

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-19 ____

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

1
2 **Q. Please state your name, business address and present position with Avista**
3 **Corporation?**

4 A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission
5 Avenue, Spokane, Washington. I serve as the Director of Regulatory Affairs.

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

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

16 I joined the State and Federal Regulation Department as a Senior Regulatory Analyst
17 in 2007. Responsibilities in that role included being the discovery coordinator for the
18 Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues.
19 In November 2009, I was promoted to Manager of Rates and Tariffs, and later promoted to be
20 Senior Manager of Rates and Tariffs. My primary areas of responsibility included electric and
21 natural gas rate design, decoupling, power cost and natural gas rate adjustments, customer
22 usage and revenue analysis, and tariff administration. In October 2017, I was promoted to my
23 present position.

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

2 A. My testimony addresses the accounting associated with the power cost
3 deferrals under the Energy Recovery Mechanism (“ERM”) approved by the Commission in
4 Docket No. UE-011595. I also explain what is contained in the monthly reports that are filed
5 with the Commission. Finally, I will provide details related to the proposed rebate of \$34.4
6 million to customers.

7 **Q. Are you sponsoring any exhibits?**

8 A. Yes. I am sponsoring Exh. PDE-2, which consists of a copy of the December
9 2018 ERM report provided for informational purposes.

10

11 **II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS**

12 **Q. Would you please describe the accounting associated with the Company's**
13 **ERM deferral mechanism?**

14 A. Yes. In his direct testimony, Company witness Mr. Johnson discusses the
15 calculation of the monthly variations between actual and authorized power supply revenues
16 and expenses.

17 Under the ERM deferral mechanism, monthly variations are accumulated until the
18 calendar-year deadband of \$4.0 million is exceeded. Once the deadband is exceeded, 50% of
19 the cumulative variation between actual and authorized net power supply costs between \$4.0
20 million and \$10.0 million is deferred if the deferral is in the surcharge direction, and 75% is
21 deferred if the deferral is in the rebate direction. Once the cumulative power supply cost
22 variance from the amount included in base rates exceeds \$10.0 million, 90% of the cost
23 variance above \$10 million is deferred for future surcharge or rebate.

1 When actual net power supply costs differ from authorized costs by over \$4 million,
2 entries are made to record the deferral amount by crediting FERC Account 557.28 - Other
3 Power Supply Expenses, thereby decreasing recorded power supply expenses, and debiting
4 FERC Account 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are
5 less than authorized costs in a given month, an entry is made to record the difference by
6 debiting FERC Account 557.28 - Other Power Supply Expenses, thereby increasing recorded
7 power supply expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred
8 Debits. An accumulated debit balance in FERC Account 186.28 represents a surcharge
9 balance, while an accumulated credit balance represents a rebate balance.

10 **Q. How is interest recorded on the deferral balances?**

11 A. Interest is calculated pursuant to the Settlement Stipulation approved by the
12 Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002.
13 Interest is applied to the average of the beginning and ending month balances in Account
14 186.28, net of associated deferred federal income tax. The Company's weighted cost of debt
15 is used as the interest rate. The interest rate is updated semi-annually and interest is
16 compounded semi-annually. The interest rate used for the period January 1, 2018 through
17 June 30, 2018 was 5.508%, the Company's weighted cost of debt at December 31, 2017. The
18 interest rate used for the period July 1, 2018 through December 31, 2018 was 5.203%, the
19 Company's weighted cost of debt at June 30, 2018.

20 **Q. How are income taxes accounted for under the deferred power cost**
21 **mechanism?**

22 A. The power cost deferral entries are not recognized in the determination of
23 taxable income for federal income tax purposes. Therefore, deferred federal income taxes are

1 recorded to FERC Account 283.28 – Accumulated Deferred Federal Income Tax. When
 2 FERC Account 283.28 is credited, Account 410.10 – Deferred FIT Expense is debited.
 3 Likewise, when FERC Account 283.28 is debited, FERC Account 410.10 is credited.

4 **Q. In 2018 what were the amounts deferred and the amount absorbed by the**
 5 **Company?**

6 A. For the 2018 calendar year, actual net power costs were less than authorized
 7 net power costs for the Washington jurisdiction by \$15,544,268. Table No. 1 below illustrates
 8 the allocation between the Company and Customer:

9 **Table No. 1**

	Total	Absorbed (Avista)	Deferred (Customer)
First \$4M at 100%	\$ (4,000,000)	\$ (4,000,000)	\$ -
\$4M to \$10M at 25% (rebate)	\$ (6,000,000)	\$ (1,500,000)	\$ (4,500,000)
\$4M to \$10M at 50% (surcharge)	\$ -	\$ -	\$ -
Over \$10M at 10%	\$ (5,544,268)	\$ (554,427)	\$ (4,989,841)
	\$ (15,544,268)	\$ (6,054,427)	\$ (9,489,841)

13

14 In addition to the deferral of \$9,489,841, \$206,423 was recorded, resulting in a total
 15 rebate deferral of \$9,696,264 for twelve-months ending December 31, 2018.

