

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	DOCKETS UE-170485 and
)	UG-170486 (<i>Consolidated</i>)
)	
v.)	
)	
AVISTA CORPORATION, DBA)	
AVISTA UTILITIES,)	
)	
Respondent.)	
_____)	

**CROSS-ANSWERING TESTIMONY OF ROBERT R. STEPHENS
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

December 1, 2017

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EXHIBITS

Exhibit RRS-13: Responses to ICNU Data Requests

1 **I. INTRODUCTION**

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

3 **A.** Robert R. Stephens. My business address is 16690 Swingley Ridge Road, Suite 140,
4 Chesterfield, MO 63017.

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

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

8 **Q. ARE YOU THE SAME ROBERT R. STEPHENS WHO FILED RESPONSE**
9 **TESTIMONY ON BEHALF OF INDUSTRIAL CUSTOMERS OF**
10 **NORTHWEST UTILITIES (“ICNU”)?**

11 **A.** Yes, I am.

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

13 **A.** I will respond to the testimonies of Washington Utilities and Transportation
14 Commission (“Commission”) Staff witness Elizabeth C. O’Connell and Avista
15 Corporation (“Avista” or the “Company”) witness Patrick D. Ehrbar, as those relate to
16 the issues of cost of service, rate spread and rate design. More specifically, I will address
17 those issues as they pertain to the “Multiparty Partial Settlement Stipulation”
18 (“Settlement”),^{1/} which was entered by certain parties in the case and which was
19 addressed by Ms. O’Connell and Mr. Ehrbar. I will explain why certain aspects of the
20 proposed Settlement should not be approved by the Commission.

21 The fact that I do not address any particular issue should not be interpreted as
22 tacit approval of any position taken by Avista or any other party. For instance, I

^{1/} See Stephens, Exh. RRS-13 at 10 (Avista’s Response to ICNU Data Request (“DR”) 125) (noting a potential inconsistency between the definition of a “Partial” settlement under Commission rules and the use of that term by the Settling Parties).

1 understand that The Energy Project’s testimony in support of the Settlement primarily
2 concerns specific low-income matters. Likewise, NWIGU testimony appears to be
3 primarily concerned with natural gas issues. Since neither are principal concerns of
4 ICNU members, I do not specifically address those testimony filings.

5 **Q. HAVE YOU REVIEWED THE TESTIMONIES OF AVISTA AND STAFF AS**
6 **THEY RELATE TO THE ISSUES THAT YOU ADDRESSED IN YOUR**
7 **RESPONSE TESTIMONY?**

8 **A.** Yes, I have.

9 **Q. DOES THE TESTIMONY OF AVISTA OR STAFF IN SUPPORT OF THE**
10 **SETTLEMENT CAUSE YOU TO CHANGE ANY OF THE POSITIONS THAT**
11 **YOU TOOK IN YOUR RESPONSE TESTIMONY?**

12 **A.** No, it does not.

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

14 **A.** My Cross-Answering Testimony can be summarized as follows:

- 15 1. The Settlement should not be approved. It makes almost no movement to cost of
16 service for the rate classes that are presently paying revenues far below cost; it does
17 not adequately address the cost of service study needed to set rates in this case; and
18 its prescriptive approach to rate design appears to preempt rate design proposals of
19 non-Settling Parties, to the detriment of Avista and all its customers.
- 20 2. The rate spread provisions of the Settlement are inadequate because they do not
21 make meaningful movement toward cost for the heavily subsidized Residential
22 Schedules 1/2. At Avista’s proposed 12.5% increase, Residential Schedules 1/2
23 would require nearly a 36% increase to reach cost of service, under ICNU’s measure
24 of cost, or almost 29%, under Avista’s measure of cost. In dollar terms, at the
25 current rate revenue of \$209.5 million, Residential Schedules 1/2 are nearly \$75
26 million below cost. Even at a 0% increase, Residential Schedules 1/2 would need a
27 \$42.4 million increase (20.2%) to reach current cost of service. As I indicated in
28 my Response Testimony, significant movement toward cost must be made in this
29 case, to help reduce the subsidies paid by the other classes.
- 30 3. At the proposed increase in the Settlement of 106% of the system average increase,
31 at Staff’s recommended 2.04% system average increase, it would take 118 similar
32 rate changes to reach cost of service at ICNU’s measure of cost or 115 rate changes
33 for the class to reach cost of service under Avista’s measure of cost. Such movement
34 is too slow and is patently unfair to other customer classes. Further, even at a
35 “worst-case” measure of cost of service, which no credible analyst would even

1 support, it would take 82 rate changes for Residential Schedules 1/2 to reach cost of
2 service under the Settlement approach. In contrast, ICNU's rate spread proposal, as
3 presented in my Response Testimony, would make meaningful movement toward
4 cost of service, without causing rate shock, even at low overall system average
5 increases, such as that proposed by Staff.

