Exh. JDM-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-20_____

DOCKET NO. UG-20_____

DIRECT TESTIMONY OF

JOSEPH D. MILLER

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Joseph D. Miller and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs Department as Senior Manager of Rates and Tariffs.

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

A. Yes. I am a 1999 graduate of Portland State University with a Bachelor's degree in Business Administration, majoring in Accounting. In 2005, I graduated from Gonzaga University with a Master's degree in Business Administration. I joined the Company in March 2008, after spending eight years in both the public and private accounting sector. I started with Avista as a Natural Gas Accounting Analyst in the Company's Resource Accounting Department. In January 2009, I joined the State and Federal Regulation Department as a Regulatory Analyst. My primary responsibilities included coordinating discovery for the Company's general rate case filings, natural gas cost of service, rate spread and rate design modeling, as well as miscellaneous regulatory issues. In my current role as Senior Manager of Rates and Tariffs, I am responsible for the Company's electric and natural gas rate design, customer usage and revenue analysis, and tariff administration, among other things.

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

A. My testimony will cover the spread of the proposed annual electric <u>base</u> revenue increase of $44,185,000, or 8.3%, among the Company's electric general service schedules. On a total <u>billed</u> revenue basis, after incorporating the proposed Tax Customer Credit Schedule 76 offset, the Company is proposing no change to customer billed rates.

With regard to natural gas service, I will describe the spread of the proposed annual base revenue increase of $12,790,000, or 12.2%, among the Company's natural gas service schedules. Similar to electric, on a total billed revenue basis, after incorporating the proposed Tax Customer Credit Schedule 176 offset, there will be no change to customer billed rates.

My testimony will also describe the changes to the rates within the Company's electric and natural gas service schedules, and the proposed rate spread, rate design, and implementation of the new Tax Customer Credit Rate Schedules 76 and 176. Further, my testimony will discuss the continuation of a LIRAP funding plan for an additional three-year period, and a proposed modification to the annual effective date of the Renewable Energy Credit Revenue Tariff Schedule 98 from July 1 to August 1. Lastly, my testimony will provide an update on the special contract provisions approved as part of the Settlement Stipulation in the Company's prior general rate case proceeding.

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

A. Yes. I am sponsoring Exh. JDM-2, Exh. JDM-3, and Exh. JDM-4 related to the proposed electric increases, and Exh. JDM-5, Exh. JDM-6, and Exh. JDM-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:

II. PROPOSED ELECTRIC REVENUE CHANGES

Summary of Electric Rate Schedules and Tariffs

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

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

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

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

Q. Please describe what is contained in Exh. JDM-4.

A. Exh. JDM-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 return and parity ratios 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. 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” rate discount 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 2019) under each of the service schedules:

Table No. 1 – Electric Customers by Service Schedule

Rate Schedule	No. of Customers
Residential Schedules 1/2	219,805
General Service Schedules 11/12	32,733
Large General Service Schedules 21/22	1,926
Extra Large General Service Schedule 25	23
Pumping Service Schedules 31/32	2,444

Proposed Electric Rate Spread

Q. 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 $44,185,000 or 8.3% over present base tariff rates in effect. The proposed general increase over present billing rates, after including the proposed Tax Customer Credit offset (Schedule 76) discussed later in my testimony and including all other rate adjustments (such as DSM and Residential Exchange), is 0.0%. The proposed percentage increase by rate schedule is as follows:

Table No. 2 – Proposed % Electric Increase by Schedule

Rate Schedule	Increase in Base Rates	Increase in Billing Rates before Offset	Increase in Billing Rates with Offset
Residential Schedules 1/2	8.3%	8.5%	0.0%
General Service Schedules 11/12	8.3%	8.1%	0.0%
Large General Service Schedules 21/22	8.3%	8.1%	0.0%
Extra Large General Service Schedule 25	8.3%	8.6%	0.0%
Pumping Service Schedules 31/32	8.3%	8.1%	0.0%
Street & Area Lights Schedules 41-48	8.3%	8.1%	0.0%
Overall	**8.3%**	**8.3%**	**0.0%**

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

Q. What rationale 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) could be used as a guide to spread the general increase. However, the Company's objective for rate spread was to offset the rate impact from the general rate increase with the Tax Customer Credit discussed later in my testimony so that all customers will not experience a billed rate increase. Therefore, given the relative size of the proposed base revenue increase, Avista is proposing to spread the revenue increase on a uniform percent of revenue basis. This proposed rate spread makes modest movement for all rate schedules toward rate parity on a return ratio basis. Also, a uniform percent of revenue basis mirrors the rate spread proposal for the Tax Customer Credit offset discussed later in my testimony, resulting in no change to customers billed rates.

