BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-15\_\_\_\_\_

DOCKET NO. UG-15\_\_\_\_\_

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 Manager of Rates and Tariffs.

Q. Would you briefly describe your duties?

A. Yes. My primary areas of responsibility include electric and natural gas rate design, customer usage and revenue analysis, and tariff administration.

Q. Please briefly describe your educational background and professional experience?

A. 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 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 this role included being the discovery coordinator for the Company’s rate cases, the development of line extension policy tariffs, as well as addressing miscellaneous regulatory issues. In November 2009, I was promoted to my current role.

**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 $33,229,000, or 6.6%, among the Company’s electric general service schedules. With regard to natural gas service, I will describe the spread of the proposed annual base revenue increase of $12,021,000, or 7.0%, among the Company’s natural gas service schedules.

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 Schedule 1 and natural gas rate Schedule 101. Finally, I will provide an overview of the items required of the Company in Order No. 05, approving the Settlement Stipulation, in Docket Nos. UE-140188 & UG-140189.

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

A. Yes. I am sponsoring Exhibit Nos.\_\_\_(PDE-2), \_\_\_(PDE-3), and \_\_\_(PDE-4) related to the proposed electric increase, and Exhibit Nos.\_\_\_(PDE-5), \_\_\_(PDE-6), and \_\_\_(PDE-7) related to the proposed natural gas increase. These exhibits were prepared by me or under my supervision. A table of contents for my testimony is as follows:

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II. EXECUTIVE SUMMARY

Proposed Electric Increase

**Q. What is the proposed electric revenue increase in this case and how is the Company proposing to spread the total increase by rate schedule?**

A. The proposed electric rate adjustment is an increase of $33,229,000, or 6.6%, over present tariff revenues. The proposed general increase over present billing revenues, including the effects of other approved rate adjustments (DSM, LIRAP, Residential Exchange and the ERM and REC Revenue Rebates) is 6.7%[[1]](#footnote-1). The Company is proposing that the base rate increase of $33,229,000 be spread utilizing the results of the electric cost of service study, sponsored by Company witness Ms. Knox, as a guide in spreading the overall revenue increase. The proposed percentage increase by rate schedule is as follows:



This information is shown with more detail on page 1 of Exhibit No.\_\_\_(PDE-4).

1. What is the proposed increase for a residential electric customer with average consumption?
2. The proposed increase for a residential customer using an average of 966 kWhs per month is $6.45 per month, or a 7.9% increase in their electric bill. The present bill for 966 kWhs is $81.22 compared to the proposed level of $87.67, including all rate adjustments. The Company is proposing to change the basic charge from $8.50 per month to $14.00 per month.
3. Is the Company proposing any changes to the present rate structures within its electric service schedules?
4. No. The Company is not proposing any changes to the present rate structures within its electric schedules.
5. Where do you show the proposed changes in rates within the electric service schedules?
6. This information is shown in detail on page 3 of Exhibit No.\_\_\_(PDE-4).

Proposed Natural Gas Increase

Q. What is the proposed natural gas revenue increase in this case and how is the Company proposing to spread the total increase by rate schedule?

A. The proposed natural gas revenue increase is $12,021,000, or 7.0%, over present tariff revenues[[2]](#footnote-2). The proposed general increase over present billing rates, including all other rate adjustments (Purchased Gas Cost Adjustment, DSM, etc.) is 6.9%. The Company utilized the results of the natural gas cost of service study, sponsored by Company witness Mr. Miller, as a guide in spreading the overall revenue increase. The Company is proposing the following base and billing revenue changes by rate schedule:



[[3]](#footnote-3)

This information is also shown on page 1 of Exhibit No.\_\_\_(PDE-7).

1. What is the proposed increase for a residential natural gas customer with average usage?

A. The proposed increase for a residential customer using an average of 68 therms of natural gas per month would be $5.41 per month, or 7.9%. A bill for 68 therms per month would increase from the present level of $68.16 to a proposed level of $73.57. The Company is also proposing to change the basic charge from $9.00 per month to $12.00 per month.

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

A. No. The Company is not proposing any changes to the present rate structures within its natural gas schedules.

Q. Where do you show the proposed changes in rates within the natural gas service schedules?

A. This information is shown in detail on page 3 of Exhibit No.\_\_\_(PDE-7).

III. PROPOSED ELECTRIC REVENUE INCREASE

Summary of Electric Rate Schedules and Tariffs

Q. Would you please explain what is contained in Exhibit No.\_\_\_(PDE-2)?

A. Yes. Exhibit No.\_\_\_(PDE-2) contains a copy of the Company’s present electric tariffs/service schedules.

Q. Could you please describe what is contained in **Exhibit No.\_\_\_(PDE-3)**?

A. Yes. Exhibit No.\_\_\_(PDE-3) contains the proposed electric tariff sheets incorporating the proposed changes included in this filing.