6 4. Despite testimony claims to the contrary, the Settling Parties have not even stated
7 agreement to use Avista's cost of service study for informing the rate spreads here,
8 instead seeking to reserve all cost of service issues for the generic cost of service
9 collaboration. The problem is that the Commission has to set rates in this case; yet,
10 the generic cost of service collaboration, even if it provides useful guidance for
11 future Avista cost of service studies, is not likely to be available for implementation
12 until 2020. Rates reflecting the changes would likely occur at some undefined point
13 thereafter. The Commission needs to set rates in this case, and needs a reliable cost
14 of service study to inform its decisions. In the absence of any testimony on cost of
15 service by Staff and other intervenor parties, the Commission is left with only
16 Avista's study and ICNU's study for information about cost of service. The
17 Commission should weigh the evidence in this case, and determine the cost of
18 serving the classes, even if it later needs to change its approach after the generic
19 collaboration.

20 5. Just because there is some uncertainty in the final outcome of determining Avista's
21 class cost of service, this does not mean the Commission could not take meaningful
22 steps toward a reasonable assumption of cost. For example, as was done in another
23 jurisdiction, the Commission could move customer class rates toward apparent cost
24 of service, with 25% movement pursued in this case and remaining steps taken over
25 the next three rate changes. In that way, the cost of service studies can be refined
26 over time (perhaps informed by the generic collaborative), and the final movement
27 to cost would be more certain.

28 6. Regarding rate design, acceptance of the Settlement appears to preclude other rate
29 design proposals such as ICNU's proposed Demand Response pilot, which I
30 presented in my Response Testimony. As I explained in my Response Testimony,
31 such a pilot would be of great value to Avista and its customers, in that it would
32 provide for less capacity to be constructed or procured by Avista. Further, Demand
33 Response was identified and advocated by Avista in its 2017 Integrated Resource
34 Plan. Approval of the Demand Response pilot that I have recommended would

1 allow customers time for appropriate experimentation so that eventual long-term
2 reliance on Demand Response will be feasible.

3 **II. REVENUE ALLOCATION/RATE SPREAD**

4 **Q. PLEASE STATE YOUR UNDERSTANDING OF THE SETTLEMENT AS IT**
5 **RELATES TO ELECTRIC RATE SPREAD.**

6 **A.** This topic is covered under paragraph 6.a. of the Settlement, at pages 3-4. Briefly, the
7 Settlement would provide for system average increases for all classes other than
8 Residential Schedules 1/2, which would receive an increase of approximately 106% of
9 all other classes except General Service Schedules 11/12. General Service Schedules
10 11/12 would receive a lower than system average increase, of approximately 80% of all
11 other classes except Residential Schedules 1/2. The Settlement also provides what
12 would happen in the case of a decrease.

13 This approach is also described by Staff witness O'Connell, at page 6 of her
14 testimony, Staff Exh. ECO-1T, and by Avista witness Ehrbar at page 4 of his testimony,
15 Avista Exh. PDE-8T.^{2/}

16 **Q. DO YOU HAVE CONCERNS ABOUT THE PROPOSED RATE SPREADS FOR**
17 **YEAR 1?**

18 **A.** Yes, I do. While the proposal seems to acknowledge that the Residential Schedules
19 require a higher than average increase, in apparent but unstated recognition of the fact
20 that they are providing revenues well below cost of service,^{3/} the revenue spread

^{2/} Although Staff witness O'Connell misstates the settlement provisions for what happens in the event of a rate decrease for General Service Schedules 11/12, which the Settlement states will receive approximately 125% of the total base rate decrease. Ms. O'Connell indicates 120%. O'Connell, Exh. ECO-1T at 6.

^{3/} In subsequent discovery, however, Avista has expressly conceded to long-standing and continuing cross-class subsidization of Schedules 1/2. See, e.g., Stephens, Exh. RRS-13 at 1, 13, 14 (Avista's Responses to ICNU DRs 101, 129, 132). Likewise, Staff acknowledges that the ongoing and "significant" under-recovery shown in Avista cost of service studies applies to Schedules 1/2. Id. at 18 (Staff's Response to ICNU DR 10).

1 proposal does not provide meaningful progress toward cost of service for this class,
2 especially under certain scenarios. As I explain in detail below, the proposed Settlement
3 could actually move Schedules 1/2 further away from parity by increasing the gap
4 between the revenue produced by Schedules 1/2 and the revenue required to bring those
5 Schedules to parity. Thus, the proposed Settlement could further exacerbate the lack of
6 equity admittedly inherent in Avista's existing rate spread design.

