

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, dba
AVISTA UTILITIES,

Respondent.

DOCKETS UE-150204 and
UG-150205 (*Consolidated*)

COMMISSION STAFF'S MOTION
TO RECONSIDER

MOTION

1 Pursuant to WAC 480-07-850, Commission Staff (Staff) seeks reconsideration of the Commission's decision on revenue requirement in Order 05 (Order) issued January 6, 2015.¹ Specifically, Staff seeks reconsideration of the Commission's decision to authorize and require Avista Corporation dba Avista Utilities (Avista or Company) to file electric tariff revisions reflecting a decrease of \$8.1 million less in revenue or a 1.63 percent rate decrease.² After careful review of the adjustments made by the Commission in the Order, Staff believes that Order 05 results in a miscalculated revenue requirement for electric operations.³

2 Based on Staff's interpretation of Order 05 and the Commission's methodology described therein, Staff identifies specific adjustments contained in Table 1 below, and develops an electric revenue requirement for Avista that would be reduced by approximately \$27.4 million.⁴ Staff's

¹ Order 05, *Final Order Rejecting Tariff Filing; Accepting Partial Settlement Stipulation, Authorizing Tariff Filings* (January 6, 2016).

² *Id.*, at p. 1. *See also*, p. 90 at ¶ 283.

³ *See* Docket Nos. UE-150204 and UG-150205, Order 05, Table A1 at pg. 96. *See also* Table 1 below.

⁴ To be clear, Staff's recommended revision to revenue requirement would reduce Avista's rates by \$27.4 million in total. This amount includes the \$8.1 million already accounted for by the Commission in Order 05.

recommendation here should not be construed as a change in its as-filed case. It is merely addressing what it believes to be the appropriate calculation of Avista's revenue requirement for electric operations, including various adjustments set forth in Order 05.

3 Accordingly, Staff respectfully requests that the Commission reconsider Order 05, review the adjustments and their application, and if necessary, adjust the Company's overall revenue requirement consistent with its decisions on the specific adjustments referenced in Table 1 below.

TABLE 1			
Summary of Order 05 Adjustments and Impact to Avista's Overall Revenue Requirement			
	Total Revenue Requirement	Impact of Order 05 Adjustment	Net 2016 Revenue Requirement (relative to 2015)
Exhibit No. EMA-6⁵ results (\$000)	\$503,621		\$3,639
<i>Adjustments</i>			
1. Electric O&M = 3.21% (two-year escalation rate = 6.42%) ⁶	\$498,355	(\$5,266)	(\$1,627)
2. Zero distribution escalator (two-year escalation rate for Net Plant after DFIT = 4.04%) ⁷	\$492,982	(\$5,373)	(\$7,000)
3. Remove after-attrition adjustment for Project Compass ⁸	\$484,709	(\$8,273)	(\$15,273)
4. Power supply update (October 29, 2015) ⁹	\$472,555	(\$12,154)	(\$27,427)
Total Order 05 Impacts		(\$31,066)	(\$27,427)

⁵ At paragraph 111 of Order 05 the Commission implies that the starting point for its own electric attrition study is Avista's attrition model provided on rebuttal in Exhibit No. EMA-6. At ¶111, the Commission finds "Staff's approach, as adjusted and corrected by the Company, to provide the most appropriate methodology in this docket for supporting an attrition adjustment."

⁶ Order 05, *Final Order Rejecting Tariff Filing; Accepting Partial Settlement Stipulation, Authorizing Tariff Filings* (January 6, 2016) at ¶139.

⁷ *Id.*, at ¶120.

⁸ *Id.*, at ¶174.

⁹ *Id.*, at ¶12.

DISCUSSION

A. Staff's Post-Order Analysis Concludes That Avista's Actual Electric Revenue Requirement Could be Reduced By Approximately \$27.4 Million.

4 First, and again to be clear, Staff's motion to reconsider does not seek a change to the adjustments set forth in Table 1. Staff's motion only seeks Commission review of its calculation of Avista's overall revenue requirement to ensure that the adjustments set forth in Table 1 have been properly incorporated.

5 Table 1 above demonstrates that each identified adjustment would reduce the revenue requirement relative to Exhibit No. EMA-6. The total impact of these four adjustments is a reduction to Avista's electric operations revenue requirement of approximately \$31 million. When the impacts of these adjustments are rolled into Avista's overall revenue requirement, Staff calculates that Avista's adjusted overall revenue requirement (as set forth in Exhibit No. EMA-6) should be a reduced by approximately \$27 million (relative to 2015 base rate revenues). In sum, when Staff follows the development of Avista's electric revenue requirement in Order 5 and then integrates the Table 1 revenue adjustments into its computation of electric revenue requirement, Staff calculates Avista's adjusted attrition-based revenue requirement to be \$472,555,000 for electric operations.

6 In order to check the reliability of the above conclusion, Staff examined each specific adjustment and whether it appeared to be accounted for in Order 05. It appears that they were not. For example, the total electric revenues authorized by Order 05 (a reduction of \$8.1 million)¹⁰ is nearly identical to Avista's requested revenue requirement on rebuttal, after incorporating Avista's power supply update dated October 29, 2015.¹¹ Therefore, the revenue

¹⁰ Docket Nos. UE-150204 and UG-150205, Order 05, Table A1 at pg. 96.