Q. Please describe what is contained in **Exhibit No.\_\_\_(PDE-4)**.

A. Exhibit No.\_\_\_(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. 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 Schedule 1, 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. 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 3 below shows the type and number of customers served in Washington (as of September 2014) under each of the service schedules:



Proposed Electric Rate Spread

1. How does the Company propose to spread the total general revenue increase request of $33,229,000 among its various rate schedules?
2. The Company is proposing that the overall requested revenue increase be spread in the following manner:



This information is shown with more detail on Page 1 of Exhibit No.\_\_\_(PDE-4).

1. What rationale did the Company use in developing the proposed general increase by rate schedule?

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 cost of service study shows that Residential Schedule 1, Extra Large General Service Schedule 25, Pumping Service Schedules 30-32, and Street and Area Light Schedules 41-48 have a present relative rate of return below the system average rate of return, while General Service Schedules 11/12 and Large General Service Schedules 21/22 have a present relative rate of return greater than the system average rate of return. Table 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:



The Company analyzed the results of the cost of service study, and considered a number of items in its determination of the final rate spread. First, the Company believes that Schedules 11/12 should receive an increase less than the overall increase because their present relative rate of return is almost twice the system average. Next, given the proximity of Schedules 30-32 to the system average, the Company believes that a movement to unity (1.00) is appropriate, and the resulting percentage increases for those schedules are reasonably close (7.5%) to the overall system request (6.6%).

Street and Area Lights were not moved to the system average as Company analysis shows that, if they were moved to unity, the overall percentage increase for those schedules would be greater than 18%. In an effort to balance the overall rate increase for those schedules, while still making reasonable movement towards unity, Avista applied a 9.3% base rate increase for those schedules.

For Schedules 21/22, the Company gave those schedules the same percentage increase as the overall request, which provides for an approximate 15% movement towards unity (1.00). For Schedule 25, the Company gave that schedule the same percentage increase as the overall request, which provides for an approximately 43% movement towards unity. Finally, the Company applied a 20% movement towards unity for residential Schedule 1 in an effort to make meaningful movement for that schedule towards unity, while keeping the overall increase for the schedule (7.5%) reasonably close to the overall request (6.6%).

Proposed Rate Design

1. Where in your Exhibit do you show a comparison of the present and proposed rates within each of the Company’s electric service schedules?
2. Page 3 of Exhibit No.\_\_\_(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 proposed general rate increase to the rate components within each of the schedules. Finally, column (f) shows the proposed billing rates and column (g) 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 Schedule 1, could you please describe the present rate structure under this schedule?

A. Yes. Residential Schedule 1 has 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 7.525 cents per kWh, 8.755 cents per kWh for the next 700 kWhs, and 10.264 cents for all kWhs over 1,500.

Q. How does the Company propose to spread the proposed revenue increase of $16,036,000 to Schedule 1?

A. The Company is proposing to increase the basic charge from $8.50 to $14.00 per month, and is proposing to increase the energy rate for all three blocks by approximately 1.3 percent.

**Q. Why is the Company proposing to increase the monthly customer charge from $8.50 to $14.00 per month?**

A. A substantial portion of the Company's costs are fixed and do not vary with the amount of energy used by customers. 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. Later in Section V. of my testimony I will provide greater detail as to why the Company believes the monthly customer charge should increase to $14.00 per month.

* 1. Turning to General Service Schedule 11, would you please describe the present rate structure and rates under that schedule?

1. Yes. The present rate structure under the schedule includes a monthly customer charge of $18.00, an energy rate of 11.507 cents per kWh for all usage up to 3,650 kWhs per month, and an energy rate of 8.455 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 $2,687,000 to the rates under Schedule 11?

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 schedule is proposed to be recovered through a uniform percentage increase of approximately 2.8% applied to the two (block) energy rates. The increase in the first block rate is 0.324 cents per kWh, and 0.239 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 or 8.3% increase to the demand charge for Schedule 11?**

A. The system allocated demand cost from the cost of service study is $19.68 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, clearly the levels of 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 Schedule 21, would you please describe the present rate structure under that schedule and how the Company is proposing to apply the increase of $8,652,000 to the rates within the schedule?