16 **Q. What was the total balance in the ERM deferral accounts at December 31,**
 17 **2018, including deferrals that arose prior to 2018?**

18 A. In total, the overall cumulative rebate balance in all ERM deferral accounts
 19 was \$34,444,617. This amount is comprised of the \$9,696,264 (\$9,489,841 plus interest of
 20 \$206,423) referenced above, plus deferrals related to previous years for an additional
 21 \$24,748,353 in ERM rebate. Table No. 2 summarizes the activity in all the ERM deferral
 22 accounts and the resulting balance at December 31, 2018.

1 **Table No. 2:**

2 Summary of Account 186280 and 182350		
3 Surcharge/(Rebate)		
4 GL Account	Description	Activity
5 182350	Deferral Beginning Balance as of 01/2018	\$ (22,048,815)
	Deferral Balance Transferred 07/2018 (UE-180261)	\$ (1,684,801)
	Interest on Balance and Activity	\$ (1,014,737)
6	Ending Recoverable Deferral Balance	\$ (24,748,353)
7 186280	Current Year Deferral (2018)	\$ (9,489,841)
	Interest (2018)	\$ (206,423)
8	Ending Deferral Balance for 2018 Activity	\$ (9,696,264)
9	TOTAL	\$ (34,444,617)

10

11 **Q. Under the ERM, what is the provision for a rebate or surcharge of the**
12 **ERM balance to customers?**

13 A. A rate adjustment trigger was originally set at 10% of base revenues per the
14 Settlement Stipulation and approved by the Fifth Supplemental Order in Docket UE-011595.
15 The Multiparty Settlement Stipulation in Docket No. UE-120436 modified the rate adjustment
16 trigger from 10 percent of base revenues to \$30 million. However, rebates of ERM balances
17 (as approved by the Commission) have occurred separate from this provision.¹

18 **Q. Has the Company reached the \$30 million trigger which would require an**
19 **adjustment to customer rates?**

¹As a part of the Settlement Stipulation approved by the Commission in Docket Nos. UE-140188 and UG-140189, Avista was authorized to rebate to customers approximately \$8.2 million during 2015. Approximately \$8.0 million was passed back to customers during 2015. That rebate was set to expire on December 31, 2015, however, in Docket No. UE-152406, the Commission extended the rebate for an additional 11 days (January 1-January 11, 2016) to coincide with the effective date of the Company's 2015 general rate case for approximately \$640,000.

1 A. Yes. As noted above, the overall rebate balance is approximately \$34.4
2 million. Through this filing, the Company is proposing an amortization rate to return this
3 balance to our customers effective July 1, 2019.

4 **Q. How does the Company propose to spread the \$34.4 million rebate balance**
5 **amongst the rate schedules?**

6 A. The Company proposes to spread the \$34.4 million rebate balance by the
7 Generation Level Consumption (E02 Allocator), which is consistent with the allocation
8 approved by the Commission for the Renewable Energy Credits (REC) rebate approved in
9 Docket UE-140188, Order 05.² We propose this credit to be amortized over a period of 36
10 months beginning July 1, 2019. Interest will be calculated consistent with the calculation
11 described on page 3.

12 **Q. What is the annual impact by rate schedule of the proposed spread?**

13 A. Please see Table No. 3 below for the annual impact by rate schedule.

14 **Table No. 3**

Schedule No.	Rate Schedule	Decrease % Billed Revenue (1-Year)	Decrease \$ Billed Revenue (1-Year)
1/2	Residential	-2.5%	\$ (5,470,437)
11/12	General Service Schedule	-1.9%	\$ (1,443,514)
21/22	Large General Service Schedule	-2.5%	\$ (3,258,730)
25	Ext. Lg General Service Schedule	-3.8%	\$ (2,501,907)
31/32	Pumping Service Schedule	-2.8%	\$ (309,193)
41-48	Street and Area Lights Schedule	-0.7%	\$ (53,552)
	Overall	-2.5%	\$ (13,037,333)

² Docket UE-140188 Settlement Stipulation – 3, footnote 3.

1 **Q. What is the impact of the rebate to an average Residential Customer?**

2 A. The average residential customer using 918 kWhs per month will see a
3 decrease of \$2.08 per month, or approximately 2.6%. The present bill for 918 kWhs is \$81.21
4 while the proposed bill is \$79.13. The actual bill change will vary based on customer usage.

5 **Q. Why is the Company proposing to return the \$34.4 million rebate balance**
6 **to customers over 36 months, rather than a more traditional 12 month amortization**
7 **timeframe?**

8 A. The Company is proposing to return this balance over 36 months, rather than
9 over a shorter timeframe, for a number of reasons. Perhaps the most important reason is
10 related to rate volatility. The overall percentage decrease, had the Company proposed to
11 return this balance to customers over a 12 month period, is approximately 7.7 percent. While
12 there is merit to giving customers a substantial benefit now, we need to remember that
13 customer's rates would likewise increase by 7.7 percent once the amortization of the rebate is
14 concluded in mid-2020. That, in our view, is too volatile when we can otherwise mitigate that
15 volatility in a deliberate manner. The second reason why the Company is proposing to rebate
16 over a 36 month period is to recognize that this balance has built up over a number of years;
17 it is not solely related to just 2018. We think there is merit to providing the benefit back over
18 a period of time, just as it was built up over a period of time. Finally, we believe that spreading
19 this rebate back over time helps to act as a quasi-rate mitigation plan given the Company's
20 present plan to file a multi-year general rate case on or about May 1, 2019.

