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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-E-16-03
OF AVISTA CORPORATION FOR THE)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE) DIRECT TESTIMONY
TO ELECTRIC CUSTOMERS IN THE) OF
STATE OF IDAHO) TARA L. KNOX
_____)

FOR AVISTA CORPORATION

(ELECTRIC)

1 I. INTRODUCTION

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

4 A. My name is Tara L. Knox and my business address is
5 1411 East Mission Avenue, Spokane, Washington. I am employed
6 as a Senior Regulatory Analyst in the State and Federal
7 Regulation Department.

8 Q. Would you briefly describe your duties?

9 A. Yes. I am responsible for preparing the electric
10 regulatory cost of service studies for the Company, as well
11 as providing support for the preparation of results of
12 operations reports, among other things.

13 Q. What is your educational background and
14 professional experience?

15 A. I am a graduate of Washington State University
16 with a Bachelor of Arts degree in General Humanities in 1982,
17 and a Master of Accounting degree in 1990. As an employee
18 in the State and Federal Regulation Department at Avista
19 since 1991, I have attended several ratemaking classes,
20 including the EEI Electric Rates Advanced Course that
21 specializes in cost allocation and cost of service issues.
22 I am also a member of the Cost of Service Working Group and
23 the Northwest Pricing and Regulatory Forum, which are
24 discussion groups made up of technical professionals from

1 regional utilities and utilities throughout the United
2 States and Canada concerned with cost of service issues.

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

5 A. My testimony and exhibits will cover the Company's
6 electric revenue normalization adjustment to the test year
7 results of operations, the proposed Load Change Adjustment
8 Rate to be used in the Power Cost Adjustment mechanism, and
9 the electric cost of service study performed for this
10 proceeding. A table of contents for my testimony is as
11 follows:

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I. Introduction	1
II. Electric Revenue Normalization	3
III. Proposed Load Change Adjustment Rate	7
IV. Electric Cost of Service	9

17
18 **Q. Are you sponsoring any exhibits in this case?**

19 A. Yes. I am sponsoring Exhibit No. 12 composed of
20 three schedules. Schedule 1 details the calculation of the
21 proposed Load Change Adjustment Rate, Schedule 2 includes a
22 narrative of the electric cost of service study process, and
23 Schedule 3 presents the electric cost of service study
24 summary results.

1 the proposed cost of capital. The normalized retail load on
2 Line 10 comes from the workpapers supporting the revenue
3 normalization adjustment. Line 11 represents the average
4 total production and transmission cost-per-kWh proposed to
5 be embedded in Idaho customer retail rates. Lines 12 and 13
6 are values taken from the cost of service study report titled
7 "Functional Cost Summary by Classification at Uniform
8 Requested Return" which represents total costs at unity.
9 Line 12 shows the amount of production and transmission costs
10 classified as energy related, while Line 13 shows the total
11 production and transmission costs in the study.

12 The resulting 2017 LCAR on Line 14 is \$0.02496 per kWh
13 or \$24.96 per MWh. The calculation of the LCAR will be
14 revised based on the final production and transmission
15 costs, and rate of return, that are approved by the
16 Commission in this case.

17

18 **IV. ELECTRIC COST OF SERVICE**

19 **Q. Please briefly summarize your testimony related to**
20 **the electric cost of service study.**

21 A. I believe the Base Case cost of service study
22 presented in this case is a fair representation of the costs
23 to serve each customer group. The Base Case study shows
24 Residential Service Schedule 1 and Pumping Service Schedule

1 31/32 provides less than the overall rate of return under
2 present rates. All of the other service schedules provide
3 more than the overall rate of return under present rates to
4 varying degrees.

5 **Q. What is an electric cost of service study and what**
6 **is its purpose?**

7 A. An electric cost of service study is an
8 engineering-economic study, which separates the revenue,
9 expenses, and rate base associated with providing electric
10 service to designated groups of customers. The groups are
11 made up of customers with similar load characteristics and
12 facilities requirements. Costs are assigned or allocated to
13 each group based on, among other things, test period load
14 and facilities requirements, resulting in an evaluation of
15 the cost of the service provided to each group. The rate of
16 return by customer group indicates whether the revenue
17 provided by the customers in each group recovers the cost to
18 serve those customers.

19 The study results are used as a guide in determining
20 the appropriate rate spread among the groups of customers.
21 Schedule 2 of Exhibit No. 12 explains the basic concepts
22 involved in performing an electric cost of service study.
23 It also details the specific methodology and assumptions
24 utilized in the Company's Base Case cost of service study.

1 **Q. What is the basis for the electric cost of service**
2 **study provided in this case?**

3 A. The electric cost of service study provided by the
4 Company as Exhibit No. 12, Schedule 3 is based on the twelve
5 months ended December 31, 2015 test year pro forma results
6 of operations presented by Ms. Andrews in Exhibit No. 11,
7 Schedule 1.