A. Yes. Large General Service Schedule 21 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: 7.240 cents per kWh for the first 250,000 kWhs per month, and 6.475 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, and the demand charge for kW over 50 per month 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 schedule is proposed to be recovered through a uniform percentage increase of approximately 7.2% applied to the two energy block rates. The proposed increase for the first 250,000 kWhs used per month under the schedule is 0.519 cents per kWh, and an increase of 0.463 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 $4,335,000 to the rates within the schedule?

A. Yes. Extra Large General Service Schedule 25 consists of a minimum monthly charge of $21,000.00 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: 5.616 cents per kWh for the first 500,000 kWhs per month, 5.053 cents per kWh for the next 5.5 million kWhs and 4.320 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 remain at $21,000, as this monthly charge increased from $15,000 to $21,000 in the last general rate case. 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 of approximately 6.9% applied to the three energy block rates. The proposed energy rate increase for the first 500,000 kWhs used per month is 0.388 cents per kWh, 0.349 cents per kWh for the next 5.5 million, and 0.299 cents per kWh for all usage over 6 million kWhs per month.

Q. What changes are you proposing to the rates under Pumping Schedule 31 to recover the proposed general revenue increase of $866,000?

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 of 7.4% to the two energy rate blocks under the schedule. The proposed increase in the first block rate is 0.717 cents per kWh and the increase in the second block rate is 0.512 cents per kWh.
2. How is the Company proposing to spread the proposed revenue increase of $653,000 applicable to Street and Area Light schedules to the rates contained in those schedules (Schedules 41-48)?
3. 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 9.3%. The (base tariff) rates are shown in the tariffs for those schedules, contained in Exhibit No.\_\_\_(PDE-3).

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

A. Yes, it is. For Schedule 47 (Area Lighting), the Company has added additional lighting codes for 100 watt and 200 watt LED equivalent area lights. These rates will be applicable for those lights converted to LED technology. The Company added similar lights for Schedule 42 (Company Owned Street Light Service) in its last general rate case.

Second, for Schedule 42, the Company is proposing a methodology for calculating new Street Light rates for customer-requested lighting that occurs in-between general rate cases. On occasion customers may request that the Company install a particular type of street light; however, that street light may be different than the lights included in the tariff. The Company is proposing to use the methodology summarized below, and described more fully in Schedule 42, to update new lighting standards outside of the context of a general rate case[[5]](#footnote-5).

Q. Please describe the basic methodology for calculating the capital component of a new street or area light rate?

A. The basic methodology for calculating any new rate for Schedule 42 is to determine the capital, maintenance, and energy components to develop a monthly rate. For the capital component, an engineering estimate of the installed cost for a new Street Light component would be multiplied by a Capital Recovery Factor[[6]](#footnote-6) to determine the annual revenue requirement.

Illustration No. 1 below shows an example of the annual and monthly rate calculation methodology:

**Illustration No. 1 – Calculation of Monthly Capital Recovery**

The maintenance component for an existing light offering will be the same rate that is embedded in present rates today[[7]](#footnote-7). For the energy component, the energy rate for a similar wattage light under Schedule 46 would be used. The energy component of any new light offering will be derived in the same manner as described in the changes to Schedule 46 below. Any new rates developed would be included in the tariffs filed in the Company’s next rate case filing.

**Q. What other changes are being proposed to the Street and Area Light Schedules?**

A. For Schedule 46 (Customer Owned Street Light Energy Service), the Company is proposing to modify its tariff to reflect a new prescriptive energy rate calculation for lights where an existing code does not exist. The rate would be determined using the following formula:

**Custom Rate = Wattage of Customers Street Light \* 365 Hours \* Energy Rate**

The wattage of the street light would be provided by the Customer and verified by the Company. As for the hours of operation, the Company is basing that on dusk-to-dawn service (4,380 annual hours, or 365 hours per month). Finally, the energy rate was determined by dividing the final revenue requirement for Schedule 46 by total kWh usage for Schedule 46 included in the final approved billing determinants.

IV. PROPOSED NATURAL GAS REVENUE INCREASE

Summary of Natural Gas Rate Schedules and Tariffs

Q. Would you please explain what is contained in Exhibit No.\_\_\_(PDE-5)?

A. Yes. Exhibit No.\_\_\_(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 Exhibit No.\_\_\_(PDE-6)?

A. Exhibit No.\_\_\_(PDE-6) contains the proposed natural gas tariff sheets incorporating the proposed changes included in this filing.

Q. Please explain what is contained in Exhibit No.\_\_\_(PDE-7)?

A. Exhibit No.\_\_\_(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. 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-owned 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 112, 122 and 132?

