 1981, where the Commission's Order stated: "Transmission

[5] Docket No. UE-140762 et al. *(Consolidated)* Order No. 08 page 81 paragraph 190.

costs should not be fully allocated to demand, but should be allocated to both energy and to demand."[6] This was followed by a Washington Water Power (now Avista) case in 1982 where the Commission's Order stated: "Classification of transmission system cost should be applied using the same principles as for production plant."[7] For Avista today, continuing to apply the peak credit approach to both production and transmission costs maintains consistency year to year in the Company's Electric cost-of-service studies.

Q. Mr. Stephens also supports changing the basis for the allocation of demand-related production costs. Do you agree with his proposal for a summer/winter 4CP or 5CP demand allocator?

A. The Company believes the twelve month coincident peak ("12CP") demand allocator provides a more balanced approach that is less likely to vary widely from year to year due to extraordinary weather conditions. Avista agrees with the Commission that peak demand based on only four hours is too narrow of a range.[8] Furthermore, customers are billed on a monthly basis reflecting their monthly peak and energy consumption. The 12CP allocation factor that captures peaks from every month provides a fair assignment of demand-related costs consistent with the billing measurement periods.

Q. Are the results of Mr. Stephens' cost-of-service studies materially different from those of the Company?

A. No. Mr. Stephens cost-of-service results, as summarized in Table 4 of his

[6] Source: Cost of Service Analysis For the Electric and Natural Gas Industries An Historical Review of Decisions by the Washington Utilities and Transportation Commission 1978 – 1994 by Jim Lazar – Consulting Economist, page 5. This specific quote is cited in Cause U-81-41, Sixth Supplemental Order, Page 23.
[7] Ibid. See Cause U-82-10, Second Supplemental Order, Page 37.
[8] PacifiCorp Docket No. UE-140762 et al. *(Consolidated)* Order No. 08, page 82, paragraph 193 referencing PacifiCorp Docket No. UE-100749, Order No. 06.

testimony, seemingly confirm that the results of the study conducted by the Company, and relied upon as the basis for the Settling Parties' rate spread agreement, are directionally accurate in terms of confirming that two rates schedules (Schedules 1/2 and 11/12) are disproportionately out of line from the other rate schedules in terms of unity. This is shown in Table No. 1 below, showing the cost-of-service results in studies prepared by both the Company and ICNU:

Table No. 1: Electric Cost of Service Comparison

Rate Schedule	Avista Present Relative ROR	ICNU Present Relative ROR
Residential Schedules 1/2	0.56	0.44
General Service Schedules 11/12	2.03	2.11
Large General Service Schedules 21/22	1.46	1.64
Extra Large General Service Schedule 25	0.98	1.36
Pumping Service Schedules 31/32	0.85	1.19
Street & Area Lights Schedules	0.71	0.71
Overall	**1.00**	**1.00**

III. ELECTRIC RATE SPREAD

Q. Using the Company's electric rebuttal revenue requirement, as well as the agreed-upon rate spread from the Settlement Stipulation, please provide the electric base rate increases for the Three-Year Rate Plan.

A. Table No. 2 below provides the electric billed rate increases using the Settlement rate spread at the Company's rebuttal revenue increase of $54.4 million on May 1, 2018, $13.6 million on May 1, 2019, and $13.8 million on May 1, 2020:

Table No. 2: Electric Settlement Rate Spread for Rate Plan Using Avista's Proposed Revenue Increase

Rate Schedule	May 1, 2018	May 1, 2019	May 1, 2020
Residential Schedules 1/2	10.9%	2.4%	2.5%
General Service Schedules 11/12	8.4%	1.9%	1.9%
Large General Service Schedules 21/22	10.5%	2.4%	2.4%
Extra Large General Service Schedule 25	10.6%	2.4%	2.4%
Pumping Service Schedules 31/32	10.5%	2.4%	2.4%
Street & Area Lights Schedules 41-48	10.5%	2.4%	2.4%
Overall	**10.4%**	**2.3%**	**2.3%**

Q. Does the Company support the rate spread proposal of ICNU?

A. No, the Company generally does not support ICNU's rate spread proposal. At the Company's originally-filed revenue increases, ICNU's rate spread is the same as the Settling Parties. However, should the revenue increase approved by the Commission be less than the Company's original request, the effects of ICNU's rate spread disproportionately impact Residential Schedule 1/2 customers. The Settling Parties rate spread, which moves those customers furthest from full cost of service gradually towards unity, is a more fair way to spread the revenue increase in this case.