Table No. 3 below shows the parity ratio (schedule revenue-to-cost ratio divided by the system's revenue-to-cost ratio) and return ratio (schedule rate of return divided by overall rate of return) before and after application of the base rate increase:

Table No. 3 - Present & Proposed Ratios (Electric)

	Present		**Proposed**	
Rate Schedule	Parity Ratio	Return Ratio	Parity Ratio	Return Ratio
Residential Schedules 1/2	0.82	0.30	0.82	0.44
General Service Schedules 11/12	1.24	1.89	1.24	1.70
Large General Service Schedules 21/22	1.25	1.94	1.25	1.75
Extra Large General Service Schedule 25	1.15	1.61	1.15	1.54
Pumping Service Schedules 31/32	1.03	1.12	1.03	1.08
Street & Area Lights Schedules	1.12	1.39	1.12	1.21
Overall	**1.00**	**1.00**	**1.00**	**1.00**

Q. If the Commission were to order a revenue requirement lower than the Company's request, how does the Company propose to spread the revenue increase?

A. If the Commission were to order a lower revenue requirement, the Company proposes to allocate the same increase as the Company's initial filing to Residential Service Schedules 1/2. The Company also proposes that Extra Large General Service Schedule 25, Pumping Service Schedules 31/32 and the Street and Area Light Schedules continue to receive an equal percentage of revenue increase. Any remaining revenue should then be applied equally to Schedules 11/12 and Schedule 21/22 as those schedules are providing significantly more than their relative cost of service as discussed by Ms. Knox.

Proposed Rate Design

Q. Where in your exhibits do you show a comparison of the present and proposed rates within each of the Company's electric service schedules?

A. Page 3 of Exh. JDM-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 proposed general rate increase to the rate components within each of the schedules. Column (f) shows the proposed Tax Customer Credit. Finally, column (g) shows the proposed billing rates and column (h) 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 $9.00 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 8.103 cents per kWh, 9.427 cents per kWh for the next 700 kWhs, and 11.053 cents for all kWhs over 1,500.

Q. How does the Company propose to spread the proposed revenue increase of $19,321,000 to Schedules 1/2?

A. The Company is proposing to apply an equal percentage increase to the three energy blocks, and leave the Basic Charge unchanged at $9.00 per month.

Q. Why is the Company proposing to keep the monthly customer charge at $9.00 per month?

A. The proposed Tax Customer Credit is proposed to be returned on a per kWh basis. In order to ensure that customers experience no bill change the Company is proposing to adjust both the general rate increase and Tax Customer Credit on an equal and offsetting energy basis only. Also, Avista's Decoupling Mechanisms provide the Company with a significant amount of fixed cost recovery thus lessening the Company's exposure to fixed cost revenue volatility that would otherwise occur absent Decoupling. Taking into consideration both the Tax Customer Credit rate design and the fixed cost recovery provided by the Decoupling Mechanism, the Company is not proposing to increase the basic charge in this proceeding.

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

A. After incorporating the base rate increase with the proposed tax benefit offset, the proposed monthly bill change for a residential customer using an average of 914 kWhs per month is $0.00 per month, or a 0.0% change in their electric bill. The present bill for 914 kWhs is $82.33, and that would be unchanged.

Q. Turning to General Service Schedules 11/12, would you please describe the present rate structure and rates under these schedules?

A. Yes. The present rate structure under these schedules includes a monthly customer charge of $20.00, an energy rate of 11.686 cents per kWh for all usage up to 3,650 kWhs per month, and an energy rate of 8.588 cents per kWh for usage over 3,650 kWhs per month. There is also a demand charge of $7.00 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 $6,463,000 to the rates under Schedules 11/12?

A. For similar reasons discussed previously regarding Schedules 1/2, the Company is proposing that the customer charge of $20.00 and the demand charge (over 20 kW) of $7.00 per month remain unchanged. The 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 1.129 cents per kWh, and 0.830 cents per kWh for the second block rate.

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 $11,079,000 to the rates within the schedules?