A. Yes. 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 September 2014, the Company provided service to the following number of Washington customers under each of its schedules:



Proposed Rate Spread

Q. How does the Company propose to spread the overall revenue increase of $12,021,000, or 7.0%, among its natural gas general service schedules?

A. The Company is proposing the following revenue/rate changes by rate schedule:



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

A. No. The proposed 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 pipeline transportation, whereas the other sales schedules include these costs. Transportation customers acquire their own natural gas and pipeline transportation. Including an estimate of 45.0 cents per therm for the cost of natural gas and pipeline transportation, the proposed increase to Schedule 146 rates represents an average increase of 3.7% in those customers’ total natural gas bill.

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

A. The Company used the results of the cost of service study sponsored by Mr. Miller as a guide to spread the general increase. The spread of the proposed increase generally results in the rates of return for the various service schedules moving approximately 40% closer to the overall rate of return (unity). The relative rates of return before and after application of the proposed increases by schedule are as follows:



Proposed Rate Design

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

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

Large General Service Schedules 111/112 has a three-tier declining-block rate structure and is generally for customers who consistently use over 200 therms/month. The schedule consists 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 has 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 schedule and a minimum load factor requirement of approximately 58%.

Interruptible Sales Service Schedules 131/132 has 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 schedule also has 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 Exhibit No.\_\_\_(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. Is the Company proposing a $3.00 per month increase to the present basic/customer charge of $9.00/month for General Service Schedule 101?

A. Yes. The Company is proposing to increase the basic/customer charge from $9.00 to $12.00 per month, as the Company believes that the customer/basic charge should recover a reasonable portion of the fixed costs of providing service. Later in Section V. of my testimony I will provide greater detail as to why the Company believes the monthly customer charge should increase by $3.00 per month.

Q. What is the proposed change to the volumetric rates under Schedule 101 in order to achieve the total proposed revenue increase for the schedule?

A. The Company, as shown in column (g), page 3 of Exhibit No.\_\_\_(PDE-7), 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 $0.84808 to $0.88351 (including Schedule 150 natural gas costs), and the second block (over 70 therms) would increase from $0.95421 per therm to $0.99408 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 68 therms of natural gas per month would be $5.41 per month, or 7.9%. A bill for 68 therms per month would increase from the present level of $68.16 to a proposed level of $73.57.

**Q. Please explain the proposed changes in the rates for Large and Extra Large General Service Schedules 111/112 and 121/122.**

A. The present rates for Schedules 101, 111/112, and 121/122 provide a clear distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedule 101, 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 $97.70 per month for Schedules 111/112 (for 200 therms or less) maintains the present relationship between the Schedule 101 and 111/112, and will minimize customer shifting[[8]](#footnote-8). The remaining proposed revenue increase for Schedules 111/112 was then spread on a uniform percentage increase of 3.4% to the remaining two rate blocks under the schedule, resulting in an overall revenue increase of 3.8% for the schedule.

For Schedules 121/122, in order to maintain the present relationship between the schedules, the minimum monthly charge is set at $237.86 per month. The minimum charge is derived by adding the proposed Schedule 101 basic charge of $12 to the product of 500 therms multiplied by the proposed Schedule 101 rates. The calculation is shown below:

**Table 9 – Schedules 121/122 Breakeven Calculation**



The second through fifth block rates were increased by a uniform percentage of approximately 2.6% to maintain consistency between the rates for Schedules 111/112 and 121/122. The resulting overall revenue increase for the schedule is 2.7%.

**Q.** **How is the Company proposing to spread the proposed increase of $26,000 to the rates under Interruptible Schedule 131/132?**

A. The Company proposes to increase the first three block rates under the schedule by a uniform percentage increase of approximately 4.3%. 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 $500 to $525 per month. For the remaining revenue requirement, the Company is proposing to spread the increase on a uniform percentage basis of approximately 24.7% to each of the present five block rates under the schedule. The proposed increase to each of the block rates, as well as the present and proposed rates, are shown at the bottom of page 3 of Exhibit No.\_\_\_\_(PDE-7).

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

A. No, it is not.

V. BASIC CHARGE FOR SCHEDULES 1 & 101

**Q. Why is the Company proposing to increase the electric monthly customer charge for Schedule 1 from $8.50 to $14.00 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 Exhibit No. \_\_(TLK-3), page 4, line 26, is $14.73 per customer per month. Factoring in distribution demand cost per customer per month of $25.07 as shown in Knox Exhibit No. \_\_(TLK-3), page 4, line 28, the total customer and distribution demand monthly cost is $39.80. These are essentially fixed costs that are allocated based on the number of customers served. Given the large disparity between the level of customer and demand costs, and the present level of the basic charge, the Company believes that it is appropriate to recover a more reasonable level of these fixed customer costs through the basic charge.

