BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17\_\_\_\_\_

DOCKET NO. UG-17\_\_\_\_\_

DIRECT 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 Senior Manager of Rates and Tariffs.

**Q. Would you briefly describe your educational background and professional experience?**

A. Yes. I am a 1995 graduate of Gonzaga University with a Bachelors degree in Business Administration. In 1997 I graduated from Gonzaga University with a Masters degree in Business Administration. I started with Avista in April 1997 as a Resource Management Analyst in the Company’s Demand Side Management (DSM) department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company’s educational and governmental customers. In 2000, I was selected to be one of the Company’s key Account Executives. In this role I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers, including delivery of the Company’s site specific energy efficiency programs.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in that role included being the discovery coordinator for the Company’s rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to Manager of Rates and Tariffs, and later promoted to be Senior Manager of Rates and Tariffs. My primary areas of responsibility include electric and natural gas rate design, decoupling, power cost and natural gas rate adjustments, customer usage and revenue analysis, and tariff administration.

**Q. What is the scope of your testimony in this proceeding?**

A. My testimony will cover the spread of the proposed annual electric base revenue increase of $61,356,000, or 12.5%, among the Company’s electric general service schedules. On a billed revenue basis, and including the expiration of the proposed September 1, 2017 Power Cost Rate Adjustment, the increase in revenue on a billed basis is 8.8%.

With regard to natural gas service, I will describe the spread of the proposed annual base revenue increase of $8,269,000, or 9.3%, among the Company’s natural gas service schedules. On a billed basis, which incorporates the cost of natural gas, demand-side management funding, etc., the proposed increase is 5.4%.

My testimony will also describe the changes to the rates within the Company’s electric and natural gas service schedules, as well the proposed increase in the basic charge for residential electric rate Schedules 1/2 and natural gas rate Schedules 101/102. My testimony will also provide an overview of the Power Cost Rate Adjustment concurrently-filed with this general rate case, and the proposed rate spread, rate design, and implementation related to the Company’s proposed Three-Year Rate Plan.

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

A. Yes. I am sponsoring Exh. PDE-2, Exh. PDE-3, and Exh. PDE-4 related to the proposed electric increases, and Exh. PDE-5, Exh. PDE-6, and Exh. PDE-7 related to the proposed natural gas increases. These exhibits were prepared under my supervision. A table of contents for my testimony is as follows:

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II. PROPOSED ELECTRIC REVENUE CHANGES

Summary of Electric Rate Schedules and Tariffs

Q. Would you please explain what is contained in Exh. PDE-2?

A. Yes. Exh. PDE-2 contains a copy of the Company’s present electric tariffs/service schedules.

Q. Would you please describe what is contained in **Exh. PDE-3**?

A. Yes. Exh. PDE-3 contains the proposed electric tariff sheets incorporating the proposed changes included in this filing.

Q. Please describe what is contained in **Exh. PDE-4**.

A. Exh. PDE-4 contains information regarding the proposed spread of the electric revenue increase among the service schedules and the proposed changes to the rates within the schedules. Page 1 shows the proposed general revenue and percentage increase by rate schedule compared to the present revenue under base tariff and billing rates. Page 2 shows the rates of return and the relative rates of return for each of the schedules before and after application of the proposed general increase. Page 3 shows the present rates under each of the rate schedules, the proposed changes to the rates within the schedules, and the proposed rates after application of the changes. Page 4 shows the estimated increases in billed revenues, and resulting rate spread, related to years 2 and 3 of the proposed Three-Year Rate Plan. Page 5 provides the proposed rates for years 2 & 3 of the Three-Year Rate Plan. These pages will be referred to later in my testimony.

Q. Would you please describe the Company's present rate schedules and the types of electric service offered under each?

A. Yes. The Company presently provides electric service under Residential Service Schedules 1 and 2, General Service Schedules 11 and 12, Large General Service Schedules 21 and 22, Extra Large General Service Schedule 25, and Pumping Service Schedules 31 and 32. Additionally, the Company provides Street Lighting Service under Schedules 41-46, and Area Lighting Service under Schedules 47-48. Schedule 2 exists for purposes of administering the Company’s “Fixed-Income Senior & Disabled Residential Service” pilot program. The rates for this schedule are identical to the rates for Schedule 1, except for the rate discount. Schedules 12, 22, 32, and 48 exist for residential and farm service customers who qualify for the Residential Exchange Program operated by the Bonneville Power Administration. The rates for these schedules are identical to the rates for Schedules 11, 21, 31, and 47, respectively, except for the Residential Exchange rate credit.

Table No. 1 below shows the type and number of customers served in Washington (as of December 2016) under each of the service schedules:

Table No. 1 – Electric Customers by Service Schedule



Proposed Electric Rate Spread

1. What is the proposed electric revenue increase, and how is the Company proposing to spread the increase by rate schedule?

A. The proposed electric increase is $61,356,000 or 12.5% over present base tariff rates in effect. The proposed general increase over present billing rates, including all other rate adjustments (such as DSM and Residential Exchange), is 8.8%. The increase in billed revenue on a percentage basis is lower than the base revenue increase on a percentage basis because the proposed temporary Power Cost Rate Adjustment[[1]](#footnote-1) (administered through Schedule 93) will expire when new base rates (and a new power supply base) go into effect from this general rate case.[[2]](#footnote-2) The proposed percentage increase by rate schedule is as follows:

**Table No. 2 – Proposed % Electric Increase by Schedule**



This information is shown with more detail on Page 1 of Exh. PDE-4.