A. Yes. Large General Service Schedules 21/22 consists of a minimum monthly charge of $550.00 for the first 50 kW or less, a demand charge of $7.00 per kW for monthly demand in excess of 50 kW, and two energy block rates: 7.535 cents per kWh for the first

250,000 kWhs per month, and 6.742 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) of $550.00 per month and the demand charge for kW over 50 per month of $7.00, remain unchanged for the reasons provided previously in my testimony. The 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 0.818 cents per kWh, and an increase of 0.732 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 $5,755,000 to the rates within the schedule?

A. Yes. Extra Large General Service Schedule 25 consists of a minimum monthly charge of $30,650 for the first 3,000 kVa or less, a demand charge of $8.30 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 of $30,650 per month and the demand charge for kVa over 3,000 per month of $8.30 remain unchanged. The 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 0.612 cents per kWh, 0.550 cents per kWh for the next 5.5 million, and 0.471 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 $20.00 per month, and three energy block rates: 10.292 cents per kWh for the first 85 kWh per kW of demand, 10.292 cents per kWh for the next 80 kWh per kW of demand (but not more than 3,000 kWhs), and 7.350 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 $1,017,000?

A. For similar reasons discussed previously regarding Schedules 1/2, the Company is not proposing an increase to the customer charge of $20.00 per month. The revenue increase is proposed to be 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 0.899 cents per kWh, and the increase in the third block rate is 0.642 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.

Q. How is the Company proposing to spread the proposed revenue increase of $550,000 applicable to Street and Area Light schedules to the rates contained in those schedules (Schedules 41-48)?

A. The Company proposes to increase present street and area light (base) rates on a uniform percentage basis. The (base tariff) rates are shown in the tariffs for those schedules, contained in Exh. JDM-3.

Q. Is the Company proposing any other administrative changes to its Street

and Area Light schedules?

A. Yes. The Company has made some minor housekeeping type changes to clean up the Street and Area Light tariffs which mostly remove lighting options that are no longer being used by our customers.

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 base 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. JDM-5?

A. Yes. Exh. JDM-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. JDM-6?

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

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

A. Exh. JDM-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 return and parity ratios 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. 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 and 111 offer firm sales service. Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month and Schedule 111 is generally for customers who consistently use over 200 therms/month. 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 and 132?

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

Schedules 112 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 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. Would you please explain which customers are eligible for service under Schedules 116?

A. Yes. Similar to Transportation Schedule 146, this Schedule makes a transportation option available to smaller usage customers who choose to purchase their own supply of natural gas. This schedule charges the same base distribution rates as the respective Schedule 111. There are currently no customers who choose to take service on Schedules 116.

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

A. As of December 2019, the Company provided service to the following number of Washington customers under each of its schedules:

Table No. 4 – Natural Gas Customers by Service Schedule

Rate Schedule	No. of Customers
General Service Schedules 101/102	167,092
Large General Service Schedules 111/112/116	3,124
Ex. Lg. General Service Schedules 121/122/126	8
Interruptible Sales Service Schedules 131/132	1
Transportation Service Schedule 146/148	45

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 $12,790,000, or 12.2% in base margin[1] revenue. The proposed general change over present billing rates, after including the proposed Tax Customer Credit (Schedule 176) discussed later in my testimony and including all other rate adjustments (such as DSM and LIRAP), is 0.0%. Provided below is a table showing the effect of the Company's proposed natural gas change by rate schedule:

Table No. 5 - Proposed % Natural Gas Change by Schedule[2]

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates	Change in Billing Rates with Offsets
General Service Schedules 101/102	12.4%	8.3%	0.0%
Large General Service Schedules 111/112/116	12.4%	6.6%	0.0%
Interrupt. Sales Service Schedules 131/132	12.4%	5.9%	0.0%
Transportation Service Schedule 146	12.4%	12.6%	0.0%
Special Contracts Schedule 148	0.0%	0.0%	0.0%
Overall	**12.2%**	**7.9%**	**0.0%**

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

A. Similar to electric, the Company's objective for rate spread is to offset the rate impact from the general rate increase with the Tax Customer Credit so that all customers will not experience a billed rate increase. The Company believes that the results of the cost of service study (sponsored by Company witness Mr. Anderson) could also be used as a guide to spread the general increase. However, given the relative size of the proposed increase, Avista

[1] 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.
[2] 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.

