

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION,

Respondent.

DOCKETS UE-150204 and
UG-150205

JOINT RESPONSE OF PUBLIC
COUNSEL AND THE INDUSTRIAL
CUSTOMERS OF NORTHWEST
UTILITIES TO STAFF MOTION TO
REOPEN RECORD FOR LIMITED
PURPOSE

I. INTRODUCTION

1 On February 4, 2016, Commission Staff filed its Motion to Reopen the Record for the Limited Purpose of Receiving into Evidence Instruction on Use and Application of Staff's Attrition Model (Staff's Motion to Reopen). Pursuant to the Commission's Notice of Opportunity to Respond to Staff's Motion to Reopen the Record dated February 5, 2016, the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel) and the Industrial Customers of Northwest Utilities (ICNU) (collectively, "Joint Parties") file this Joint Response to Staff's Motion to Reopen.

2 The Joint Parties support Staff's Motion to Reopen and respectfully recommend the Commission exercise its discretion to reopen the record and accept the evidence proffered by Staff. Further, consistent with the Joint Parties' pending Motion for Clarification, the Joint Parties recommend that the Commission correct Order 05 to reduce Avista's electric revenue requirement from negative \$8.1 million to approximately negative \$20 million.¹ This result is fair based on the evidence presented in the case and would also be consistent with the revised record as proposed by Staff.

¹ The pending Joint Motion for Clarification, filed on January 19, 2016, suggests that Avista's electric revenue requirement should be negative \$19.8 million while Staff's Motion to Reopen suggests that Avista's electric revenue requirement should be negative \$19.6 million. Joint Motion at 3; Staff's Motion to Reopen at 3.

II. STAFF'S MOTION TO REOPEN IS TIMELY

3 Commission Staff requests waiver of the requirement that its motion be made prior to the
final order in this case.² Staff's Motion to Reopen should be allowed because, although Order 05
in these dockets was intended to be the Commission's final order, the final order will be the
order resolving the pending Joint Motion for Clarification and Staff's Motion for
Reconsideration, both filed in these dockets on January 19, 2016, and subject to the order
conference held on February 3, 2016.³

4 The Commission has recognized that the time between a final order and an order
resolving post-order motions may prompt additional filings that may be considered for inclusion
in the agency record, either on a party's motion or the Commission's own motion.⁴ The
Commission has further recognized that motions to reopen the record after a final order advances
the interest in "achieving just, common-sense results [to bring matters] to conclusion."⁵

5 In this case, Staff's Motion to Reopen was filed before the order resolving the pending
post-order motions. Moreover, allowing Staff's Motion to Reopen will let the Commission
correctly use the attrition model approved in Order 05. Thus, the Commission should waive
requirements in WAC 480-07-830 to the extent necessary to consider Staff's Motion to Reopen.

III. THE ATTRITION MODEL ADOPTED BY THE COMMISSION DID NOT OPERATE AS DESIGNED BY COMMISSION STAFF AND ADOPTED BY AVISTA.

6 The Commission adopted Commission Staff's attrition model along with certain
modifications proposed by Avista.⁶ However, as indicted by Staff, the attrition model did not
function as intended when updated power cost data was applied.⁷ Because the model did not

² Staff's Motion to Reopen at 1.

³ Unless these motions are withdrawn, the Commission has indicated that it will issue an order resolving
the motions. Public Counsel and ICNU do not intend to withdraw the Joint Motion for Clarification.

⁴ *In re the Petition of Puget Sound Energy for Approval of a Power Purchase Agreement for Acquisition of
Coal Transition Power*, Docket UE-121373, Order 08 at ¶ 40.

⁵ *Id.* at ¶ 39.

⁶ Order 05 at ¶ 135 and n.201; Joint Motion for Clarification at 3.

⁷ Staff's Motion to Reopen at 2-3.

function as intended, Staff's Motion to Reopen may be necessary to correct the calculation of Avista's electric revenue requirement in Order 05.

7 While Staff's litigation position recommended an electric revenue requirement for Avista of negative \$6.4 million, Order 05 allows for a negative \$8.1 million revenue requirement for Avista's electric operations.⁸ Importantly, Staff's litigation position did not include Avista's power cost update, which was filed after the hearing in this case. Order 05 contained four adjustments, including Avista's power cost update, which should have resulted in an electric revenue requirement reduction greater than \$8.1 million.⁹ Based on discussions at the order conference held on February 3, 2016, it appears that Avista's updated power costs were misapplied in the attrition model approved by the Commission in Order 05. As described in Staff's Motion to Reopen, the Commission identified "perceived limitations" on its ability to update the model. However, as demonstrated by the additional calculations submitted along with Staff's Motion to Reopen, it is clear that these limitations can be remedied by updating the record or by making changes to where the power cost update is applied.¹⁰

A. Application of the attrition model adopted by the Commission to the October 29, 2015, power cost update was incorrect, preventing the model from functioning properly.

8 The attrition model adopted in Order 05 was developed by Staff in its responsive testimony and adopted by Avista in its rebuttal testimony.¹¹ The model was intended to conduct two power cost runs, one to update costs based on historical normalized loads and one to update costs to pro forma 2016 loads.¹² In its power cost update dated October 29, 2015, Avista provided information to update costs based on the historical normalized loads, but not based on

⁸ Christ R. McGuire, Exhibit No. CRM-2 Revised, at 1:8; Order 05 at ¶ 140.

⁹ See Joint Motion for Clarification, Table 1.

¹⁰ Staff's Motion to Reopen at 2-3 and Attachment C.

¹¹ Order 05 at ¶ 111.