Q. What information did the Company use to develop the proposed spread of the overall increase to the various rate schedules?

A. The Company believes that the results of the cost of service study (sponsored by Company witness Ms. Knox) should be used as a guide to spread the general increase. The Company is also cognizant that most of the parties that participate in the Company’s general rate cases are also involved in the on-going cost of service workshops stemming from the Company’s 2016 general rate case. While it is important to see what, if any, changes to cost of service methodologies come from those proceedings, Avista believes that the results from a variety of cost studies will continue to show that two sets of schedules in particular, Residential Schedules 1/2 and General Service Schedules 11/12, are too far away from the overall rate of return (unity), and have been for some time.

In recent years, the rate of return provided by Residential Schedules 1/2 has been significantly less than the overall rate of return. This is true not only for cost of service studies conducted by Avista, but also from studies conducted by other parties. Table No. 3 below shows the relative rates of return (schedule rate of return divided by overall rate of return) for Schedules 1/2 from recent general rate cases:

**Table No. 3 – Relative Rates of Return for Schedules 1/2**



Likewise, General Service Schedules 11/12 have provided relative rates of return that are significantly higher than the overall rate of return. This is true not only for cost of service studies conducted by Avista, but also from studies conducted by other parties. Table No. 4 below shows the relative rates of return for Schedules 11/12 from recent general rate cases:

**Table No. 4 – Relative Rates of Return for Schedules 11/12**



Based on the analysis provided above, Avista is proposing that General Service Schedules 11/12 receive an increase that is 80% of the overall proposed base rate percentage increase, and that all other service schedules, with the exception of Residential Service Schedules 1/2, receive a base rate percentage increase equal to the overall proposed base rate percentage increase. The remaining revenue requirement would be spread to Residential Service Schedules 1/2 (resulting in an increase that is approximately 106 percent of the overall base rate percentage increase). Avista believes this proposed rate spread will help to make more meaningful progress towards unity for most schedules, including Schedules 1/2 and 11/12, even while the parties participate in the cost of service workshops.[[3]](#footnote-3)

Table No. 5 below shows the relative rates of return (schedule rate of return divided by overall rate of return) before and after application of the base rate increase:

Table No. 5 - Present & Proposed Relative Rates of Return (Electric)

Proposed Rate Design

1. Where in your Exhibits do you show a comparison of the present and proposed rates within each of the Company’s electric service schedules?
2. Page 3 of Exh. PDE-4 shows a comparison of the present and proposed rates within each of the schedules, which I will describe below. Column (a) shows the rate/billing components under each of the schedules, column (b) shows the base tariff rates within each of the schedules, column (c) shows the present rate adjustments applicable under each schedule, and column (d) shows the present billing rates. Column (e) shows the rates related to the September 1, 2017 Power Cost Rate Adjustment, and column (f) shows the revised billing rate. Column (g) shows the proposed general rate increase to the rate components within each of the schedules. Column (h) shows the expiration of the proposed September 1, 2017 Power Cost Rate Adjustment, which would occur when new base rates go into effect on or about May 1, 2017. Finally, column (i) shows the proposed billing rates and column (j) shows the proposed base tariff rates.

Q. Is the Company proposing any changes to the existing rate structures within its rate schedules?

A. No, it is not.

Q. Turning to Residential Service Schedules 1/2, would you please describe the present rate structure under these schedules?

A. Yes. Residential Schedules 1/2 have a present customer or basic charge of $8.50 per month and three energy rate blocks: 0-800 kWhs, 801-1,500 kWhs and over 1,500 kWhs. The present base tariff rate for the first 800 kWhs per month is 7.390 cents per kWh, 8.598 cents per kWh for the next 700 kWhs, and 10.080 cents for all kWhs over 1,500.

Q. How does the Company propose to spread the proposed revenue increase of $27,955,000 to Schedules 1/2?

A. The Company is proposing to increase the basic charge from $8.50 to $10.00 per month, and is proposing to apply an equal percentage increase to the three energy blocks.

**Q. Why is the Company proposing to increase the monthly customer charge from $8.50 to $10.00 per month?**

A. A significant portion of the Company’s costs are fixed and do not vary with customer usage. These costs include, among other costs, distribution plant and operating costs to provide reliable service to customers. Total customer allocated costs for Schedule 1, as shown in Knox Exh. TLK-3, page 4, line 26, are $14.73 per customer per month. As reflected in this filing, the fixed costs of operating and maintaining our electric system are increasing. The Company believes it is important that rates better reflect these increasing costs to serve customers.

Q. What is the proposed monthly bill increase for a residential electric customer with average consumption?

A. The proposed monthly bill increase for a residential customer using an average of 938 kWhs per month is $8.05 per month, or a 9.2% increase in their electric bill. The present bill (which incorporates the effects of the proposed September 1, 2017 Power Cost Rate Adjustment) for 938 kWhs is $87.09 compared to the proposed level of $95.14, including all rate adjustments.

* 1. Turning to General Service Schedules 11/12, would you please describe the present rate structure and rates under these schedules?
1. Yes. The present rate structure under these schedules includes a monthly customer charge of $18.00, an energy rate of 11.293 cents per kWh for all usage up to 3,650 kWhs per month, and an energy rate of 8.298 cents per kWh for usage over 3,650 kWhs per month. There is also a demand charge of $6.00 per kW for all demand in excess of 20 kW per month. There is no charge for the first 20 kW of demand.