is proposing to spread the revenue increase on a uniform percent of margin revenue basis. This proposed rate spread makes modest movement for most rate schedules toward rate parity on a return ratio basis. Further, a uniform percent of margin revenue basis mirrors the rate spread proposal for the Tax Customer Credit discussed later in my testimony, resulting in no increase to all rate schedules on a billing basis. Table No. 6 below shows the parity ratio (schedule revenue-to-cost ratio divided by the system's revenue-to-cost ratio) and return ratio (schedule rate of return divided by overall rate of return) before and after application of the base rate increase:

Table No. 6 – Present and Proposed Ratios

	Present		**Proposed**	
Rate Schedule	Parity Ratio	Return Ratio	Parity Ratio	Return Ratio
General Service Schedules 101/102	0.91	0.66	0.91	0.75
Large General Service Schedules 111/112	1.70	2.96	1.70	2.47
Interruptible Sales Service Schedules 131/132	1.40	2.14	1.40	1.83
Transportation Service Schedule 146	0.91	0.86	0.91	0.81
Overall	**1.00**	**1.00**	**1.00**	**1.00**

Q. If the Commission were to order a revenue requirement lower than the Company's request, how does the Company propose to spread the revenue increase?

A. If the Commission were to order a lower revenue requirement, the Company proposes to allocate the same increase as the Company's initial filing to General Service Schedules 101/102 and Transportation Service Schedule 146. Any remaining revenue should then be applied equally to Schedules 111/112/116 and 131/132 as those schedules are providing significantly more than their relative cost of service as discussed by Mr. Anderson.

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 111/112/116 have a five-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 the next 800 therms, the next 9,000 therms, the next 15,000 therms, and usage over 25,000 therms/month.

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. JDM-7 shows the present and proposed rates under each of the rate schedules, including all present rate adjustments (adders). Column (h) 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 to the rates within Schedules 101/102?

A. Similar to electric, the Company proposes to <u>not</u> increase the monthly basic/customer charge from $9.50 per month. As shown in column (e), page 3 of Exh. JDM-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 $0.41035 to $0.47689, and the second block (over 70 therms) would increase from $0.53333 per therm to $0.61980 per therm. Also, the Tax Customer Credit is proposed to be returned on a per therm basis. In order to ensure that customers experience no bill change the Company is proposing to adjust both the general rate increase and Tax Customer Credit on an equal and offsetting energy (volumetric) basis only.

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

A. After incorporating the base rate increase with the proposed tax benefit offset, the proposed monthly bill change for a residential customer using an average of 67 therms of natural gas per month would be $0.00 per month, or 0.0%. The present bill for 67 therms per month is $56.53, and that would remain unchanged.

Q. Please explain the proposed changes in the rates for Large General Service Schedules 111/112/116.

A. The present rates for Schedules 101/102 and 111/112/116 provide a clear distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedules 101/102, customers who consistently use over 200 therms per month should be placed on Schedules 111/112/116. 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 111/112/116 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 $123.46 per month for Schedules 111/112/116 (for 200 therms or less) maintains the present relationship between the Schedules 101/102 and 111/112/116, and will minimize customer shifting.[3] The remaining proposed revenue increase for Schedules 111/112/116 was then spread on a uniform percentage increase of 11.8% to the remaining rate blocks.

Q. How is the Company proposing to spread the proposed increase of $27,000 to the rates under Interruptible Schedules 131/132?

A. The Company proposes to increase the four block rates under the schedule by a uniform percentage increase of approximately 12.4%.

Q. Please explain the proposed changes in the rates for Transportation

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[3] The calculation of the minimum charge for Schedules 111/112/116 is equal to the total bill for 200 therms priced at Schedule 101/102 base rates (excluding Schedule 150 gas costs).

Schedule 146.

A. The Company is not proposing to adjust the basic charge of $625 per month. For the revenue requirement, the Company is proposing to spread the increase on a uniform percentage basis of approximately 13.4% to each of the present five block rates under the schedule.

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 base rates going into effect as a result of this general rate case.

IV. TAX CUSTOMER CREDIT

Q. Please summarize the Tax Customer Credit you have previously referred to?

A. As discussed by Company witnesses Mr. Krasselt and Ms. Andrews, concurrent with the filing of this GRC, the Company has filed its Tax Accounting Petition. Mr. Krasselt in particular describes in more detail the Company's Tax Accounting Petition and explains the Company's request seeks authorization to change its accounting for federal income tax expense from the normalization method to a flow-through method for certain "non-protected" plant basis adjustments, including Industry Director Directive No. 5 (IDD #5), and meters. Approval of the Company's Tax Accounting Petition would provide immediate benefits to customers, which the Company also through the Tax Accounting Petition, is requesting approval to defer. However, approval in all three of Avista's jurisdictions (Washington, Idaho and Oregon) to make this change is required,[4] and any changes need to be adjusted concurrent with a GRC, as it has significant impact on rate base. As discussed further below, after receiving approval in all three jurisdictions of the accounting change and the deferral of the benefits, the Company is proposing to begin amortization of the deferred benefits, concurrent with the effective date of this GRC.

