BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES

Respondent.

DOCKETS UE-240006 and UG-240007 (*Consolidated*)

**CROSS-ANSWERING TESTIMONY OF DAVID E. DISMUKES, PH.D.
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT DED-10T

August 16, 2024

CROSS-ANSWERING TESTIMONY OF DAVID E. DISMUKES, PH.D.

DOCKET(S) UE-240006 AND UG-240007

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is David E. Dismukes. My business address is 5800 One Perkins Place Drive, Suite 5-F, Baton Rouge, Louisiana, 70808.

Q. Have you previously filed testimony in this proceeding?

A. Yes. I filed responsive testimony in this proceeding on July 3, 2024, on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel).

Q. Was this testimony prepared by you or under your supervision?

A. Yes. Although my colleagues at Acadian Consulting Group (ACG) assisted me with the research related to the formulation of my opinions, as well as the preparation of my testimony, the opinions are mine alone.

Q. What is the purpose of your testimony?

A. The purpose of my cross-answering testimony is to respond to elements of the responsive testimonies of Dr. Lance D. Kaufman on behalf of Alliance of Western Energy Consumers (AWEC) and Kristen M. Hillstead on behalf of the UTC Staff (Staff). Specifically, I will respond to AWEC's proposed alternative electric rate spread, relative to Avista Corporation's (Avista or Company) proposal to equally allocate rate increases across all rate classes. I will also respond to Staff's proposal for a "modest" increase in electric and natural gas customer charges.

II. RESPONSE TO AWEC

Q. How does AWEC propose to distribute any proposed electric rate increase resulting from this proceeding?

A. AWEC uses Staff's recent practice of characterizing deviations from rate parity of less than 0.05 as within the margin of error, deviations greater than 0.1 as unreasonable, deviations greater than 0.2 as excessive, and deviations greater than 0.3 as grossly excessive.[1] Based on these definitions, AWEC proposes that Residential Service (Sch. 1) customers be allocated 51 percent of the Rate Year 1 (RY1) rate decrease, and 150 percent of Rate Year 2 (RY2) rate increase. This while AWEC proposes that Large General Service (Schs. 21-22) and Extra-Large General Service (Sch. 25) customers be allocated 150 and 200 percent, respectively, of system average RY1 rate decrease and 50 and 25 percent, respectively, of system average RY2 rate increases.[2]

Q. How does Avista propose to distribute proposed electric rate increases resulting from this proceeding?

A. Avista proposes that its electric rate increase for both RY1 and RY2 be equally spread across all rate classes.[3] At Avista's proposed increase in revenue requirement, this results in a 13.0 percent increase in rates for all rate schedules in RY1, and a 11.7 percent increase in rates for all rate schedules in RY2.[4]

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[1] Direct Test. of Lance D. Kaufmann, Exh. LDK-1T at 10:17–11:1. Note that AWEC recommends an overall rate decrease in RY1.
[2] *Id.* at 12, Table 7.
[3] Direct Test. of Joseph D. Miller, Exh. JDM-1T at 1:23–2:2.
[4] *Id.* at 2:3–5.

Q. Do you agree with AWEC's proposed rate spread?

A. No. AWEC's proposed rate spread appears to be motivated by the belief that a rate increase greater than system average (or consequently, a rate decrease less than system average) must be applied to low-load factor customers (i.e. Residential and General Service customers), while high-load factor customers (i.e. Large General and Extra Large General Service customers) receive a less than system average increase in order to bring rates closer to full cost of service.[5] AWEC's position ignores the fact that Avista's class cost of service study (CCOSS) in the current proceeding does not account for the full rate increase approved by the Washington Utilities and Transportation Commission (Commission) in Avista's previous general rate case (GRC), and the evolving nature of the electric industry in Washington. These issues are important as AWEC proposal would add compounding disproportionate rate increases to low-load factor customers before it is fully known how what the relative cost of providing electric service to different customer classes will be going forward. In light of this, I recommend the Commission accept Avista's proposal to equally allocate any proposed rate increase or rate decrease in the current proceeding.

Q. What was the rate spread agreed to in Avista's previous GRC?

A. Avista's previous general rate case in Docket UE-220053 resulted in a settlement by parties that permitted a 6.9 percent increase in RY1 electric base rates effective December 21, 2022, and a 2.1 percent increase in RY2 electric base rates effective

[5] In the case of an overall rate decrease, as AWEC proposes for RY1, this sentiment is reversed. Low-load factor customers receive a less than system average rate decrease while high-load factor customers receive a greater than system average rate decrease.