¹¹ Avista's power cost supply update applied to its revised revenue requirement proposed on rebuttal (Exhibit No. EMA-6) results in a revenue requirement of approximately \$8.5 million.

requirement for Avista's electric operations set forth in Order 05 cannot possibly include the revenue impacts of the four specific adjustments identified in the Order and captured in Table 1 above.

7 Based on the above conclusion, Staff analyzed the as-adjusted electric revenue requirement and the resulting attrition adjustment approved by Order 05. The results are set forth in Table 2 below.

TABLE 2			
Avista's As-Adjusted Revenue Requirement and Resulting Attrition Adjustment			
Description	Pro Forma Revenue Requirement¹²	Attrition Study Results	Imputed Attrition Allowance
2016 Rate Base	\$1,315,891	\$1,298,890	
Settlement Rate of Return	7.29%	7.29%	
Net Operating Income Requirement	\$95,928	\$94,689	
2016 Net Operating Income (at 2015 rates)	\$118,533	\$111,699	
2016 Rate of Return (at 2015 rates)	9.01%	8.60%	
2016 Net Operating Income Deficiency (Surplus)	(\$22,605)	(\$17,010)	
Gross-up Conversion Factor	0.62018	0.62018	
2016 Revenue Deficiency (Surplus)	(\$36,448)	(\$27,427)	\$9,021
		Revenue Requirement	Attrition Allowance

8 Table 2 expresses what Staff believes to be the pro forma revenue requirement for Avista¹³ based on the Commission's Order and also includes the revenue impacts associated with implementation of the Commission's attrition study adjustments listed in Table 1. The above analysis shows that Avista's overall revenue requirement for electric operations would be reduced by approximately \$27 million, which includes an attrition allowance of approximately

¹² The pro forma revenue requirement was derived from Order 05, Table A1.

¹³ *Id.*

\$9 million. Staff recommends that the Commission review the application of its method in determining an electric revenue requirement and make appropriate adjustments to the final result if necessary.

B. The Commission May Be Able To Check Staff's Proposed Revenue Requirement Corrections By Calculating The Impacts Of Avista's Power Supply Update Outside The Attrition Model.

9 Staff suspects that an error occurred when Avista's power supply costs were updated within the attrition model. If this occurred, the cells in the pro forma power supply worksheet ("PF Power Supply 09.2014 load") would have linked to dependent cells in a hidden worksheet related to incremental load expense ("incremental load expense"). If not controlled for, these dependent cells would have updated column [J] of the attrition tab ("Attrition 09.2014 to 2016"). The resulting update would have, in effect, offset changes in column [I] of the attrition tab that would have been carried forward from the pro forma power supply worksheet.

10 To test this theory, the Commission would need to monitor how each change made to the power supply costs in "PF Power Supply 09.2014 load" affects the revenue growth in column [J] of the attrition tab, and the overall revenue requirement on the "Summary" tab. Because there are multiple interdependent formulas in the attrition model, Staff recommends that the Commission input the October 29, 2015, power supply update (\$12.3 million) outside of, rather than within, the attrition model.

C. If The Commission Accepts Staff's Recommended Change To Avista's Overall Revenue Requirement, It Should Adjust Language In Relevant Sections Of Order 05 To Ensure Consistency With This Outcome

11 After review and if the Commission accepts all or a significant part of Staff's proposed changes to Avista's revenue requirement for electric operations, Staff recommends that the

Commission revisit certain paragraphs of Order 05¹⁴ that express the Commission's application of the principles enunciated in *Hope* and *Bluefield*.¹⁵ To this end, Staff suggests that certain language in these paragraphs may be misconstrued to mean that reasonable reductions to expenses found to be either clearly demonstrated (i.e. Avista's power supply update) or inadequately supported (i.e. Avista's proposed escalation rates) would not otherwise affect Avista's revenue requirement for electric operations because of the settled law expressed in the *Hope* and *Bluefield* decisions. Staff believes such a result would not be supported by the record in this case. Therefore, a restatement of the Commission's concern expressed in these paragraphs would benefit from clarification as to the Commission's intent.

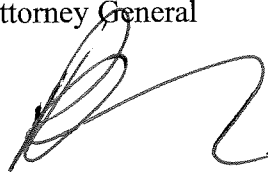
III. CONCLUSION

12 For the foregoing reasons, Staff respectfully requests that the Commission review the calculation it used in crafting the electric revenue requirement set forth in Order 05, and if necessary, adjust Avista's overall electric revenue requirement.

DATED this ___ day of January 2016.

Respectfully submitted,

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¹⁴ See ¶¶ 132 and 134 for example.

¹⁵ *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603, 64 S. Ct. 281, 88 L. Ed. 333 (1944) and *Bluefield Water Works & Imp. Co. v. Public Serv. Comm'n*, 262 U.S. 679, 692, 43 S.Ct. 675, 67 L.Ed. 1176 (1923).