IV. NATURAL GAS RATE SPREAD

Q. Using the Company's natural gas rebuttal revenue requirement, as well as the agreed-upon rate spread from the Settlement Stipulation, please provide the natural gas base rate increases for the Three-Year Rate Plan.

A. Table No. 3 below provides the natural gas billed rate increases using the Settlement rate spread at the Company's rebuttal revenue increase of $6.6 million on May 1, 2018, $3.7 million on May 1, 2019, and $3.5 million on May 1, 2020:

<u>Table No. 3: Natural Gas Settlement Rate Spread for Rate Plan Using Avista's Proposed Revenue Increase</u>

Rate Schedule	**May 1, 2018**	**May 1, 2019**	**May 1, 2020**
General Service Schedules 101/102	4.7%	2.5%	2.6%
Large General Service Schedules 111/112	3.8%	2.0%	2.1%
Ex. Lg. General Service Schedules 121/122	3.1%	1.7%	1.7%
Interrupt. Sales Service Schedules 131/132	3.0%	1.6%	1.7%
Transportation Service Schedule 146	7.5%	3.9%	3.9%
Overall	**4.5%**	**2.4%**	**2.4%**

V. DECOUPLING ISSUES

Q. Please describe the decoupling "soft-cap" as proposed by Staff witness Mr. Hancock?

A. Staff witness Mr. Hancock states:

> The decoupling soft-cap should use a 3% threshold that is independent of any rate increases from the multi-year rate plan. The revenue increase authorized by the decoupling mechanism should first be determined. Then, the revenue increase called for by the rate plan should be applied, followed by the application of the increase in revenues called for by the decoupling mechanism.[9]

Q. Do you agree with Mr. Hancock's decoupling soft-cap proposal as it relates to the multi-year rate plan?

A. Yes. The Company supports Mr. Hancock's proposal for calculating the decoupling soft-cap during a multi-year rate plan.

Q. In Mr. Hancock's testimony he made specific suggestions about what should be included in the Company's third-party evaluation of its existing decoupling

[9] Hancock, Exh. CSH-1T p. 21, ll. 16-20

mechanisms expected in 2018. Please provide an update as to the status of the third-party evaluation.

A. On November 25, 2014, the Commission issued a Final Order ("Order 05") approving Avista electric and natural gas Decoupling Mechanisms, subject to certain conditions set forth in Docket Nos. UE-140188 and UG-140189. One of the requirements of the Company as a part of Order No. 05 was a requirement that a third-party evaluator review the mechanism following the end of the third full-year (i.e., after 2017). After consultation with the Demand Side Management Advisory Group, on June 2, 2017, the Company filed with the Commission a Request for Proposal ("RFP"), including a defined Scope of Work, so that the Company could hire a consultant by early 2018. On July 13, 2017 the Commission issued Order No. 08 approving the Company's RFP for third-party review of Avista's electric and natural gas decoupling mechanisms. On September 15, 2017 the Company issued its RFP with submissions due back to the Company by October 26, 2017. As of October 26, 2017, the window to submit an RFP closed and the Company is presently reviewing the lone proposal received. The Company is currently working through the contracting process with the selected evaluator.

Q. Please describe the first requirement Mr. Hancock says should be included in the third-party evaluation.

A. Mr. Hancock stated that Avista's third-party evaluation of its existing decoupling mechanisms should explicitly include a comparison of low-income conservation program participation with general conservation program participation to inform the level of spending on low-income conservation programs.[10]

Q. Is there an existing requirement within the approved RFP Scope of Work that will address Mr. Hancock's proposal?

A. Yes. While it is too late to alter the Commission-approved RFP Scope of Work to include the exact language as described by Mr. Hancock, the Scope of Work included the following requirement which should serve to provide the requested analysis:

> Were there any trends in performance of the Company's conservation programs since the inception of the Mechanism, both in total and by sector (i.e., low-income, residential and non-residential)?

Q. Please describe the second proposal related to decoupling as described by Mr. Hancock.

A. Mr. Hancock urges the Commission to require the Company to include a natural gas conservation target, complete with penalties for failure and incentives for achievement in any future decoupling proposals.[11]

Q. Does the Company agree with Mr. Hancock's proposal to include a natural gas conservation target in any future decoupling proposals?

A. Yes. Avista will include a natural gas target in future decoupling proposals. However, the Company does not support inclusion of a target during the present five year term, primarily because a defined target was not actually proposed by Staff, much less what a

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[10] Hancock, Exh. CSH-1T p. 22, ll. 19 – p. 23, ll. 1
[11] Hancock, Exh. CSH-1T p. 22, ll. 1-4

"penalty" would look like given that natural gas is not subject to the penalties under the Energy Independence Act.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.