7 **Q. PLEASE EXPLAIN.**

8 **A.** As I indicated in my Response Testimony, the cost of serving Residential Schedules 1/2
9 is well above the current revenues from those classes under any reasonable measure of
10 cost of service. For example, at Avista's recommended cost of service, as I indicated in
11 my Response Testimony, the residential classes would require a 29% increase to reach
12 cost of service. Under the ICNU view of cost of service, as provided in my Response
13 Testimony, the residential classes would require a 36% increase.^{4/} Table 1, below,
14 shows the necessary increases to reach cost of service for each of the classes, assuming
15 either Avista's calculation of class cost of service or ICNU's.

^{4/} Stephens, Exh. RRS-1CT at 3.

TABLE 1

**Increase/(Decrease) Needed
to Reach Cost of Service
at Avista Proposed Increase**

<u>Class</u>	<u>Current</u>	<u>Company COS Study</u>		<u>ICNU COS Study</u>	
	<u>Rate</u>	<u>Increase/(Decrease)</u>		<u>Increase/(Decrease)</u>	
	<u>Revenue</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
	(1)	(2)	(3)	(4)	(5)
Sch 1/2	\$ 209,489,000	\$ 60,497,257	28.9%	\$ 74,897,449	35.8%
Sch 11/12	73,766,000	(10,028,485)	-13.6%	(11,031,267)	-15.0%
Sch 21/22	126,766,000	(1,036,230)	-0.8%	(6,617,620)	-5.2%
Sch 25	64,348,000	7,321,781	11.4%	898,248	1.4%
Sch 31/32	10,894,000	2,059,562	18.9%	707,378	6.5%
Sch 41/49	6,871,000	2,542,114	37.0%	2,501,814	36.4%
Total	\$ 492,134,000	\$ 61,356,000	12.5%	\$ 61,356,000	12.5%

1 As indicated in the Settlement, the Residential Schedules 1/2 would only get an
2 increase of 1.06 times the system average increase.^{5/} Thus, glacial movement will be
3 made toward reaching cost of service, with actual movement away from cost of service
4 in early years, at low levels of system increase. This is true, as I will demonstrate, under
5 either Avista’s or ICNU’s estimate of cost of service, or even an unrealistic “worst case”
6 cost of service result, which I will describe.

7 This is because 1.06 times system average increase yields only a very small
8 increment over the average increase to make any progress toward cost. For example, if
9 a 2.04% system average increase were approved in this case, as recommended by Staff,
10 the increase to Residential Schedules 1/2 would only be 1.06 times 2.04% = 2.1624%.^{6/}
11 With such a tiny difference between the system average increase and Residential

^{5/} Settlement at ¶ 6.a. (“106 percent of” is the same as “1.06 times”).

^{6/} Staff witness O’Connell erroneously reports the value as 2.18%. See O’Connell, Exh. ECO-1T at 7, First Table.

Schedules 1/2 increase, negligible movement will be made toward reaching cost of service for the Residential Schedules 1/2, and the subsidies paid by the other classes will be perpetuated almost indefinitely.

Q. PLEASE EXPLAIN.

A. As indicated in Avista’s cost of service study, the present revenues of Residential Schedules 1/2 is \$209,489,000.^{7/} An alternative version of Table 1, titled Table 1A, below, shows the increase/(decrease) needed to reach cost of service for each class at Avista’s present revenues, i.e., with no increase.

TABLE 1A					
Increase/(Decrease) Needed to Reach Cost of Service at Present Avista Revenues					
<u>Class</u>	<u>Current Rate Revenue</u>	<u>Company COS Study Increase/(Decrease)</u>		<u>ICNU COS Study Increase/(Decrease)</u>	
	(1)	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
		(2)	(3)	(4)	(5)
Sch 1/2	\$ 209,489,000	\$ 30,797,989	14.7%	\$ 42,379,569	20.2%
Sch 11/12	73,766,000	(17,183,793)	-23.3%	(17,962,808)	-24.4%
Sch 21/22	126,766,000	(15,513,123)	-12.2%	(20,011,799)	-15.8%
Sch 25	64,348,000	335,457	0.5%	(4,847,852)	-7.5%
Sch 31/32	10,894,000	538,646	4.9%	(569,201)	-5.2%
Sch 41/49	6,871,000	1,024,824	14.9%	1,012,090	14.7%
Total	\$ 492,134,000	\$ 0	0.0%	\$ 0	0.0%

The current cost of serving the residential class, at a 0% increase, is \$240,287,000, according to Avista’s reported 5.37% rate of return.^{8/} Thus, the current deficiency of

^{7/} Knox, Exh. TLK-3 at 1, column (g), line 17.

^{8/} As shown in Table 1A, above, this matches Knox, Exh. TLK-3 at 2, column (g), line 15. Under ICNU’s study, the current cost is \$251,869,000 (See Table 1A, above).

1 the Residential Schedules 1/2 is the difference between cost and revenues, or
2 \$30,798,000 at Avista's measure of cost, or \$42,380,000 at ICNU's measure of cost.