8 **Q. Would you please explain the cost of service study**
9 **presented in Exhibit No. 12, Schedule 3?**

10 A. Yes. Exhibit No. 12, Schedule 3 is composed of a
11 series of summaries of the cost of service study results.
12 The summary on page 1 shows the results of the study by FERC
13 account category. The rate of return by rate schedule and
14 the ratio of each schedule's return to the overall return
15 are shown on Lines 39 and 40. This summary was provided to
16 Company witness Mr. Ehrbar for his consideration regarding
17 rate spread and rate design. The results will be discussed
18 in more detail later in my testimony.

19 Pages 2 and 3 are both summaries that show the revenue-
20 to-cost relationship at current and proposed revenue. Costs
21 by category are shown first at the existing schedule returns
22 (revenue); next the costs are shown as if all schedules were
23 providing equal recovery (cost). These comparisons show how
24 far current and proposed rates are from rates that would be

1 in alignment with the cost study. Page 2 shows the costs
2 segregated into production, transmission, distribution, and
3 common functional categories. Line 44 on page 2 shows the
4 target change in revenue which would produce unity in this
5 cost study. Page 3 segregates the costs into demand, energy,
6 and customer classifications. Page 4 is a summary
7 identifying specific customer-related costs embedded in the
8 study.

9 The Excel model used to calculate the cost of service
10 and supporting schedules has been included in its entirety
11 both electronically and in hard copy in the workpapers
12 accompanying this case.

13 **Q. Given that the specific details of this**
14 **methodology are described in the narrative in Exhibit No.**
15 **12, Schedule 2, would you please give a brief overview of**
16 **the key elements and the history associated with those**
17 **elements?**

18 A. Yes. Production costs are classified to energy
19 and demand in this case based on the system load factor.
20 The Company has proposed this approach in prior general rate
21 cases (Case Nos. AVU-E-11-01 and AVU-E-15-05).

22 Transmission costs are classified as 100% demand and
23 allocated by the average of the 12 monthly coincident peaks.
24 This methodology is the same treatment as the last two Idaho

1 cases (Case Nos. AVU-E-12-08 and AVU-E-15-05) and reflects
2 the methodology accepted in the Settlement in Case No. AVU-
3 E-10-01.

4 Distribution costs are classified and allocated by the
5 basic customer theory accepted by the Idaho Commission in
6 Case No. WWP-E-98-11⁵. Additional direct assignment of
7 demand-related distribution plant has been incorporated to
8 reflect improvements accepted by the Commission in Case No.
9 AVU-E-04-01.

10 Administrative and general costs are first directly
11 assigned to production, transmission, distribution, or
12 customer relations functions. The remaining administrative
13 and general costs are categorized as common costs and have
14 been assigned to customer classes by the four-factor
15 allocator accepted by the Idaho Commission in Case No. AVU-
16 E-04-01.

17 **Q. Does the Company's electric Base Case cost of**
18 **service study follow the methodology filed in the Company's**
19 **last electric general rate case in Idaho?**

20 A. Yes.

⁵Basic customer cost theory classifies only meters, service lines from the distribution system to the customer's premise, and street lights as customer-related plant; all other distribution facilities are considered demand-related.

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AUTHORITY TO INCREASE ITS RATES)	
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TO ELECTRIC CUSTOMERS IN THE)	
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FOR AVISTA CORPORATION

(ELECTRIC)

1 **Transmission Classification and Allocation**

2 Transmission costs are classified as 100% demand related due in part to the fact that the
3 facilities are designed to meet system peak loads. These costs are then allocated to the customer
4 classes by class contribution to the average of the twelve monthly system coincident peak loads
5 (12CP). The use of the average of twelve monthly peaks recognizes that customer capacity needs
6 are not limited to the heating season.

7 **Distribution Facilities Classification (Basic Customer)**

8 The Basic Customer method considers only services and meters and directly assigned
9 Street Lighting apparatus (FERC Accounts 369, 370, and 373 respectively) to be customer related
10 distribution plant. All other distribution plant is then considered demand related. This division
11 delineates plant installed solely for an individual customer from plant which is part of the broader
12 system. The basic customer method provides a clearly definable division between plant that
13 provides service only to individual customers, from plant that is part of the interconnected system.

14 **Customer Relations Distribution Cost Classification**

15 Customer service, customer information and sales expenses are the core of the customer
16 relations functional unit which is included with the distribution cost category. For the most part
17 they are classified as customer related. Exceptions are sales expenses which are classified as
18 energy related and uncollectible accounts expense which is considered separately as a revenue
19 conversion item. Demand Side Management expenses (if any) recorded in Account 908 would be
20 considered separately from the other customer information costs.

21