Q. How is the Company proposing to apply the proposed general revenue increase of $7,357,000 to the rates under Schedules 11/12?

A. The Company is proposing that the customer charge be increased by $2.00, from $18.00 to $20.00 per month. In addition, the Company is proposing that the demand charge (over 20 kW) be increased $0.50 per kW, from $6.00 to $6.50. The remaining revenue increase for the schedules is proposed to be recovered through a uniform percentage increase applied to the two (block) energy rates. The increase in the first block rate is 1.121 cents per kWh, and 0.822 cents per kWh for the second block rate. Finally, the Company is proposing to increase the minimum charge for single phase service from $15.00 to $20.00 per month, and three phase service from $25.35 to $27.35 per month.

**Q. Why is the Company proposing a $0.50 increase to the demand charge?**

A. The system allocated demand cost from the cost of service study is $22.63 per kilowatt (kW) month.[[4]](#footnote-4) The Company’s present monthly demand charge is $6.00/kW or kVA. While the exact level of costs classified as demand-related can be debated, the proposed demand charges will continue to be well below demand-related costs.

In addition, the Company’s transmission and distribution system is constructed to meet the collective peak demand of its customers. Further, the Company must have adequate resources available to meet peak demand. If customers reduce their peak demand, it will reduce the need for additional investment in these facilities and resources. Customers need to receive the proper price signal to encourage a reduction in their peak demand, i.e., higher demand charges.

Q. Turning to Large General Service Schedules 21/22, would you please describe the present rate structure under those schedules and how the Company is proposing to apply the increase of $15,805,000 to the rates within the schedules?

A. Yes. Large General Service Schedules 21/22 consists of a minimum monthly charge of $500.00 for the first 50 kW or less, a demand charge of $6.00 per kW for monthly demand in excess of 50 kW, and two energy block rates: 7.089 cents per kWh for the first 250,000 kWhs per month, and 6.340 cents per kWh for all usage in excess of 250,000 kWhs.

The Company is proposing that the present minimum demand charge (for the first 50 kW or less) remain unchanged at $500.00 per month. The demand charge for kW over 50 per month would be increased by $0.50 per kW, from $6.00 to $6.50, for the reasons provided previously in my testimony. The remaining revenue increase for the schedules is proposed to be recovered through a uniform percentage increase applied to the two energy block rates. The proposed increase for the first 250,000 kWhs used per month is 1.036 cents per kWh, and an increase of 0.925 cents per kWh for usage over 250,000 kWhs per month.

Q. Turning to Extra Large General Service Schedule 25, would you please describe the present rate structure under that schedule and how the Company is proposing to apply the increase of $8,024,000 to the rates within the schedule?

A. Yes. Extra Large General Service Schedule 25 consists of a minimum monthly charge of $21,000 for the first 3,000 kVa or less, a demand charge of $6.00 per kVa for monthly demand in excess of 3,000 kVa, and three energy block rates: 5.505 cents per kWh for the first 500,000 kWhs per month, 4.953 cents per kWh for the next 5.5 million kWhs, and 4.235 cents per kWh for all usage in excess of 6 million kWhs.

The Company is proposing that the present minimum demand charge under the schedule should increase by $3,000 per month, to $24,000 per month. The demand charge for kVa over 3,000 per month is proposed to be increased by $0.50 per kVa, from $6.00 to $6.50. The remaining revenue increase for the schedule is proposed to be recovered through a uniform percentage increase applied to the three energy block rates. The proposed energy rate increase for the first 500,000 kWhs used per month is 0.694 cents per kWh, 0.624 cents per kWh for the next 5.5 million, and 0.534 cents per kWh for all usage over 6 million kWhs per month.

Q. Turning to Pumping Schedules 31/32, would you please describe the present rate structure under that schedule?

A. Yes. Pumping Schedules 31/32 consist of a monthly basic charge of $18.00 per month, and three energy block rates: 9.546 cents per kWh for the first 85 kWh per kW of demand, 9.546 cents per kWh for the next 80 kWh per kW of demand (but not more than 3,000 kWhs), and 6.818 cents per kWh for all additional usage.

Q. What changes are you proposing to the rates under Pumping Schedules 31/32 to recover the general revenue increase of $1,358,000?

1. The Company is proposing that the customer charge be increased by $2.00, from $18.00 to $20.00 per month, with the remaining revenue increase spread on a uniform percentage increase to the three energy rate blocks under the schedules. The proposed increase in the first and second block rate is 1.197 cents per kWh, and the increase in the third block rate is 0.855 cents per kWh.

Q. Turning to Street and Area Light Schedules 41-48, would you please describe the present rate structure under that schedule?

A. Yes. Street and Area Light Schedules consist of monthly flat rates, based on the type of light, the wattage of the light, and the type of structure the light is attached to.

1. How is the Company proposing to spread the general revenue increase of $857,000 applicable to Street and Area Light Schedules to the rates contained in those schedules (Schedules 41-48)?
2. The Company proposes to increase present street and area light (base) rates on a uniform percentage basis. The proposed increase for all lighting rates is 12.5%. The (base tariff) rates are shown in the tariffs for those schedules, contained in Exh. PDE-3.