**Q. Why is the Company now proposing an increase of $5.50 per month in this filing?**

A. One of the arguments against higher residential basic charges in the past was one of customer understandability and acceptance. We believe it is increasingly important that our charges to customers more accurately reflect the actual costs to serve customers. With regard to fixed charges, many other utility assessments (phone, water, sewer, solid waste, television, internet, etc.) are generally a flat monthly fee. Typically, there is little correlation between the level of use and the monthly amount paid for service related to these other utilities/services. Consumers understand that most of the costs associated with these other utilities/services are fixed, and have become accustomed to paying a relatively constant monthly fee for service.

Publicly-owned electric utilities have been charging higher monthly customer charges for years in order to more accurately reflect (and recover) the fixed costs of providing service. For example, Avista’s nearest neighbor in Eastern Washington, Inland Power and Light, has a residential monthly basic charge of $19.23 per month. Avista’s nearest neighbor in North Idaho, Kootenai Electric Cooperative, has a residential monthly basic charge of $19.50, and a minimum charge of $25.00 per month.

**Q. Turning now to natural gas, why is the Company proposing to increase the Schedule 101 monthly customer charge from $9.00 to $12.00 per month?**

A. Schedule 101 total customer allocated costs, as shown in Mr. Miller’s Exhibit No. \_\_(JDM-3), page 4, line 25, is $27.07 per customer per month. $12.17 of the $27.07 noted above are related to the cost of the meter and service, billing, and providing customer service, as shown in Miller Exhibit No. \_\_(JDM-3), page 4 line 23.

**Q. What is the consequence to an electric or natural gas customer of a Basic Charge that is priced below cost?**

A. Because rate design is a “zero sum game”, if customer charges are set below the cost, then other charges are, by definition, set above their cost of service. For residential gas and electric customers, the only other charge is the volumetric charge. When volumetric rates are increased above their cost of service to include customer costs that are not in the Basic Charge, several consequences ensue:

* It results in almost all customers paying more “per-customer” related costs in the winter, even though their customer costs are not higher in the winter summer.
* It results in the amount of customer costs a customer pays being unpredictable, even though customer costs are actually very predictable.
* A portion of fixed costs of providing service to low usage customers is actually recovered from other higher usage customers served under the same schedule.

Ideally, to properly match revenues with the cost of service, the fixed costs of providing service would be recovered through a fixed monthly charge, paid by each customer irrespective of actual usage. The rationale for that type of rate design is that a utility’s facilities and support functions are made available to its customers irrespective of how much energy they use.

In summary, setting the basic charge at a rate substantially less than an amount that covers annual customer costs can result in rates that are not equitable, and monthly bills that are unnecessarily volatile.

**Q. But won’t increasing the Basic Charge send the wrong price signal through the energy rates?**

A. No. Conservation of electricity and natural gas is important for customers and for the Company, and one might argue that a lower basic charge results in higher commodity charges and a stronger price signal related to volume usage. However, sending a price signal to customers through a residential rate design that contains a three-tier increasing block rate for electric (natural gas has two volumetric tiers) was developed for just such a reason. The more electricity that is used, the higher the rate, and therefore the higher the overall customer bill. The volumetric pricing components will still send a very clear price signal to conserve, even with the Company’s proposed basic charge increase.

The Company’s Integrated Resource Plans provide a perspective of the incremental cost of electricity and natural gas on a forward looking basis, as compared to retail rates. Illustration No. 4 below shows the average or melded Schedule 1 volumetric rate per kWh, at varying usage levels, and with varying basic charges.

**Illustration No. 4**



The dotted line at the top of the graph shows the proposed melded volumetric rate per kWh with an $8.50 per month basic charge. The second solid line shows the proposed melded volumetric rate per kWh with a $14 basic charge. At the bottom of the graph is a solid line which shows the levelized 20-year avoided cost from the Company’s 2013 electric Integrated Resource Plan ($0.05520 per kWh). By adjusting the basic charge from its current $8.50 per month level to $14 per month, the resulting melded volumetric rate, is well above the 20-year levelized avoided cost. With a basic charge of $14 per month, customers will still pay a volumetric rate, regardless of usage, that exceeds the Company’s avoided cost and, therefore, sends a very clear price signal.

For natural gas, the Company included several forecasts in its 2014 Integrated Resource Plan which all showed forecast natural gas prices at Henry Hub over the next 20 years being lower than Avista’s retail rate[[9]](#footnote-9).