¹² Joint Motion for Clarification, Attachment A at 1, n.1. See also, Staff's Response to Bench Request No. 20 ("Please be advised that in order to fully incorporate the October power supply update into the attrition model, you must have the updated pro forma power supply costs using 09.2014 loads AND the updated pro forma power supply costs using 2016 loads." (emphasis in original)).

the pro forma 2016 loads. Absent updated cost detail for the run using pro forma 2016 loads, the attrition model adopted in Order 05 cannot function as designed.¹³

9 Although the attrition model functioned in the sense that it calculated a number, it did not function as intended and provided an incorrect result. In other words, the model will calculate an attrition revenue requirement using the information provided to it. It required information for both historical loads and 2016 loads to calculate a correct revenue requirement using the rate setting methodology approved in Order 05; however, it ran with only information regarding historical loads.

10 Consequently, ratepayers fail to benefit from the \$12.3 million reduction in power costs, meaning that rates ordered in Order 05 cannot be considered fair, just, or reasonable. Thus, the revenue requirement of negative \$8.1 million in Order 05 is both incorrect and invalid, and correcting the calculation is necessary to setting fair, just, reasonable, and sufficient rates.

B. Correcting Avista’s electric revenue requirement may be done by either changing the point at which the power cost update is reflected or by updating the record.

11 Correcting the calculation of Avista’s electric revenue requirement can occur in one of two ways. First, the Commission has information available that would allow it to reflect the power cost update outside of the attrition model. Second, the Commission has discretion to use the information provided by Staff through its Motion to Reopen if the Commission believes the power cost update should be run through the model.

12 In its October 29, 2015 update, Avista represented that the power cost update resulted in a \$12.3 million reduction to its proposed attrition revenue requirement. Because the attrition model requires two power cost runs and the proper data was not provided in Avista’s October 29, 2015 power cost update, the reduction in revenue requirement could be applied outside the attrition model. Indeed, Staff recognizes this result: “This adjustment can be done most

¹³ Joint Motion for Clarification, Attachment A at 1, n.1.
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precisely outside of the model by simply incorporating the change in net power costs (-12,259) in the revenue requirement.”¹⁴

13 Additionally, application outside the attrition model is anticipated both in the power cost update and in Mr. Kelly Norwood’s testimony. Mr. Norwood’s September 2015 rebuttal testimony provided a summary of Avista’s updated electric and natural gas revenue requirements.¹⁵ Mr. Norwood explained that Avista applied Staff’s attrition model (with several adjustments) to arrive at Avista’s proposed electric revenue requirement of \$3.6 million.¹⁶ Avista estimated the reduction of power costs that would be reflected in the forthcoming power supply update to be \$10 million. Avista then applied the reduction to revenue requirement after calculation of Avista’s proposed \$3.6 million revenue requirement.¹⁷

14 Avista later stated in its October 29, 2015 Power Supply Update: “While the estimated power supply reduction in revenue requirement was estimated to be \$10.0 million in Avista’s rebuttal filing, the actual updated power supply reduction is approximately \$12.3 million....”¹⁸ The calculations provided by Avista in the Power Supply Update applied the impact of the power cost update outside of the attrition calculation used to derive the Company’s revenue requirement proposal of \$3.6 million, subtracting it from that amount.¹⁹

15 The result of applying the revenue requirement impact of the power cost update outside of the attrition model is similar to the result of running the attrition model with complete information. Staff ran the adopted attrition model using estimated 2016 load information along with the information Avista provided in the power cost update regarding historical normalized

¹⁴ Staff Motion to Reopen, Attachment C. Staff also noted this in its Motion for Reconsideration at ¶ 10: “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.”

¹⁵ Norwood, Exhibit KON-1T at 34:1-27 (Table 5).

¹⁶ *Id.* at 36:1-8; 34:1-27 (Table 5).

¹⁷ *Id.* at 36:15-18; 34:25 (Table 5).

¹⁸ Dockets UE-150204 and UG-150205, Power Supply Update, filed October 29, 2015 at 2 of 3 (Emphasis in original).

¹⁹ Application of the Power Cost Update reduced Avista’s request for \$3.6 million electric revenue increase to a decrease of \$8.62 million. Power Cost Update, Attachment 2, Row 7, Column (h).

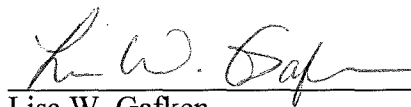
loads.²⁰ Avista's power cost update resulted in a revenue requirement reduction of \$12.3 million while Staff's analysis utilizing estimated 2016 load information produced a reduction of \$12.1 million.²¹ Thus, the Commission may correct the error in Order 05 by either changing where the power cost update is applied (outside the model) or by updating the record through Staff's Motion to Reopen.

IV. CONCLUSION

16 The Commission should grant Staff's Motion to Reopen to the extent necessary to correct Order 05. The Commission should correct the calculation of Avista's electric revenue requirement to properly reflect the Company's October 29, 2015, Power Cost Update. No party is harmed based on a correct rate being established. There is real harm, however, in establishing a rate that is not fair, just, or reasonable.

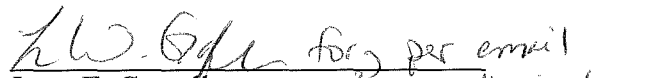
17 Dated this 9th day of February, 2016.

ROBERT W. FERGUSON
Attorney General



Lisa W. Gafken
Assistant Attorney General
Public Counsel Unit
800 Fifth Avenue, Suite 2000
Seattle, WA 98104

DAVISON VAN CLEVE, P.C.



Jesse E. Cowell
333 S.W. Taylor, Suite 400
Portland, OR 97204
Attorney for the Industrial Customers
of Northwest Utilities

for per email authorization

²⁰ Staff's Motion to Reopen, Attachment C.

²¹ *Id.*