As discussed by Ms. Andrews and Mr. Thies, if approved by the Washington, Idaho and Oregon Commissions, the Company estimates a total tax benefit of approximately $150.8 million on a system basis to be used to offset customer rates. That equates to $58.1 million for Washington electric operations and $28.2 million for Washington natural gas operations.

Q. How does the Company propose to return the Tax Customer Credit to customers?

A. Concurrent with the effective date of this GRC, the Company proposes to return to customers the Tax Customer Credit (if approved), beginning October 1, 2021 through separate Tariff Schedules 76 (electric) and 176 (natural gas). The annualized amount would be $44.2 million for electric and $12.8 million for natural gas - offsetting the Company's requested electric and natural gas base rate relief - **<u>resulting in no billed impact to customers</u>**. Both of these new tariff schedules have been included in Exh. JDM-3 for electric and Exh. JDM-6 for natural gas.

Q. How does the Company propose to spread the Tax Customer Credit?

A. As discussed earlier, the Company is proposing to spread the Tax Customer Credit on a uniform percent of revenue basis for both electric and natural gas. The Company

[4] The Company has requested in its Tax Accounting Petition approval of the change in accounting, and the deferral of benefits, on or before May 1, 2021, to ensure approval from all three jurisdictions is received in time to apply this change and return the customer benefits in each state effective with each general rate case.

chose this method because it generally matches how costs are being recovered from customers. The proposed rate spread of the Tax Customer Credit is consistent with the Company's general base rate increase rate spread proposal, therefore resulting in no billed rate impact to customers.

Q. For purposes of rate design, how does the Company propose to spread the Tax Customer Credit within each of the service schedules?

A. Consistent with the rate design discussed previously regarding the general rate increase, the Tax Customer Credit is proposed to be applied on a uniform percentage to the volumetric energy block rates by rate schedule. By mirroring the rate design from the base rate increase with an equal and offsetting rate credit from the new Tax Customer Credit rate schedules, customers irrespective of their usage will experience no bill impact.

Q. What is the proposed effective date of the Tax Customer Credit?

A. The Company proposes that the effective date of the Tax Customer Credit match the effective date of base rates, estimated to be October 1, 2021.

Q. What is the proposed term of the Tax Customer Credit?

A. Under the levels proposed by the Company, the electric Schedule 76 would remain in effect for approximately 1.25 years and the natural gas Schedule 176 would remain in effect for approximately 2 years. Therefore, the amortization and the Tax Customer Credit Tariff Schedules 76 and 176, if approved as filed, would be in place from October 1, 2021 through December 31, 2022 for electric and September 30, 2023 for natural gas.

The Company commits to monitoring the balances throughout the rebate period and will adjust the term should the balance deviate from the Company's expectations due to load variability. Any over- or under-refunded balance at the end of the rebate period would be addressed in a future rate proceeding.

V. LOW-INCOME RATE ASSISTANCE PROGRAM

Q. What is the Company's Low-Income Rate Assistance Program, or LIRAP?

A. The Company's LIRAP program, approved by the Commission in 2001, collects funding through electric and natural gas tariff surcharges on Schedules 92 and 192. These funds are distributed by Community Action Agencies (Agencies) in a manner similar to the Federal and State-sponsored Low-Income Home Energy Assistance Program (LIHEAP).[5] LIRAP, like LIHEAP assistance, can help a household pay ongoing heating costs or provide emergency assistance for those in jeopardy of disconnect, as well as a rate discount for seniors and those living with disabilities (presently administered in Schedules 2 and 102, discussed earlier).