Q. Is the Company proposing any other changes to its Street and Area Light schedules?

A. Yes. For Schedule 42 (Company-owned street lights) and Schedule 47 (Area Lighting), the Company is proposing that High Pressure Sodium Vapor (“HPS”) lights should no longer be made available for new installations. As discussed by Company witness Ms. Rosentrater, the Company is currently converting its Company-owned street and area lights from HPS to LED technology over a five-year period. With a change in the Company’s standards to only support LED street and area light technology, Avista is proposing to remove HPS as an option for new customer installations.[[5]](#footnote-5)

In addition, in the Company’s 2014 general rate case (Docket No. UE-140188), the Commission approved the Company’s “Custom Street Light Calculation” contained in Schedule 42, “Company Owned Street Light Service – Washington”. Schedule 42 is applicable to local, state, or federal governments for purposes of lighting public streets and thoroughfares. The Company also provides similar lighting under Schedule 47, “Area Light – Washington”. Lighting options under this schedule are similar to the lighting options under Schedule 42, with the only exception being that area lights are not used to light streets or thoroughfares, but rather yards, alleys, and parks, for example. As mentioned, Schedule 42 contains a “Custom Street Light Calculation”, as customers over time have requested lighting options that in some cases are not in the Company’s tariff. This custom calculation allows Avista to calculate a rate for such a light in between rate cases. In this case, the Company has included the same custom calculation in Schedule 47 for the same reasons the Company added it to Schedule 42 several years ago – i.e., customers have requested lighting options that are not already existing in Schedule 47.[[6]](#footnote-6)

**Q. Turning now to decoupling, how will new baseline information be incorporated into the electric decoupling mechanism?**

A. As in the prior general rate case, the Company would, as a part of its Compliance Filing, submit the final baseline values for its electric decoupling mechanism prior to new rates going into effect as a result of this general rate case.

III. PROPOSED NATURAL GAS REVENUE CHANGES

Summary of Natural Gas Rate Schedules and Tariffs

Q. Would you please explain what is contained in Exh. PDE-5?

A. Yes. Exh. PDE-5 contains a copy of the Company’s present natural gas tariffs presently on file with the Commission.

Q. Please describe what is contained in **Exh. PDE-6**?

A. Exh. PDE-6 contains the proposed natural gas tariff sheets incorporating the proposed changes included in this filing.

Q. Please explain what is contained in **Exh. PDE-7**?

A. Exh. PDE-7 contains information regarding the proposed spread of the natural gas revenue increase among the service schedules and the proposed changes to the rates within the schedules. Page 1 shows the proposed revenue and percentage increase by rate schedule. Page 2 shows the rates of return and the relative rates of return for each of the schedules before and after the proposed increases. Page 3 shows the present rates under each of the rate schedules, the proposed changes to the rates within the schedules, and the proposed rates after application of the changes. Page 4 shows the estimated increases in billed revenues, and resulting rate spread, related to years 2 and 3 of the Company’s Rate Plan. Page 5 provides the proposed rates for years 2 & 3 of the Three-Year Rate Plan. These pages will be referred to later in my testimony.

Q. Would you please review the Company's present rate schedules and the types of natural gas service offered under each?

A. Yes. The Company's present Schedules 101, 111 and 121 offer firm sales service. Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. Schedule 111 is generally for customers who consistently use over 200 therms/month, and Schedule 121 is generally for customers who use over 10,000 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales service to customers whose annual requirements exceed 250,000 therms. Schedule 146 provides transportation/distribution service for customer-purchased natural gas for customers whose annual requirements exceed 250,000 therms. Schedule 148 is a banded-rate transportation tariff that allows for a negotiated service rate with large customers that have an economic alternative to taking natural gas distribution service from the Company.

Q. Would you please explain which customers are eligible for service under Schedules 102, 112, 122 and 132?

A. Yes. Schedule 102 exists for purposes of administering the Company’s “Fixed-Income Senior & Disabled Residential Service” pilot program. The rates under this schedule are the same as those under Schedule 101, except for the rate discount.

Schedules 112, 122 and 132 are in place to provide service to customers, who, at one time, were provided natural gas service under Transportation Service Schedule 146. The rates under these schedules are the same as those under Schedules 111, 121 and 131 respectively, except for the application of Temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a temporary rate adjustment used to amortize the deferred natural gas costs approved by the Commission in the prior PGA. Because of their size, transportation service customers are analyzed individually to determine their appropriate share of deferred natural gas costs. The Company continues to analyze those customers to make sure that if those customers switch back to sales service, those customers would not receive natural gas costs deferrals which are not due them.

Q. How many Washington customers does the Company serve under each of its natural gas rate schedules?

A. As of December 2016, the Company provided service to the following number of Washington customers under each of its schedules:

Table No. 6 – Natural Gas Customers by Service Schedule



Proposed Rate Spread

Q. What is the proposed natural gas revenue increase, and how is the Company proposing to spread the increases by rate schedule?