21 **Q. Has the Company thought about simply holding back the \$34.4 million,**
22 **and keeping that in reserve so that the Commission might have a rate mitigation tool it**
23 **could employ in the Company's forthcoming general rate case?**

1 A. Yes, the Company did consider this option, and had informal discussions with
2 the Commission and Commission Staff related to that issue. However, we are required, by
3 Commission order, to file at this time to return this deferral balance as it exceeds \$30
4 million. As such, we have provided a rate amortization proposal in this case, but it is our
5 strong belief that the Commission should actually delay implementation of this rebate until
6 the effective date of the Company's general rate case, currently estimated to be April 1, 2020.

7 **Q. The Company has filed tariffs in this docket, yet is will be asking the**
8 **Commission to consolidate the filing with its upcoming general rate case filing, for**
9 **reasons discussed above. Please explain.**

10 A. In the forthcoming general rate case, Avista will make a proposal to consolidate
11 this filing with that case. In that motion for consolidation, all parties to that proceeding, and
12 ultimately the Commission, can determine whether it is best to return the deferral balance
13 beginning on July 1, over 36 months, or whether the balance should be held in the deferral
14 account for later rate mitigation. Should the Commission ultimately believe that it is best to
15 return the deferral balance at this time (i.e., July 1), the Company strongly urges the
16 Commission, in any event, to spread it over 36 months both for reasons of rate volatility as
17 well as for quasi-rate mitigation purposes, as discussed above.

18
19 **III. COLSTRIP UNITS #3 & #4 AND COYOTE SPRINGS II**

20 **Q. The requirements of Order 03 in Docket No. UE-060181 requires the**
21 **Company to track availability factors for Colstrip and Coyote Springs, and should these**
22 **factors drop below 70%, the Company is to make adjustments to account for the**

1 **differences between actual and authorized fixed costs. Did the availability factors drop**
2 **below 70% in 2018?**

3 A. No. As noted in Mr. Johnson's testimony, the availability factor for Coyote
4 Springs II was 82% for 2018, and Colstrip Units 3 & 4 was also 82%. As such, the Company
5 was above the threshold, and therefore, no adjustment is necessary to account for differences
6 between actual and authorized in fixed costs.

7 **Q. Although these plants were within the required threshold, were there**
8 **some unusual outages at Colstrip and Coyote Springs?**

9 A. Yes. Colstrip and Coyote Springs both incurred some outages during the 2018
10 ERM review period. The financial impact of these outages is discussed by Mr. Johnson and
11 a full description of the events is discussed by Company witness Mr. Dempsey.

12

13

IV. ERM MONTHLY AND ANNUAL REPORTS

14 **Q. Would you please describe the monthly reports that the Company submits**
15 **to the Commission?**

16 A. Yes. The Company submits monthly reports to the Commission, Public
17 Counsel, and the Alliance of Western Energy Consumers that include the monthly power cost
18 deferral journal entries together with backup workpapers and other supporting documentation.
19 The cover letter for each monthly report contains a brief explanation of the factors causing the
20 variance between actual and authorized power costs. The beginning of the month account
21 balances, the recorded activity within the accounts, and the ending month account balances
22 are shown. The January and July reports contain the supporting workpapers for the semi-

1 annual updates of the weighted cost of debt used in the interest calculations. The monthly
2 reports also include any new power supply contracts of one-year or longer, entered into during
3 the month. The December 2018 report is attached for informational purposes as Exh. PDE-2.

4 **Q. What are the requirements associated with the annual filing to review**
5 **deferrals?**

6 A. The Company is required to make an annual filing, on or before April 1 of each
7 year, regarding the power costs deferred in the prior calendar year under the ERM. The filing
8 consists of testimony, exhibits, and supporting documentation.

9 **Q. What is the review period for the annual ERM filing?**

10 A. The Commission Staff and other interested parties have the opportunity to
11 review the deferral information during a 90-day review period ending June 30th each year.
12 The 90-day review period may be extended by agreement of the parties participating in the
13 review, or by Commission order.

1 **Q. When was the last annual ERM filing addressed by the Commission?**

2 A. The annual ERM filing covering the 2018 calendar year was filed March 28,
3 2018 in Docket No. UE-180261. Order No. 01 was issued in that Docket on June 28, 2018,
4 and the Commission found that the power cost deferrals for 2017 were properly calculated
5 and recorded.

6 **Q. Have the 2018 ERM calculations and accounting entries been made in a**
7 **manner consistent with the ERM methodology approved by the Commission?**

8 A. Yes.

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

10 A. Yes, it does.