**Q. Does the fact that that Avista now has electric and natural gas decoupling change the Company’s view of the appropriate level of the basic charge?**

A. No, it does not. Decoupling is an important mechanism which allows the Company to recover, on a per customer basis, the fixed costs of providing service to customers which are not otherwise recovered in the basic charge. Decoupling, however, does not fix the problem of intra-schedule cross subsidization. As long as a portion of the Company’s fixed costs are recovered in volumetric rates, ultimately some customers in a rate schedule are being subsidized by other customers. The Company believes that progress needs to be made in reducing the amount of intra-schedule subsidization, and the $14 per month basic charge proposal helps to do just that.

**Q. Has the Company considered other rate design changes other than increasing the basic charge to address fixed cost recovery issues?**

A. Yes. In the Company’s electric cost of service study, costs are ultimately classified into three main categories: energy, demand, and customer. As shown on Ms. Knox’s Exhibit No.\_\_\_(TLK-4), the costs associated with customers (meters, meter reading, billing, etc.) would be recovered in a monthly customer charge of $14.73. Costs associated with energy would be recovered in a variable energy rate of $0.04131/kWh. All other costs which are related to demand, would be recovered in a demand charge in the range of $4 to $6 per kW[[10]](#footnote-10). These demand costs include costs associated with the generation facilities, transmission and distribution. Three-tier pricing, if correctly implemented, would provide for a better rate design, as customers would be able to see and pay for the true cost of their utility service.

**Q. Why hasn’t the Company filed for residential demand charges?**

A. The simple answer is that the Company does not have the metering infrastructure to do so. As discussed in Company witness Mr. Kopczynski’s Exhibit No. DFK-2 related to Advanced Metering Infrastructure (“AMI”), at page 10:

Advanced metering is a foundational technology for enabling the utility to implement rate structures that require interval metering capabilities. Some of these rate options include time-of-use pricing, critical peak pricing, and demand pricing. Of these options, demand pricing is emerging as a likely means to ensure customer’s rates more accurately reflect the value of the system they use. (emphasis added)

Once the Company has deployed AMI throughout its Washington electric service territory, it may then seek to add demand charges to its residential rate design.

**Q. Have you prepared an analysis to show what impact the proposed rate design changes would have on customers on electric Schedule 1 and natural gas Schedule 101, including the proposed increases to the monthly basic charges?**

A. Yes. The Company completed an analysis showing the impact on low, average, and high use electric and natural gas customers. The comparison shows the difference in a customer’s bill (only including base rates) based on the Basic Charge and volumetric rates being increased on a uniform percentage basis, versus the Company’s proposed changes. Table 10 below details results of that analysis for residential electric customers on Schedule 1:

**Table 10**

Table 11 below details the analysis for natural gas customers on Schedule 101:

**Table 11**

The impact of the Company’s proposed change to the basic charge varies based on monthly consumption. For an electric customer who uses less than the average 966 kWhs per month, and/or a natural gas customers who uses less than 68 therms per month, the percentage impact will be slightly higher than for those customers who use more than the average. That makes sense in that, with fixed costs being recovered in variable energy rates, customers with higher use are subsidizing lower use customers. We believe the improvement in matching customer payment of fixed costs with the fixed costs to serve customers, together with removing part of the inequity among customers on the amount of fixed costs paid, warrants this relatively small bill impact.

Table 12 below shows a comparison of monthly bills for an electric customer with average usage for a 12-month period. It shows the difference in the monthly bills with a uniform percentage increase to the basic charge and a uniform cents/kWh increase to the volumetric rates, versus the Company’s proposal. The table illustrates the reduction in payment of fixed costs in the winter months, and increased payment in the summer, with the net result being improved alignment of payment of fixed costs by customers with the fixed costs to serve customers, with a 0.3% annual difference in overall payment.

**Table 12 – Monthly Bills for a Residential Schedule 1 Electric Customer using an Average of 966 kWhs per Month**



Table 13 below provides a similar comparison for a 12-month period for a natural gas customer with average usage. The net result is similar to the electric results above, namely a better alignment of payment of fixed costs by customers with the fixed costs to serve customers.

**Table 13 – Monthly Bills for a Schedule 101 Natural Gas Customer using an Average of 68 therms per Month**



**Q. How will the proposed change in the residential basic charge affect limited income customers?**

A. Traditional thinking might lead one to believe that a limited income electric customer would tend to be a low user of electricity. As explained below, the available data that we have suggests that just the opposite is true.