A. The proposed base revenue increase is $8,269,000, or 9.3%, in base margin[[7]](#footnote-7) revenue. On a billed revenue basis, the increase is 5.4%. Provided below is a table showing the effect of the Company’s proposed natural gas increase by rate schedule:

**Table No. 7 - Proposed % Natural Gas Increase by Schedule[[8]](#footnote-8)**



1. **Is the proposed billing percentage increase for Transportation Schedule 146 comparable to the increase for the other service schedules?**

A. No. The proposed billing percentage increase for Transportation Schedule 146 is not comparable to the proposed increases for the other (sales) service schedules, as Schedule 146 revenue does not include an amount for the cost of natural gas or upstream pipeline transportation (unlike the other service schedules). Transportation customers acquire their own natural gas and pipeline transportation. Including an estimate of 35.0 cents per therm for the cost of natural gas and upstream pipeline transportation, the proposed increase to Schedule 146 rates represents an average increase of approximately 2.1%.

Q. What information did the Company use to develop the proposed spread of the overall natural gas increase to the various rate schedules?

A. The Company believes that the results of the cost of service study (sponsored by Company witness Mr. Miller) should be used as a guide to spread the general increase. The Company is also cognizant that most of the parties that participate in the Company’s general rate cases are also involved in the on-going cost of service workshops stemming from the Company’s 2016 general rate case. Avista is proposing to spread the revenue increase on a uniform percent of margin basis. This proposed rate spread moves all rate schedules toward unity, except for Schedule 146.[[9]](#footnote-9) Table No. 8 below shows the relative rates of return (schedule rate of return divided by overall rate of return) before and after application of the base rate increase:

**Table No. 8 – Present and Proposed Relative Rates of Return**



Proposed Rate Design

Q. Would you please explain the present rate design within each of the Company’s natural gas service schedules?

A. Yes. General Service Schedules 101/102 generally applies to residential and small commercial customers who use less than 200 therms/month. These schedules contain two energy rate blocks (0-70 therms, and over 70 therms), and a monthly customer/basic charge.

Large General Service Schedules 111/112 have a three-tier declining-block rate structure and are generally for customers who consistently use over 200 therms/month. These schedules consist of a monthly minimum charge plus a usage charge for the first 200 therms or less, and block rates for 201-1,000 therms/month and over 1,000 therms/month.

Extra Large General Service Schedules 121/122 have a five-tier declining-block rate structure with a monthly minimum charge plus a usage charge for the first 500 therms or less, and block rates for the next 500 therms, the next 9,000 therms, the next 15,000 therms, and usage over 25,000 therms/month. There is also an annual minimum requirement of 60,000 therms under the schedules and a minimum load factor requirement of approximately 58%.

Interruptible Sales Service Schedules 131/132 have a four-tier declining-block rate structure for the first 10,000 therms, the next 15,000 therms, the next 25,000 therms, and usage over 50,000 therms per month. The schedules also have an annual minimum deficiency charge based on a usage requirement of 250,000 therms per year.

Transportation Service Schedule 146 contains a monthly customer charge and a five-tier declining-block rate structure for the first 20,000 therms, the next 30,000 therms, the next 250,000 therms, the next 200,000 therms, and usage over 500,000 therms per month. The schedule also has an annual minimum deficiency charge based on a usage requirement of 250,000 therms per year.

**Q. Is the Company proposing any changes to the present rate structures contained in its natural gas service schedules?**

A. No, it is not.

**Q. Where in your Exhibits do you show the present and proposed rates for the Company’s natural gas service schedules?**

A. Page 3 of Exh. PDE-7 shows the present and proposed rates under each of the rate schedules, including all present rate adjustments (adders). Column (g) on that page shows the proposed changes to the rates contained in each of the schedules.

Q. How does the Company propose to spread the proposed general revenue increase of $6,411,000 to the rates within Schedules 101/102?

A. The Company proposes to increase the monthly basic/customer charge from $9.00 to $10.00 per month. This increase in the basic charge is approximately 11%, similar to the percentage increase for the schedules (and rounded to the nearest dollar). As shown in column (e), page 3 of Exh. PDE-7, Avista has proposed to increase the per therm rate for the two volumetric blocks on a uniform percentage basis. The first block (0-70 therms) would increase from $0.38685 to $0.42147, and the second block (over 70 therms) would increase from $0.50279 per therm to $0.54779 per therm.

Q. What would be the increase in a residential customer’s bill with average usage based on the proposed increase for Schedule 101?

A. The increase for a residential customer using an average of 65 therms of natural gas per month would be $3.25 per month, or 5.6%. A bill for 65 therms per month would increase from the present level of $58.14 to a proposed level of $61.39.

**Q. Please explain the proposed changes in the rates for Large General Service Schedules 111/112.**

A. The present rates for Schedules 101/102, 111/112, and 121/122 provide a clear distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedules 101/102, customers who use between 200 and 10,000 therms per month should be placed on Schedules 111/112, and only those customers who generally use over 10,000 therms per month should be placed on Schedules 121/122. Not only do the rates provide guidance for customer schedule placement, they provide a reasonable classification of customers for analyzing the costs of providing service.

The Company’s proposed rates for Schedules 111/112 and 121/122 will maintain the rate structure within the schedules and continue to provide guidance for appropriate schedule placement for customers and a reasonable classification for cost analysis. The proposed minimum charge of $110.72 per month for Schedules 111/112 (for 200 therms or less) maintains the present relationship between the Schedules 101/102 and 111/112, and will minimize customer shifting.[[10]](#footnote-10) The remaining proposed revenue increase for Schedules 111/112 was then spread on a uniform percentage increase of 9.6% to the remaining two rate blocks.