3 If Avista were to receive a 2.04% system increase in revenue requirement, as
4 recommended by Staff,^{9/} this would suggest an increased Residential Schedules 1/2 cost
5 of service of \$246,054,000.^{10/} Under the Settlement proposal, in this scenario, the
6 Residential Schedule 1/2 revenues would increase by only 2.1624% (2.04% x 1.06), to
7 a total of \$214,019,000.^{11/} The difference between cost of service and revenues after
8 the increase would be \$32,385,000, which is actually larger than the beginning
9 difference of \$30,798,000. Thus, Residential Schedules 1/2 would be moving farther
10 from cost of service, in absolute terms, than before the rate change (though there is slight
11 movement on a percentage basis). Eventually, over many years, cost of service could
12 be reached, but it would take a very large number of rate changes for this to occur.

13 **Q. CAN YOU ESTIMATE HOW MANY RATE CHANGES IT WOULD TAKE**
14 **FOR THE RESIDENTIAL SCHEDULES 1/2 TO REACH COST OF SERVICE**
15 **UNDER THE APPROACH OUTLINED IN THE SETTLEMENT?**

16 **A.** Yes. Table 2, below, shows the number of rate changes it would take for the Residential
17 Schedules 1/2 to reach its cost of service, under Avista's measure of cost of service or
18 under ICNU's. As can be seen, the number of rate changes necessary ranges from 22
19 rate changes, at a 12% system average increase, to 118 rate changes at a 2% system
20 average increase.

^{9/} See O'Connell, Exh. ECO-1T at 7.

^{10/} \$240,287,000 (current cost of service) x 1.0204. A simplifying assumption is that a system average increase would increase the classes' cost of service proportionally.

^{11/} \$209,489,000 x 1.021624.

TABLE 2

**Rate Changes Needed to Bring
Residential Schedules 1/2 to Cost of Service
Under Settlement Rate Spread**

Approved System Average Increase	Sch. 1/2 Increase	Schedules 1/2	
		No. of Rate Changes to Reach Cost of Service	
		Avista	ICNU
12.00%	12.72%	22	29
10.00%	10.60%	26	34
8.00%	8.48%	31	42
6.00%	6.36%	41	55
4.00%	4.24%	60	80
2.04%	2.16%	115	118
2.00%	2.12%	117	118

Note
Assumes the Sch. 1/2 class receives 1.06x system average increase.

1 Thus, it is clear that extremely little movement toward cost of service is made under the
2 Settlement rate spread proposal.

3 **Q. IF A DIFFERENT ESTIMATE OF COST OF SERVICE FOR THE**
4 **RESIDENTIAL SCHEDULES 1/2 CLASS WERE TO RESULT FROM THE**
5 **GENERIC COST OF SERVICE STUDY, WOULD THAT PRODUCE A**
6 **SIGNIFICANT EFFECT ON YOUR CONCLUSIONS ABOUT THE**
7 **INORDINATE NUMBER OF RATE CHANGES THAT WOULD BE**
8 **REQUIRED TO REACH COST OF SERVICE?**

9 **A.** Not really. Even under a “worst case” scenario for cost of service, Residential
10 Schedules 1/2 are still grossly underpaying, and many rate change steps would be
11 needed to reach even that unrealistic result. By “worst case” scenario, I mean from the
12 perspective of non-residential classes, one in which the classification and allocation of
13 fixed production and transmission cost is changed to the absolute, most skewed in favor
14 of the Residential Schedules 1/2. That is, even if one were to assume a 100%

1 classification and allocation on the basis of energy delivered (which no credible cost
2 analyst would do),^{12/} the results would still show the Residential Schedules 1/2 to be
3 grossly underpaying, and it would take 82 rate changes for Residential Schedules 1/2 to
4 reach cost of service (at Staff's 2.04% overall revenue increase).

5 Assuming the Settling Parties are hesitant to make significant movement toward
6 cost of service for the Residential Schedules 1/2 pending the outcome of the generic
7 cost of service proceeding, this hesitancy is completely unwarranted, given the "worst-
8 case" result described above.

9 **Q. AT PAGE 3 OF HER TESTIMONY, MS. O'CONNELL STATES:**

10 **"[T]HE PROPOSED RATE SPREAD MOVES SEVERAL**
11 **CLASSES TOWARD COST-OF-SERVICE PARITY, REDUCING**
12 **COST-CLASS SUBSIDIZATION IN A MEASURED AND**
13 **INCREMENTAL MANNER."**

14 **HOW DO YOU RESPOND?**

15 **A.** This conclusion is misleading and, in some respects, false. It is false because only two
16 classes (not "several") make any movement at all toward cost of service: Residential
17 Schedules 1/2 (with their slightly higher than average increase); and Schedules 11/12
18 (with lower than average increases). The other four classes make no movement at all,
19 since their rates would increase in lockstep with the system average increase.
20

21 The conclusion is misleading, in that the class furthest from cost of service on a
22 percentage basis, i.e., Schedules 41/49, makes no movement. Under Avista's cost of

^{12/} I am not aware of any jurisdiction in the U.S. that would allocate fixed production and transmission costs solely on the basis of energy. Such an approach would not be supported under any industry literature of which I am aware. Consequently, I believe this truly represents an extreme "worst case" scenario for all non-residential classes.