A majority of our customers have natural gas for space and water heating, and therefore may have, on average, lower electric usage during the winter. However, many limited income customers still use electricity for space and water heating. Many of these customers live in apartments (which in Avista’s service territory predominantly have electric space and water heat), live in areas where natural gas is not available, or live in areas where natural gas is available, but conversion is not affordable. These limited income customers, with electric space and water heat, can have electric usage in the tail-block (above 1,500 kWhs) during the winter months.

**Q. Does the Company have any analysis showing that limited income customers tend to use more electricity than other residential customers?**

A. Yes. The Company recently conducted an analysis which shows that limited income customers, on average, do use more electricity than other residential customers. For the analysis, the Company looked at those limited income customers who received a LIHEAP or LIRAP grant during the January 2014 through December 2014 time period, and compared their annual usage to the usage of all other residential customers.[[11]](#footnote-11) The results of the analysis are shown in the Table 14 below:

**Table 14**



The analysis shows that limited income customers who only have electric service use 711 kWhs more per year than the residential population, and limited income customers in general use 766 kWhs per year more than the residential population.

This analysis shows that limited income customers may be harmed by having a rate design with a lower basic charge and a higher tail-block rate, as these customers are more susceptible to use in the tail-block. A higher basic charge, on the other hand, would result in lower volumetric rates (than would otherwise be the case), providing some relief to these high use customers during the winter months (as demonstrated earlier in Table 10 where higher use customers would have less of an overall bill impact with a $14 basic charge).

**Q. What are the implications for limited income natural gas customers?**

A. Average-use limited income natural gas customers would tend to pay slightly higher natural gas bills under the Company’s proposed rate design (i.e., $12 basic charge) than if the basic charge and volumetric rate were increased by a uniform or equal percentage. Data gathered as part of the review of the Company’s Natural Gas Decoupling Mechanism showed that limited income natural gas customers tend to use slightly less natural gas (58 therms per month[[12]](#footnote-12)) than the residential customer population (68 therms per month). As shown in Table 15 below, while there is an impact, it is relatively small both on a dollar and percentage basis (between 0.1% and 0.6%).

**Table 15**



VI. SUMMARY OF DOCKET NOS. UE-140188/UG-140189 ORDER No. 05 REQUIREMENTS

**Q. Please summarize the Company’s compliance with the requirements of the Commission’s Order No. 05 (and Settlement Stipulation) in Docket Nos. UE-140188 and UG-140189?**

A. Many of the requirements from the last general rate case were completed prior to new rates going into effect January 1, 2015. Other items are requirements to the future. Detailed below are the items that the Company was required to address in this general rate case. Shown below, in no particular order, are the requirements, the page number and paragraph where the items are located in the Order or Stipulation, the status of the requirement and/or the witnesses that address the issues in this docket.

**Item 1 – ERM Rebate Mechanism (Stipulation Page 12, Paragraph 23)**:

*"The Parties agree to address in the next general rate case alternative methods to rebate or recover ERM balances.”*

This item is addressed by Mr. Johnson in Exhibit No.\_\_\_(WGJ-1T).

**Item 2 – Service Quality and Reliability Program (Stipulation Page 11, Paragraph 16)**:

*“Avista agrees to meet with Staff and interested parties to develop and implement appropriate service quality metrics, customer guarantees and reporting, with the agreed upon tariff revisions filed on or before June 1, 2015, with a program in place on July 1, 2015”*

Work on this item is in progress and is addressed by Company witness Mr. Kopczynski in Exhibit No.\_\_\_(DFK-1T).

**Item 3 – Low Income Rate Assistance Program (Order Page 4, Paragraph 5)**:

*“Using Staff’s proposed pilot program as a basis, the parties should work together to file mutually agreed upon additions and modifications to the LIRAP. If the parties cannot agree upon modifications or additions to the program they should file alternative or competing proposals with the Commission no later than June 1, 2015.”*

Work on this item is in progress and is addressed by Company witness Mr. Kopczynski in Exhibit No.\_\_\_(DFK-1T).

**Item 4 – Natural Gas Project Compass Deferral (Stipulation Page 4, Paragraph 7)**:

*“The Parties agree the natural gas revenue requirement associated with the Project Compass Customer Information System for the calendar year 2015 will be deferred for recovery in a future proceeding, based on the actual costs of the Project at the time the Project goes into service.”*

This item is addressed by Company witness Ms. Andrews in Exhibit No.\_\_\_(EMA-1T) and Company witness Ms. Smith in Exhibit No.\_\_\_(JSS-1T).