**Q. Please explain the proposed changes in the rates for Extra Large General Service Schedules 121/122.**

A. For Schedules 121/122, in order to maintain the present relationship between the schedules, the minimum monthly charge is proposed to be $275.05 per month. The minimum charge is derived by adding the proposed Schedule 101/102 basic charge of $10.00 to the product of 500 therms multiplied by the proposed Schedule 101/102 base rates. For the remaining revenue requirement, the second through fifth block rates were increased by a uniform percentage of approximately 9.5%.

**Q.** **How is the Company proposing to spread the proposed increase of $18,000 to the rates under Interruptible Schedules 131/132?**

A. The Company proposes to increase the first three block rates under the schedule by a uniform percentage increase of approximately 10.1%. The Company is not proposing to change the fourth block on Schedules 131/132 in order to provide for a more meaningful spread between the blocks.

**Q. Please explain the proposed changes in the rates for Transportation Schedule 146.**

A. The Company is proposing to adjust the basic charge by $25 per month, which is an increase from $525 to $550 per month. For the remaining revenue requirement, the Company is proposing to spread the increase on a uniform percentage basis of approximately 9.9% to each of the present five block rates under the schedule.

Q. Is the Company proposing any other changes to its natural gas service schedules?

A. No, it is not.

**Q. Turning now to decoupling, how will new baseline information be incorporated into the natural gas decoupling mechanism?**

 A. As in the prior general rate case, the Company would, as a part of its Compliance Filing, submit the final baseline values for its natural gas decoupling mechanism prior to new rates going into effect as a result of this general rate case.

IV. POWER COST RATE ADJUSTMENT

Q. Would you please provide an overview of the Company’s proposed Power Cost Rate Adjustment which was concurrently-filed with this general rate case on May 26, 2017 with the Commission?

A. Yes. On May 26, 2017, the Company filed a Power Cost Rate Adjustment through revisions to tariff Schedule 93 with a proposed effective date of September 1, 2017. This Power Cost Rate Adjustment would expire at the conclusion of Avista’s 2017 general rate case (this case). This filing would increase annual billed revenues by approximately $15.0 million, or 2.92 percent.

Q. How does the Power Cost Rate Adjustment interact with this general rate case?

A. In this general rate case, the Company has filed a Pro Forma Power Supply Adjustment of $16.6 million. As depicted in Illustration No. 1 below, the final approved Pro Forma Power Supply Adjustment approved in the GRC will serve as the new level of power supply costs in base rates effective May 1, 2018 (as well as the base for the ERM and electric decoupling, as discussed below).

**Illustration No. 1: Interaction of Power Cost Rate Adjustment and General Rate Case**



At the conclusion of the general rate case, assuming that a new level of power supply expense is included in base rates, the rates under Schedule 93 through the Power Cost Rate Adjustment would expire and be reset to $0.00000/kWh in recognition that an updated level of power supply costs would now be reflected in base rates. Accordingly, the Power Cost Rate Adjustment of $15.0 million and the proposed Pro Forma Power Supply adjustment in the GRC are not additive.

Q. Does the filing of the Power Cost Rate Adjustment help to mitigate the overall base rate increase request in this case?

A. Yes. In this general rate case Avista is requesting an increase in overall base rates of 12.5 percent, which includes a Pro Forma Power Supply Adjustment. Through the Power Cost Rate Adjustment request, Avista would earlier implement an approximate 2.9 percent billed revenue increase for the September 1, 2017 through April 30, 2018 time period. On May 1, 2018, the rates under Schedule 93 would revert to $0.00000/kWh, assuming that a new power supply base level of expense is set in the general rate case and reflected in base rates. While base rates would increase by 12.5 percent on May 1, 2018, billed rates would go up by 8.8 percent at that time, given that a portion of the rate increase was implemented earlier on September 1, 2017.

Q. If the Power Cost Rate Adjustment is not approved, does that impact this general rate case?

A. Yes it does. If the earlier Power Cost Rate Adjustment through Schedule 93 is not approved, the percentage increase in billed rates proposed to be effective on or about May 1, 2018 would be approximately 12% instead of 8.8%. This is because the May 1, 2018 rate mitigation effects of the Power Cost Rate Adjustment discussed above would not occur.

V. THREE-YEAR RATE PLAN

Q. Would you please provide an overview of the Company’s proposed Three-Year Rate Plan?

A. Yes. The electric and natural gas revenue requests, and resulting changes in customer’s rates, discussed earlier in my testimony were specific to the rate changes proposed for May 1, 2018. As discussed by Company witnesses Mr. Morris and Ms. Andrews, the Company is proposing in this general rate case a Three-Year Rate Plan (“Rate Plan”). As a part of the request, the Company would receive a base rate increase effective May 1, 2018 (Rate Plan Year 1), and an increase in billed revenues on May 1, 2019 (Rate Plan Year 2) and May 1, 2020 (Rate Plan Year 3).

For Rate Plan Years 2 and 3, for electric operations, there would be two rate adjustments. The first rate adjustment would be the application of the K-Factor to the non-ERM authorized revenue (through tariff Schedule 96), and the second would be a Power Supply Update (through tariff Schedule 93). For natural gas operations, there would only be the annual adjustment associated with the application of the K-Factor to non-gas cost authorized revenues (through tariff Schedule 196).