1 service study, Schedules 41/49 need a 37% increase to reach cost of service and under
2 ICNU's study, need a 36.4% increase.^{13/}

3 Further, referring to a negligible reduction in the cross-class subsidization of the
4 Residential Schedules 1/2 as a "measured incremental manner," is an unrealistically
5 euphemistic characterization, for the reasons demonstrated above.

6 Despite Ms. O'Connell's (and Mr. Ehrbar's) testimony, the Settlement
7 perpetuates a large subsidy that should be meaningfully reduced, ignores other
8 subsidies, and should not be approved by the Commission. Conversely, the rate spread
9 proposed by ICNU would create a far more meaningful reduction in the persistent cross-
10 class subsidization among Avista customers, by distributing any reductions in the
11 Company's revenue requirement request to classes providing residential subsidies.^{14/}
12 Crucially, the ICNU rate spread proposal apparently would also not result in rate shock
13 for Residential Schedules 1/2, since that class would receive the same rate increase
14 Avista is already proposing.^{15/}

15 **III. COST OF SERVICE**

16 **Q. HOW DOES THE SETTLEMENT ADDRESS THE ELECTRIC COST OF**
17 **SERVICE?**

18 **A.** The Settlement devotes two sentences to the topic, the first of which indicates that the
19 parties agree that it is more appropriate to address cost of service in the generic cost of
20 service proceeding. The second sentence states as follows:

^{13/} See Table 1, above.

^{14/} Stephens, Exh. RRS-1CT at 36 & Table 5.

^{15/} Stephens, Exh. RRS-13 at 9 (Avista's Responses to ICNU DR 123) (confirming that Avista's proposal for a 13.3% rate increase for Residential Schedules 1/2 would not result in rate shock).

1 “Accordingly, the Settling Parties do not agree on specific cost-of-
2 service methodologies in this or in any other case and agree to reserve
3 all cost-of-service issues for the generic cost-of-service collaboration.”^{16/}

4 Accordingly, neither Staff nor any of the other Settling Parties (other than Avista in its
5 initial filing), have presented cost of service studies in this case. Thus, the only cost of
6 service studies in the case are Avista’s originally filed study and ICNU’s. It is not clear
7 whether Avista continues to support its cost of service study, given its settlement
8 position, but I continue to support the ICNU study presented in my Response
9 Testimony.

10 **Q. AT PAGE 5 OF HER TESTIMONY, MS. O’CONNELL STATES:**

11 **“THE SETTLEMENT EMBODIES THE SETTLING PARTIES’**
12 **AGREEMENT THAT THE COMMISSION SHOULD ACCEPT**
13 **AVISTA’S COSS FOR THE SOLE PURPOSE OF INFORMING**
14 **RATE SPREADS HERE. THIS PROVIDES THE COMMISSION**
15 **A TENABLE BASIS FOR ANY DETERMINATION IT MAKES IN**
16 **THESE DOCKETS WHILE AT THE SAME TIME RESERVING**
17 **ALL COST OF SERVICE QUESTIONS TO THE GENERIC**
18 **PROCEEDING.”**

19 **HOW DO YOU RESPOND?**

20 **A.** I do not see anything in the Settlement that supports the claim that the Settling Parties
21 agree that the Commission should accept Avista’s cost of service study for informing
22 the rate spreads here. As I indicated above, the Settlement says virtually nothing about
23 the electric cost of service study other than the fact that “the Settling Parties do not agree
24 on specific cost-of-service methodologies.” If the parties do not agree on the cost of
25 service methodologies, then they essentially do not agree on a cost of service result.
26 Moreover, numerous Company responses in discovery would seem to affirm that

^{16/} Settlement at 3.

1 generic process will be insufficient to address the many “unique” and Avista-specific
2 concerns at issue.^{17/}

3 Perhaps more importantly, Staff’s unsupported claim that the parties accept
4 Avista’s cost of service studies, for the sole purpose of informing the rate spreads here,
5 is an acknowledgement that the Commission has to set rates, and that rate setting
6 decisions need to be informed by a cost of service study. I addressed this in my
7 Response Testimony.^{18/} Staff is contradicting itself by saying, on the one hand, that it
8 does not agree to a cost of service methodology, but on the other hand indicating that
9 the rate spread should be informed by a particular cost of service result.