December 21, 2023.[6] Residential Service base rates however were increased by 10.3 percent in RY1 (1.49 times the system average increase) and 2.3 percent in RY2 (1.09 times the system average).[7]

Q. Did this higher-than-average rate increase for the Residential Service class result in a significant improvement in reported rate parity ratios?

A. No. Avista in Docket UE-220053 estimated a rate parity ratio for the Residential Service class of 0.84 based on a revenue-to-cost ratio of 0.76.[8] This is virtually identical to the rate parity ratio estimated by Avista for the Residential Service class in the current proceeding of 0.86 based on a revenue-to-cost ratio of 0.76.[9] Indeed, that the Residential Service class has maintained a 0.76 revenue-to-cost ratio between cases means that Residential Service rates have maintained the same relative level of contribution to Avista's system returns between cases, even while Avista's overall system return deteriorated resulting in a slight improvement in Residential Service relative parity ratio–0.86 from 0.84.

Q. Why did the parity ratio for Residential Service customers see little improvement from Avista's last GRC even though Residential Service customers received a significantly higher than average rate increase?

A. The main reason for the limited improvement in parity ratio is the timing of the current proceeding relative to the implementation of rates from the Company's last rate case filing. Avista's CCOSS in this proceeding, and thus estimated parity

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[6] Full Multiparty Sett. Stip. ¶ 10, *Wash. Utils & Transp. Comm'n v. Avista Corp.,* Dockets UE-220053, UG-220054, and UE-210854 (*consolidated*) (filed Dec. 12, 2022).
[7] *Id.* ¶ 12.
[8] Marcus J. Garbarino, Exh. MJG-2, *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-220053, UG-220054, and UE-210854 (*consolidated*) (filed Jan. 25, 2022).
[9] *Id*.

ratios, are based on twelve months ending June 30, 2023;[10] however, RY1 rates from the Company's prior rate case only went into effect on December 21, 2022, while RY2 rates from the Company's prior GRC only went into effect on December 21, 2023.[11] This means that Avista's CCOSS in the current proceeding includes no RY2 rate increase agreed to by parties in Company's prior GRC and only six months of RY1 rate increases.

Q. Do you believe the limited elapsed time from the implementation of the prior rate increase justifies an equal allocation of rate increases in the current proceeding?

A. Yes. Due to the filing of the current general rate case before the complete implementation of rate increases approved by the Commission in Avista's last GRC proceeding, this means that the Commission and parties have an incomplete understanding of the full relative rate parities between classes in the current proceeding. Approving another disproportionate increase in Residential Service rates before allowing the prior rate increase to fully materialize may result in overshooting full cost of service and would result in Residential Service customers subsidizing other rate schedules.

Q. Do you have other concerns with approving significantly disproportionate rate increases for Residential Service customers at the current juncture?

A. Yes. The energy industry in general, and Washington electric utilities specifically, are currently in a transitionary phase, replacing traditional fossil fuel technologies

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[10] *Id.*
[11] Full Multiparty Sett. Stip. ¶ 10, *Wash. Utils & Transp. Comm'n v. Avista Corp.,* Dockets UE-220053, UG-220054, and UE-210854 (*consolidated*) (Dec. 12, 2022).

(particularly coal-fired generation) with renewable generation assets. This transition required significant new capital investments by Avista to facilitate new generation technologies and increased availability of distributed generation resources like rooftop photovoltaic solar generation. For example, the Company's total rate base increased by more than $250 million ($2.31 billion from $2.05 billion) from September 30, 2021, to June 30, 2023.[12] This represents a 12.9 percent increase in less than two years. This while annual Company operating expenses increased by only $10 million (or 2.4 percent) over the same period.[13]

Q. Will a shift to renewable generation change the costs of serving low-load factor customers relative to high-load factor customers?

A. Yes. The shift away from traditional fossil fuel generation resources with an increased focus on renewable energy resources will result in less emphasis on system peak demand for cost-of-service purposes going forward, as most renewable generation technologies such as wind and solar resources are non-dispatchable by nature, with other technologies such as battery storage technologies being used throughout the year as load-following units to support these resources.