Q. As it relates to the revenue adjustments for Rate Plan Years 2 and 3, is Avista proposing to change base rates?

A. No, the Company is not proposing to change base rates in Rate Plan Years 2 and 3. To effectuate the Rate Plan revenue adjustments associated with the K-Factor discussed by Ms. Andrews, the Company has filed Schedule 96 (“Rate Plan Adjustment - Electric”) and Schedule 196 (“Rate Plan Adjustment – Natural Gas). Schedules 96 and 196, which would go into effect at the same time as the base rate tariffs on or about May 1, 2018, and provide the rates for all three years of the Rate Plan (excluding the Power Supply Update discussed below). For Rate Plan Year 1, the rates would be set at $0.00000/kWh and $0.00000/therm. These rates reflect the fact that the base rate increases in Rate Plan Year 1 would occur in base rates and not through Schedules 96 and 196. The tariffs (Schedules 96 and 196) then provide the rates for Rate Plan Year 2, which would be in effect from May 1, 2019 through April 30, 2020, and the rates for Rate Plan Year 3, which would be in effect from May 1, 2020 until such time as the revenues collected through Schedules 96 and 196 are incorporated in base rates (estimated to be on May 1, 2021).

Q. Would you please provide a summary of the proposed electric Power Supply Update that would be filed prior to the revenue adjustments for years two and three of the Rate Plan?

A. Yes. In the Company’s 2014 and 2015 general rate cases, as a part of settlements, Avista agreed to file power supply updates 60 days before new rates were to go into effect. The purpose of those power supply updates was to: 1) update the three-month average of forward natural gas and electricity market prices for the pro forma period; 2) include new short-term contracts for gas and electric; and 3) update or correct power and transmission service contracts for the rate year. Avista is proposing to update power supply costs in a similar manner, just prior to new rates becoming effective May 1, 2019 and May 1, 2020.

This is the same methodology that the Company used in its “Power Cost Rate Adjustment” filed concurrently with this general rate case. For the electric Power Supply Updates during the Rate Plan, the Company would use Schedule 93 (“Power Cost Rate Adjustment”) as the tariff to implement the Power Supply Updates.

Q. Why is an annual update to power supply costs necessary as a part of the Rate Plan?

A. The Company believes it is important that the level of power supply costs in customer’s rates closely reflect the wholesale power and natural gas prices that Avista is actually experiencing. Approval of the opportunity to update power supply costs on an annual basis should be an integral part of the Rate Plan.

The Company’s Power Supply Updates would reflect changes that are generally no different than what Puget Sound Energy (“Puget”) updates through its PCORC mechanism, nor different from what the Company does on an annual basis through the PGA process. For example, in Docket No. UE-161135, filed in September 2016, Puget filed to update certain power supply costs, including updated power and natural gas prices, and the effects of updated purchases and sales (i.e., contracts). In the annual PGA, Avista updates wholesale natural gas costs (based on a 30-day average), as well as includes the effects of new, changed, or expired natural gas supply and transportation contracts so that the rates in effect for customers more accurately reflect the costs Avista is actually incurring to serve customers. These Power Supply Updates would serve the same objectives as Puget’s PCORC and Avista’s PGA.

Q. When would the Company file the Power Supply Update portion of the Rate Plan?

A. The Company would file with the Commission electric tariff Schedule 93 on or before February 15, 2019 (for the May 1, 2019 update) and February 15, 2020 (for the May 1, 2020 update). In its filings, the Company would provide the Commission and the Parties with documentation in support of the proposed Schedule 93 rates.

Q. What is the Company’s proposed rate spread and rate design for Rate Plan Years 2 & 3?

A. For electric operations, the proposed rate spread for the May 1, 2018 base rate increase will move Schedules 1/2 and 11/12 closer to unity as discussed earlier. To continue this movement, Avista used a pro-rata allocation of the Company’s May 1, 2018 rate spread percentages for the rate spread related to the Schedule 96 and Schedule 93 revenue increases for May 1, 2019 and May 1, 2020. For rate design, the Company proposes to spread the revenue increase for each schedule on a uniform cents per kWh basis to the variable energy rates (per kWh rates).

For natural gas operations, the Rate Plan revenue increases for May 1, 2019 and May 1, 2020 were spread in the same manner as the May 1, 2018 base rate increase, on a uniform percent of margin basis. For rate design, the Company spread the revenue increase for each schedule on a uniform cents per therm basis to the variable energy rates (per therm rates).

Q. Where in your exhibits do you show the proposed increases by Schedule, and resulting rates, related to years 2 & 3 of the Rate Plan?

A. For the electric Rate Plan revenue adjustments, Exh. PDE-4, page 4 provides the revenue increases for years 2 & 3 of the Rate Plan, and page 5 provides the volumetric energy rates. These rates are also provided in the Company’s filed tariff, Original Sheet 96. For the Power Supply Update portion of the electric Rate Plan, the Company did not include an estimate for what the revenue changes would be in Rate Plan Years 2 and 3 as those revenue adjustments, whether up or down, cannot be determined at this time.

For the natural gas Rate Plan revenue adjustments, Exh. PDE-7, page 4 provides the revenue increases for years 2 & 3 of the Rate Plan, and page 5 provides the volumetric energy rates. These rates are also provided in the Company’s filed tariff, Original Sheet 196.

Q. How do the Rate Plan Components interact with the Company’s ERM and decoupling mechanisms?

A. For the first year of the Rate Plan, with rates effective on or before May 1, 2018, the baseline values for the ERM and electric and natural gas decoupling mechanisms would be provided as a part of the Compliance Filing that occurs before new rates go into effect. The new base for the ERM and electric and natural gas decoupling mechanisms cannot be determined until the Commission issues its final order.