10 **Q. STAFF WITNESS O’CONNELL CONTINUES BY STATING:**

11 **“THIS ALLOWS THE COMMISSION TO AVOID CREATING**
12 **ADDITIONAL PRECEDENT THAT COULD INTERFERE WITH**
13 **THE GENERIC PROCEEDING....”**

14 **HOW DO YOU RESPOND TO THIS CLAIM?**

15 **A.** I do not believe that an alleged creation of additional precedent is a valid concern. The
16 Commission already has a number of approaches to a cost of service for the various
17 utilities. I see no reason why it would not be able to act in a generic cost of service
18 proceeding, should it choose to do so, based on the information developed therein. The
19 fact remains that the Commission needs a valid cost of service result to inform the rate
20 spread and rate design processes in this case, and it is unclear when, or even if, the
21 results of a generic cost of service proceeding will be used to set Avista rates.

^{17/} See, e.g., Stephens, Exh. RRS-13 at 2-8, 11-12 (Avista’s Responses to ICNU DRs 116, 117, 119, 120, 121, 127, 105, 128, and 106).

^{18/} Stephens, Exh. RRS-1CT at 8.

1 Though I certainly am not opposed to the generic cost of service proceeding, it
2 does not help the Commission set rates in this case.

3 **Q. BASED ON THE INFORMATION PROVIDED IN THE GENERIC COST OF**
4 **SERVICE PROCEEDING SO FAR, ARE YOU CONFIDENT THAT THE END**
5 **PRODUCT WILL BE DETERMINATIVE FOR THE COST OF SERVICE**
6 **APPROACH FOR AVISTA?**

7 **A.** No. The agenda from the first (and yet only) meeting in the cost of service generic
8 proceeding, which was held on February 8, 2017, is included within Exhibit RRS-13.^{19/}
9 As shown in Section III of the agenda, the preferred outcome or goal is not limited to
10 an order by the Commission. Rather, it is contemplated that it could simply result in a
11 “Policy Statement, Settlement Presentation, or a White Paper,” among other options.
12 Thus, it may have no binding, or even determinative, effect on Avista’s cost of service
13 studies going forward.

14 In addition, as indicated in Section IV of the agenda, the discussed timeline
15 contemplated the “collaborative process” beginning in April 2017. As of the date of
16 preparation of this testimony, the process is at least eight months behind schedule
17 already. Considering that no further meetings have been scheduled, it is quite possible
18 that there will be at least a year delay in whatever outcome may occur. The timeline
19 mentioned in the agenda included a December 31, 2018 final order or policy statement
20 resulting from this process. A one-year delay would suggest that the results of the
21 proceeding likely will be not known until sometime in 2020. Actual application to
22 Avista rates would, of necessity, occur at some point thereafter. Accordingly, even
23 though the parties would like to avoid taking positions on cost of service matters in this
24 case, if the Commission is to be adequately informed on cost of service it will need to

^{19/} Stephens, Exh. RRS-13 at 15-17 (Staff’s response to ICNU DR 1, Att. A).

1 make cost of service decisions in this case—especially considering the potential for a
2 multi-year rate plan.

3 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING FUTURE**
4 **AVISTA COST OF SERVICE RESULTS DETERMINED PURSUANT TO ANY**
5 **REASONABLE OUTCOME OF THE GENERIC COST OF SERVICE**
6 **PROCEEDINGS?**

7 **A.** Yes. As alluded to above in my discussion of rate spread, Avista’s cost of service
8 approach is extremely skewed toward favoring low load factor classes, such as the
9 residential classes, more so than any cost of service approach I have seen.
10 Consequently, there is a far greater likelihood that the Commission ultimately will
11 determine higher cost of service results for low load factor customers such as
12 Residential Schedules 1/2 (and associated lower cost of service results for high load
13 factor classes, such as Schedule 25) as a result of a generic proceeding than vice versa.

14 Said another way, as demonstrated above for the Residential Schedules 1/2, the
15 “worst-case” scenario is approximately the same as Avista’s proposal in this case. As
16 indicated in Table 1A, above, the present cost of serving the Residential Schedules 1/2,
17 before any increase as a result of this case, is about \$240.3 million, at Avista’s measure
18 of cost. If the fixed costs of production and transmission were classified as 100% energy
19 related and allocated on the basis of energy, the worst-case scenario is that the
20 Residential Schedules 1/2 cost of service would only drop by about \$10 million, to
21 \$230.9 million, which is only 4% different. Thus, if any changes to the cost of service
22 approach for Avista were to come about as a result of the collaborative process, it is far
23 more likely to increase the Residential Schedules 1/2 cost of service result, rather than
24 to decrease it.