During the 2019/2020 heating season (October 2019 – September 2020), nearly 34,000 Washington customers received approximately $11.1 million in various forms of energy assistance (Federal LIHEAP program, LIRAP, Project Share, and local community funds). The following funds were distributed by Agencies and other social or community service organizations during the 2019/2020 heating season:

Illustration No. 1 – Distribution of Energy Assistance Funding 2019-2020

Washington Energy Assistance	10/1/2019 to 9/30/2020	
	# of Grants	Amount
LIHEAP	8,459	$ 3,688,051
Project Share	346	$ 59,472
Misc. Grants	5,387	$ 636,546
LIRAP	19,723	$ 6,694,325
WA Total	33,915	$11,078,393

[5] LIHEAP is a federal program established in 1981 and funded annually by Congress. These federal dollars are released directly to states, territories, tribes and the District of Columbia who use the funds to provide energy assistance to low-income households. LIHEAP offers financial assistance to qualifying low-income households to help them pay their home heating or cooling bills. Under federal law, a household must have income below either 150 percent of the federal poverty level or 60 percent of state median income level, whichever is higher. However, states can set lower income thresholds if they choose to.

Additionally, 665 income-qualified seniors and/or customers receiving disability income were enrolled in the Company's Rate Discount Program; these customers pay a reduced rate on their monthly bill via Avista's electric Schedule 2 or natural gas Schedule 102.

Q. What is the current funding plan for LIRAP?

A. In Order 05 in Dockets UE-150204 and UG-150205, the Commission approved a five-year LIRAP funding plan of annual increases of 7% or twice the percentage increases in Schedule 1 and Schedule 101 base rates, whichever is greater. The five-year funding plan provided annual funding increases through the program year beginning October 1, 2019. In the Company's 2019 general rate case, Dockets UE-190334, UG-190335, and UE-190222, as part of the settlement stipulation approved, LIRAP funding will increase according to the formula used in the prior five-year plan through Avista's next general rate case. Total LIRAP funding for the program year beginning October 1, 2020 is projected to be approximately $7.1 million for electric operations, and approximately $4.1 million for natural gas operations.

Q. What are the Company's long-term goals as it relates to LIRAP?

A. We work closely with our Energy Assistance Advisory Group to provide oversight of LIRAP to ensure we are meeting our program goals of: 1) keeping customers connected to energy service, 2) continually providing assistance to more customers each year, 3) lowering the energy burden of LIRAP recipients, and 4) ensuring appropriate data is collected and available to assess the program's effectiveness**.** The Energy Assistance Advisory Group also continually looks for ways to reduce administrative costs to ensure that as much funding as possible is directed at meeting these goals.

Based on Avista's most recent needs assessment, completed in 2019,[6] approximately

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[6] Avista Low-Income Needs Assessment as completed by Evergreen Economics; Final Report January 3, 2020.

95,000 households in the Company's Washington service territory may qualify for energy assistance, with only roughly 21% of these customers actually receiving energy assistance from LIHEAP, LIRAP Heat, or Senior Outreach grants.[7] The Company recognizes that much work remains to be done to expand the breadth of its reach to its most vulnerable populations, and believes that increased funding and support of LIRAP, as well as continued innovation and refinement of the offerings included as a part of the program, are essential to achieving the program goals.

Q. Will LIRAP funding increase during the 2021 time period?

A. Yes. On October 1, 2021, as part of the current LIRAP funding plan, the Company will make its normal annual filing to increase LIRAP funding by 7% for both natural gas and electric service.

Q. Is the Company proposing to increase LIRAP funding once the current LIRAP funding plan ends?

A. Yes, it is. The Company is proposing to extend its LIRAP funding plan, such that it will increase LIRAP funding in each of the three years (2022, 2023, 2024) by a fixed 7% on November 1st of each year. If the Company's proposal is approved, the minimum expected LIRAP budget for the proceeding three years will approximately be the following (electric and natural gas combined):

- 2022 - $12.9 million
- 2023 - $13.8 million
- 2024 - $14.7 million

[7] Avista's Low-Income Needs Assessment utilized publicly available LIHEAP, LIRAP Heat and Senior Outreach grant data from 2015-2018 to devise the 21% energy assistance penetration rate; Avista's CARES, Project Share and Misc. grants were not included in this portion of the evaluation.

Extending the LIRAP funding by a fixed 7% for three additional years will provide budget certainty to the Advisory Group and Agencies who oversee and administer the LIRAP funded programs.

Q. Would increases in LIRAP funding also coincide with changes in general rate cases under the Company's proposal?

A. No, the increases would occur one-time per year, effective on November 1, 2022, 2023 and 2024. We believe this provides a level of predictable funding for our LIRAP partners and customers (both in terms of funding, and rate changes).