Q. Does this renewable energy transition also affect consumer demand?

A. Yes. Included in this transition to an increasingly clean energy-driven electrical grid is the increased penetration of distributed energy resources (DER) such as rooftop mounted photovoltaic (PV) systems. The increased penetration of retail

[12] Garbarino, Exh. MJG-2, *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-220053, UG-220054, and UE-210854 (*consolidated*) (filed Jan. 25, 2022).
[13] *Id*.

PV systems will necessarily shift peak system requirements from traditional on-peak periods to off-peak periods. This will lead to higher load factors for customer classes that currently exhibit low load factors like residential and small commercial customers.

Q. Does AWEC propose any additional consideration in its rate spread recommendations?

A. Yes. AWEC proposes that Avista's rate spreads include consideration of costs associated with Avista's Colstrip electric generation unit and associated revenues recovered through the Schedule 99 Colstrip Tracker.[14]

Q. Do you agree with AWEC's proposal to include Colstrip costs and revenues into rate spread considerations?

A. No. Avista announced that it entered into an agreement with NorthWestern Energy to turn over its remaining interest in Colstrip by December 31, 2025,[15] with the Schedule 99 Colstrip Tracker being retired sometime after the sale of Colstrip. Residential Service and other low-load factor customers will see a greater decrease in overall electric bills with the removal of Schedule 99 because these customers saw a larger allocation of costs associated with the Colstrip facility over the years. AWEC's proposal does not reflect Avista's operational realities going forward and should be rejected.

[14] Kaufman, Exh. LDK-1T at 13:17–18.
[15] Avista News, *Avista and NorthWestern Energy enter into strategic transaction of Colstrip, Montana assets*, (Jan. 16, 2023).

III. RESPONSE TO STAFF

Q. What is Staff's recommendation regarding Avista's residential customer charge?

A. Staff recommends an increase of $1.00 in Company monthly customer charge for Residential electric and natural gas service. This increase would result in a $10.00 monthly customer charge for electric Residential Service and a $10.50 monthly customer charge for natural gas General Service.[16] Staff argues that the moderated increases would be consistent with prior Commission guidance and polices regarding gradualism while still moving customer charges towards the Company's alleged overall cost of providing service.

Q. Do you agree with Staff's proposal?

A. No. As explained in my response testimony, Avista's estimate of customer-related electric and natural gas costs is overstated. Correct analyses would find that monthly customer-related costs associated with electric Residential Service customers are only $10.93 per customer,[17] and monthly customer-related costs associated with natural gas General Service customers are only $18.60 per customer.[18] This means that Avista's existing customer charges are recovering 82.4 percent of customer-related costs for electric Residential Service and 51 percent of customer-related costs for natural gas General Service customers. Furthermore, both of Avista's operational units have decoupling mechanisms in place that allow for the utility to reconcile volumetric rates to account for change

[16] Direct Test. of Kristen M. Hillstead, Exh. KMH-1T at 27:14–28:2.
[17] Direct Test. of Daivd E. Dismukes, Exh. DED-1T at 10:18–22.
[18] *Id.* at 11:3–9.

in volumetric use. This means that the utility will recover customer-related fixed costs that are recovered outside of monthly customer charges regardless of changes in volumetric sales. Therefore, there is no need to provide the Company with additional revenue certainty through higher customer charges as this would be duplicative of current policy.

Q. Do you have other concerns associated with Staff's proposal?

A. Yes. The proposed increase in monthly customer charges will disproportionately impact lower use customers as a greater percentage of lower use customers' bills are concentrated in the monthly fixed customer charge. Furthermore, an analysis of household energy expenditures shows that household income is positively correlated with energy consumption.[19] This means that a greater percentage of low- and moderate-income households are low use customers and increases in monthly customer charges will disproportionately impact these low and moderate income households relative to higher income households. The Commission should not ignore these adverse impacts on lower income households and the rate equity concerns these impacts raise.

Q. What is your recommendation regarding the Company's residential electric and general service natural gas basic service charge proposal?

A. I continue to recommend that the Commission reject any proposed increase in residential customer charges for multiple reasons. The proposal is based upon an inaccurate accounting of customer-related costs, which would negatively impact the public policy goals of energy efficiency, would burden low-use customers

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[19] *See*, Dismukes Exh. DED-1T at 16:18–17:8.

with a greater than average portion of any proposed increase in the case, and is unnecessary to provide revenue certainty as Avista's electric and natural gas operational units have decoupling mechanisms in place with allows the utility to reconcile rates for changes in customer usage.

Q. Does this conclude your testimony?

A. Yes.