For Rate Plan Years 2 and 3, Avista would file new baseline values for the ERM and electric and natural gas decoupling mechanisms on February 15, 2019 and February 15, 2020, the same date the Company would file its Power Supply Updates. For the electric and natural gas decoupling mechanisms, the new baseline values would reflect the Rate Plan revenue increases that would take effect on May 1, 2019 and on May 1, 2020. Those revenue increases would be added to the “Total Rate Revenue” in the mechanisms. Similarly, for the electric decoupling mechanism, the change in costs associated with the Power Supply Update would be added to both “Total Rate Revenue” and “Variable Power Supply Revenue”. The net effect is that the increase related to the Power Supply Update for decoupling purposes is $0. For the Power Supply Updates in Years 2 and 3 of the Rate Plan, as a part of its February 15, 2019 and February 15, 2020 compliance filings, Avista would provide a new power supply base and Retail Revenue Adjustment which would serve as the new base for the ERM.

**Q. Does this conclude your pre-filed, direct testimony?**

A.Yes it does.

1. As discussed in more detail in Section IV of my testimony, on May 26, 2017, Avista filed a Power Cost Rate Adjustment Schedule 93 tariff filing which would increase billed revenues by approximately $15.0 million effective September 1, 2017. The increase requested in that filing would remain in effect until the end of this general rate case, as Avista has provided in this rate case a pro forma power supply adjustment that would set the base for power costs starting on May 1, 2018. As such, the rates otherwise charged under Schedule 93 would be decreased to $0.00000/kWh at the conclusion of this case. [↑](#footnote-ref-1)
2. For purposes of determining the level of “present billed revenue”, the Company has assumed that the Power Cost Rate Adjustment (Schedule 93), filed concurrently with this general rate case, will be approved with a September 1, 2017 effective date and be in effect until such time as new base rates (including an updated level of power supply costs) go into effect (estimated to occur around May 1, 2018). Therefore, on May 1, 2018 (or when new base rates go into effect), the approximate $15 million in revenues collected through Schedule 93 rates will end. The net effect is an increase in base rates of 12.5%, a reduction in Schedule 93 of 2.9%, for a net billing revenue increase of approximately 8.8%. [↑](#footnote-ref-2)
3. The application of a uniform percent of revenue increase to Street and Area Light Schedules results in a slight movement away from unity. In this case the relative rate of return for Street and Area Lights is 0.71. In the Company’s 2016 general rate case, the relative rate of return for these schedules was 0.90. The relative rates of return for these schedules are volatile because a significant amount of costs are allocated (or not allocated) to those schedules based on whether the system peak occurs at the time when street and area lights are on. For example, in this case the Company allocated demand-related costs using the 12CP methodology. In four of the twelve months, street and area lights were on during the monthly peak. In the 2016 general rate case, street and area lights were on in only two of the 12 months. The more time street and area lights are on during the monthly peak, more costs are allocated to the schedule (lowering their relative return ratio), and vice versa. The Company believes it is not appropriate to allocate more than a uniform percentage increase to these schedules because of that phenomena. [↑](#footnote-ref-3)
4. Knox Exh. TLK-3, at 3 ln. 28. [↑](#footnote-ref-4)
5. There may be circumstances where an existing customer (an existing street/area light) requires a HPS light and cannot support an LED light. In those circumstances the customer would continue to receive HPS service under Schedule 42 or 47. [↑](#footnote-ref-5)
6. To determine the rate for a new light option, the capital cost, maintenance expense, and energy costs need to be determined. As shown in the proposed revisions to Schedule 47, the capital cost calculation is the same as what is provided for in Schedule 42. The maintenance cost would be based on an engineering estimate of the maintenance cost of a new fixture. Finally, the energy rate calculation is the same as what is provided for in Schedule 46 (the energy-only street light tariff). [↑](#footnote-ref-6)
7. Base margin revenue refers to the base revenue associated with the Company’s ownership and operation of its natural gas distribution operations. It is the revenue related to delivering natural gas to customers, and does not include the cost of natural gas, upstream third-party owned transportation, or the effect of other tariffs. [↑](#footnote-ref-7)
8. Schedule 148 is a banded-rate transportation tariff that allows for a negotiated service rate with large customers that have an economic alternative to taking natural gas distribution service from the Company. Contracts negotiated under Schedule 148 have fixed rates that do not vary with changes in base rates. [↑](#footnote-ref-8)
9. The relative rate of return for Schedule 146 moves slightly away from unity under the Company’s proposed rate spread. In recent general rate cases, Avista’s cost of service study has shown that the relative rate of return for Schedule 146 is below unity. On the other hand, the Northwest Industrial Gas Users has provided testimony, based on their cost of service study, demonstrating that the overall relative rate of return for Schedule 146 is actually well above unity. Given the conflicting results from those studies, and the fact that these issues are being evaluated in the cost of service workshops, Avista chose not to allocate a larger than system average percentage increase to Schedule 146. [↑](#footnote-ref-9)
10. The calculation of the minimum charge for Schedules 111/112 is equal to the total bill for 200 therms priced at Schedule 101/102 base rates (excluding Schedule 150 gas costs). [↑](#footnote-ref-10)