Q. Why is the Company only proposing a three-year funding plan at this time?

A. As Avista strives to provide its customers with energy assistance programs that are effective in reducing energy burden and keeping them connected to energy services, and to comply with ongoing legislative requirements such as those contained in the Clean Energy Transformation Act (CETA), the Company understands that the need for increased LIRAP funding will continue beyond the three years proposed, and remains committed to the objective of serving more eligible customers with these essential programs. An additional fixed three-year funding plan provides a steady, consistent increase in LIRAP funding while still maintaining the flexibility to later assess the need and funding levels of the program and adjust accordingly.

VI. RENEWABLE ENERGY CREDIT MECHANISM

Q. Please provide a brief background on the history of Renewable Energy Credit (REC) Revenue Schedule 98?

A. In Docket Nos. UE-140188 and UG-140189, the Settlement Stipulation approved by the Commission in Order No. 05 required Avista to file an adjustment to the REC Revenue rebate on or before April 1, 2016, and each year thereafter, to reflect both the under or over amortized balance from the current rebate as well as the projected net REC revenues for the following July – June time period.[8] Annual rate adjustments take effect July 1 for a twelve-month period.

Q. Is the Company proposing any changes to the REC Revenue Schedule 98?

A. Yes. In an attempt to minimize the number of annual rate changes customers experience, the Company proposes to move the annual July 1 effective date to August 1. That coincides with other electric rate adjustments, Demand Side Management Schedule 91 and Decoupling Schedule 75.

Q. Why is the Company proposing to move the REC Schedule 98 annual filing to August 1?

A. By moving the REC Schedule 98 effective date to coincide with the other annual filings customers will experience one less rate change on an annual basis. Combining these annual rate changes into one rate change will be less confusing to customers who will only experience one notice of rate change communication from the Company and one month of rate proration on their bill in the summer season. In addition, combining the rate changes into an August 1 effective date will be more administratively efficient for the Company to administer one combined rate change within the Company's billing system.

Q. Is the Company proposing to change the time-period for which net REC Revenue are determined?

[8] See Docket Nos. UE-140188 and UG-140189, Settlement Stipulation Appendix 2, p. 4.

A. No. Under the present tariff the Schedule 98 rate is based on the projected net REC revenues for the July through June time period, as well as a true-up of the amortization of the prior rebate in effect from the prior June through July time period. The Company is not proposing to change either the projection, or prior year true-up time periods of June through July.

VII. SPECIAL CONTRACT UPDATE

Q. What did the Parties agree to, and the Commission approve, in regard to the review of natural gas special contracts in Docket UG-190335?

A. As part of the Settlement approved by the Commission, Avista agreed to review by May 1, 2021 all of its natural gas special contracts to ensure economic feasibility and will renegotiate any contract not in compliance. Per the Settlement Agreement, the review will not reexamine the bypass feasibility of existing special contract customers.

Q. Can you provide a status update as to the review of the natural gas special contracts?

A. Yes. The Company is presently undergoing a review of each of the special contracts to ensure economic feasibility as ordered by the Commission. The Company expects to finish its review of the special contracts by the May 1, 2021 date agreed to by the Parties in the Settlement Stipulation. Should the Company determine that any of the special contracts are no longer economically feasible, the Company will attempt to renegotiate the contract or move the customer to the appropriate rate schedule and supplement the record in this proceeding with updated information.

Q. What did the Parties agree to, and the Commission approve, in regard to a potential special contract with Inland Empire Paper in Docket UE-190334?

A. As part of the Settlement approved by the Commission, Avista and Inland Empire Paper (IEP) agreed to seek to negotiate a special contract with Staff's participation. If an agreement cannot be reached, Avista and IEP will seek resolution through binding arbitration, the results of which will be filed with the Commission. The effective date of an approved special contract will coincide with the effective date of Avista's next GRC. Parties reserve the rights to address issues arising from the special contract, including lost margins, in a future proceeding.

Q. Can you provide a status update as to the status of the IEP special contract negotiation?

A. Yes. Avista, IEP, and Commission Staff have met telephonically multiple times in an attempt to negotiate a special contract as ordered by the Commission. These discussions are on-going, and the Company expects several more meetings in the next couple of months between the Parties in an attempt to agree to the terms of a potential contract. Should the Parties come to terms on a special contract during the course of this proceeding, or a material update to the negotiation process arise, the Company will supplement the record in this proceeding with updated information.

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

A. Yes, it does.