**Item 5 – Capital Reporting (Stipulation Page 12, Paragraph 20)**:

*“The Company agrees to provide detailed semi-annual reporting of 2014 and 2015 capital expenditures with actual data by expenditure request, in the categories provided in its pro forma “cross check” plant adjustments. The Parties agree to meet and confer by no later than January 31, 2015 to establish any additional details of the capital reporting requirements."*

Discussions occurred among the parties prior to January 31, 2015. This item is addressed by Company witness Ms. Schuh in Exhibit No.\_\_\_(KKS-1T).

**Q. Were all the requirements in Order No. 05 and the Settlement Stipulation met by the Company prior to filing, or included in, this general rate case?**

A.Yes, all of the items that were required of the Company in Order No. 05 and the Settlement Stipulation were either completed prior to filing this general rate case, addressed in this docket as required, or are future requirements and not otherwise addressed in this case (such as the Decoupling Evaluation required after 2017).

VII. OTHER ITEMS

**Q. Has the Company filed electric rate Schedule 93, Power Cost Surcharge – Washington, in this case to implement the proposed Energy Recovery Mechanism rebate mechanism discussed by Mr. Johnson?**

A.No, the Company has not filed Schedule 93 in this case. As Mr. Johnson states, on or before April 1 of each year Avista would submit a proposed rate adjustment to recover or rebate the ERM deferral balance over a twelve-month period, starting July 1, 2016. As such, if the Commission approves this modification to the ERM, the Company would file the tariff on or before to April 1, 2016.

**Q. Did the Company file new electric and natural gas decoupling mechanism baseline information?**

A.No, the Company did not file exhibits detailing the new electric and natural gas decoupling baseline values. The reason why new baseline values were not filed is because the final approved revenue requirement will be different from the Company’s request. Therefore, the Company would, as a part of the Compliance Filing, provide the final baseline values prior to new rates going into effect as a result of this general rate case.

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

A.Yes it does.

1. With a proposed effective date of March 12, 2015, the increase in billing rates does not include the effect of the expiration of Energy Recovery Mechanism rebate customers are receiving in 2015 (through Schedule 93). [↑](#footnote-ref-1)
2. The proposed increase in natural gas revenues of 7.0% includes revenues from base tariffs as well as the current cost of natural gas included in Schedule 150. [↑](#footnote-ref-2)
3. For Schedule 146, including an estimate of 45.0 cents per therm for the cost of natural gas and pipeline transportation, the proposed increase to Schedule 146 rates represents an average increase of 3.4% in those customers’ total natural gas bill. [↑](#footnote-ref-3)
4. Knox Exhibit No. \_\_\_(TLK-4), at 3 ln. 28 [↑](#footnote-ref-4)
5. The components would be updated with the final approved capital structure, gross-up factor, and depreciation factor as ordered by the Commission at the culmination of this general rate case. [↑](#footnote-ref-5)
6. The Capital Recovery Factor is derived by adding together the Company’s weighted Cost of Capital, grossed up for revenue-related expenses, and the effective depreciation rate for all Street and Area Lights (FERC Account 373) from the Company’s Cost of Service study. [↑](#footnote-ref-6)
7. The maintenance component for an existing light can be derived by subtracting the Schedule 46 (energy) light code monthly charge from the same Schedule 44 light code monthly charge (maintenance and energy). The maintenance component for a new lighting standard that is outside of what is in the Company’s present offerings will be based on an engineering estimate of the monthly maintenance cost grossed up for revenue-related expenses. [↑](#footnote-ref-7)
8. The calculation of the minimum charge for Schedule 111 is equal to the total bill for 200 therms priced at Schedule 101 base rates (excluding Schedule 150 gas costs). [↑](#footnote-ref-8)
9. Morehouse Exhibit No. \_\_\_(JM-2), p 6. [↑](#footnote-ref-9)
10. Because the Company does not have Advanced Metering Infrastructure (AMI), residential demand billing determinants are not available. Simply using an estimate of 5 kW per residence, and only the Distribution Demand Related Unit Cost per Month of $25.07 from Ms. Knox’s Exhibit No.\_\_\_(TLK-3), page 4, line 28, one could estimate a monthly demand charge of $5.01/kW. [↑](#footnote-ref-10)
11. Customer usage extracted from the Company’s billing system was from Schedule 1 customers that had their account open during the entire year, i.e., from January 1, 2014 through December 31, 2014. Any accounts opened for a partial year were excluded. Further, the Company is aware that the limited income population used for this analysis is not comprehensive, however the Company does not track customer incomes and therefore could only rely upon LIHEAP and LIRAP participants to be the proxy group for the limited income population. [↑](#footnote-ref-11)
12. Avista Docket UG-060518, “Evaluation of Avista Gas Decoupling Mechanism Pilot”, p. 81, Table K-10. [↑](#footnote-ref-12)