1 **Q. WHAT DO YOU CONCLUDE FROM THIS DISCUSSION?**

2 **A.** It seems that the Settling Parties do not wish to address cost of service issues in this case
3 and do not wish to make meaningful movement toward cost of service. Presumably,
4 this is premised on the notion that the generic cost of service proceeding might somehow
5 show that classes that are currently significantly below cost of service will somehow be
6 found to be above cost of service, and vice versa. This is not a realistic outcome and
7 the Commission should work to better align rates with cost in this case.

8 Just because there is some uncertainty in the final outcome of determining
9 Avista's class cost of service, this does not mean the Commission could not take
10 meaningful steps toward a reasonable assumption of cost.

11 **Q. ARE YOU AWARE OF A PROCEDURE IN ANOTHER JURISDICTION**
12 **WHEREBY THE PUBLIC SERVICE COMMISSION DEALT WITH**
13 **UNCERTAINTY IN THE COST OF SERVICE RESULT AND YET MADE**
14 **SIGNIFICANT MOVEMENT TOWARD COST OF SERVICE?**

15 **A.** Yes. I was involved in such a case in 2007 in a Commonwealth Edison Company case
16 in Illinois. In that case, the Illinois Commerce Commission ("ICC") found that, in light
17 of a known uncertainty in the cost of service results due to errors in the utility's cost of
18 service study,

19 [A]n allocation that more closely reflects a proper cost of service would
20 be reflected in a four-step, gradual movement toward rates based on the
21 [cost of service results for certain classes].^{20/}

22 Accordingly, in that case the Illinois Commission authorized a 25% movement toward
23 cost of service for base rates for the rate classes most affected by the uncertainty. The
24 Illinois Commission maintained the four-step process for refinement of the cost of
25 service study and movement toward cost of service in subsequent rate cases (generally

^{20/} Re Commonwealth Edison Company, ICC Docket 07-0566, Order at 213 (Sept. 10, 2008).

1 three years apart), thus allowing time for further refinement of the cost of service result.
2 That is, in the next rate case, the Illinois Commission moved these customer classes'
3 rates one-third of the remaining way to cost of service; in the case after that, it moved
4 the rates one-half of the remaining way to cost of service; and finally in the most recent
5 rate case, the Illinois Commission moved the rates the final distance to cost of service.^{21/}
6 In this case, the Washington Commission could similarly make significant movement
7 toward cost of service for Residential Schedules 1/2, even if the exact final class cost of
8 service is not yet known, consistent with my recommendations in my Response
9 Testimony.

10 **IV. RATE DESIGN**

11 **Q. DOES THE SETTLEMENT ADDRESS RATE DESIGN MATTERS TO BE**
12 **DETERMINED IN THIS PROCEEDING?**

13 **A.** The settlement document covers some of the rate design matters raised in this
14 proceeding, primarily the charges under the various rate schedules. However, it is silent
15 on the Demand Response pilot tariff, or any other rate design program for Schedule 25
16 customers. In my Response Testimony, I proposed a Demand Response pilot, Schedule
17 78, which I recommend be approved in this case.

18 **Q. IF THE SETTLEMENT IS APPROVED, DOES THIS MEAN THAT YOUR**
19 **PROPOSED DEMAND RESPONSE PILOT WOULD BE DENIED?**

20 **A.** If, in fact, the settlement resolves all rate design matters, as it purports to do, it would
21 seem to preclude other rate design alternatives. While ultimately this may be a legal

^{21/} See, e.g., Re Commonwealth Edison Company, ICC Docket 10-0467, Order at 169-214 (May 24, 2011).; Re Commonwealth Edison Company, ICC Docket 13-0387, Order at 5-43 (Dec. 18, 2013); Re Commonwealth Edison Company, ICC Docket 17-0049, Order at 5-64 (July 26, 2017).

1 question, I am proceeding under the assumption that my Demand Response pilot
2 proposal would be denied if the Settlement is approved, and the benefits of Demand
3 Response would thereby be unavailable to Avista and its customers. Assuming that
4 general rate cases, such as this one, create the opportunity for introduction of rate
5 programs such as this, this means that it might be three years or more before there is
6 another opportunity to discuss a Demand Response rate.

7 **Q. WERE RATE DESIGN PROPOSALS OTHER THAN AVISTA’S SPECIFIC**
8 **PROPOSALS ADDRESSED IN THE SETTLEMENT?**

9 **A.** Yes. As indicated in the Settlement, certain changes to the Residential rate design were
10 adopted, along with the creation of new transportation service schedules for natural
11 gas.^{22/} Thus, it appears that in order to get a rate design change implemented, including
12 the introduction of a new tariff, one needed to be a party to the Settlement.^{23/} If this is
13 true, by not being a party to the settlement, due to any unacceptable provision, any ICNU
14 rate design proposals appear to be unfairly precluded.

15 **Q. SHOULD THE DEMAND RESPONSE PILOT PROPOSAL IN YOUR**
16 **RESPONSE TESTIMONY HAVE COME AS A SURPRISE TO AVISTA OR**
17 **ANY OF THE SETTLING PARTIES?**

18 **A.** No. Essentially the same proposal was offered in the 2016 general rate case, Dockets
19 UE-160228 and UG-160229 (“2016 Avista GRC”). The Settling Parties could easily
20 have anticipated it and included a similar provision in the Settlement or, at the very
21 least, left open the possibility of rate design review for non-Settling Parties.

^{22/} Settlement at ¶¶ 6-8.

^{23/} See O’Connell, Exh. ETO-1T at 10:2-3 (stating that “Staff supports the expansion of natural gas transportation service *as a necessary component critical to achieving a larger settlement*”) (emphasis added).

1 **Q. WHAT IS THE IMPORTANCE OF AVISTA AND OTHER CUSTOMERS**
2 **BEING DEPRIVED OF THE DEMAND RESPONSE PROPOSAL IN YOUR**
3 **RESPONSE TESTIMONY?**

4 **A.** As indicated in my Response Testimony, interruptible load is often treated in utility
5 integrated resource plans (“IRP”) on equivalent or near equivalent footing as “assets on
6 the ground” generation. In fact, in Avista’s 2017 IRP, Demand Response was listed as
7 an integral part of Avista’s 2017 “Preferred Resource Strategy.”^{24/} Further, Demand
8 Response was listed as a factor that delays the need for additional resources on the
9 Avista system.^{25/} Avista’s Preferred Resource Strategy, shown in Table 1.1 of its IRP,
10 lists Demand Response as contributing 44 MW of winter peak reduction beginning in
11 2025.^{26/}

12 Thus, the Avista IRP strongly supports the development of a Demand Response
13 pilot, such as I have proposed in this case, to ensure appropriate experimentation so that
14 eventual long-term reliance on Demand Response will be feasible. A three-year
15 Demand Response pilot would not only allow for novel long-term experimentation, but
16 is expressly consistent with the following statement in the IRP:

17 “Avista is *committed to* evaluating and considering DR to meet future
18 load requirements if it is cost-effective compared to other alternatives
19 and does not influence the customer’s reliability or satisfaction of
20 service.”^{27/}

21 **Q. YOU MENTIONED THAT ESSENTIALLY THE SAME DEMAND RESPONSE**
22 **PILOT WAS PROPOSED IN THE 2016 AVISTA GRC. HOW WAS IT**
23 **RECEIVED IN THAT CASE?**

^{24/} Re Avista’s 2017 IRP, Docket UE-161036, 2017 Electric IRP, Introduction (Aug. 31, 2017).

^{25/} Id.

^{26/} Id. at 1-4.

^{27/} Id. at 5-17 (emphasis added).

1 A. The Avista witness in that case claimed that Avista had “not been able to reach
2 agreement” on Demand Response products or services with ICNU or one of its
3 members, “partly because of the value of capacity at this point in time is relatively low,
4 and also that particular customer has a limited opportunity to stay down for very many
5 hours.”^{28/} Similarly, Avista indicated it had looked at ICNU’s Schedule 78 proposal in
6 that case, but “based on the value of capacity, the amount of hours that they would be
7 able to shut down is very limited value to the particular proposal.”^{29/}

8 However, continued opposition on these bases is not justified, given the need for
9 experimentation, via a Demand Response pilot, such as I have proposed, since Avista
10 now knows it will be acquiring Demand Response. In other words, working out a long-
11 term, stable Demand Response program outweighs the feasibility of short-term capacity
12 value concerns. Likewise, the value of a Demand Response pilot should not be
13 overlooked by concerns about whether load reduction periods are perfect.

14 Also in the last case, Avista witness Heather Rosentrater testified that “there’s
15 other benefits to demand response beyond the resource benefit.”^{30/} Thus, even beyond
16 the IRP value, there would be reason to explore Demand Response value through the
17 proposed Demand Response pilot.

18 Likewise, Avista witness Patrick Ehrbar made statements effectively supporting
19 an experimental Demand Response pilot in that case as well. Mr. Ehrbar stated, “the
20 Company is open to demand response and even industrial demand response

^{28/} Docket UE-160228, Norwood, TR. 99:17-21.

^{29/} Id. at 99:23-100:3.

^{30/} Docket UE-160228, Rosentrater, TR. 225:12-13.

1 programs.”^{31/} Mr. Ehrbar indicated that Avista would be willing, and what it would
2 “like to do is be able to work with those customers to design a program that not only
3 works for them, but also works for the Company.”^{32/} Thus, the time is right to implement
4 a Demand Response pilot, such as that which I have proposed in my Response
5 Testimony.

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

7 **A.** Yes, it does.

^{31/} Docket UE-160228, Ehrbar, TR. 294:19-21.

^{32/} Id. at 294:23-295:1.