Exh. JDM-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-240006

DOCKET UG-240007

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 December 2024 (Rate Year 1) and December 2025 (Rate Year 2) increases for both electric and natural gas. For Rate Year

1, the annual electric base revenue increase is $77,067,000, or 13.0%, to be spread among the Company's electric general service schedules. On a total billed revenue basis the Company is proposing an increase to billed rates of 12.6%. For Rate Year 2, the annual electric base revenue increase is $78,130,000, or 11.7%, to be spread among the Company's electric general service schedules. On a total billed revenue basis, after incorporating the removal of Colstrip Schedule 99 costs from customer rates on January 1, 2026, the Company is proposing a Rate Year 2 increase to billed rates of $53,711,000 or 7.8%.[1]

With regard to natural gas service, the Rate Year 1 proposed annual base revenue increase is $17,293,000, or 13.6%, among the Company's natural gas service schedules. On a total billed revenue basis the revenue increase is 6.3%. For Rate Year 2, the annual natural gas base revenue increase is $4,564,000, or 3.2%. On a total billed revenue basis the revenue increase is 1.6%.

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 and rate design, including proposed increases to basic charges.

Q. Would you please provide an overview of the Company's electric and natural gas rate requests?

A. Yes. As discussed by Company witness Mr. Vermillion, the Company is

[1] Concurrent with the Rate Year 2 electric effective date of December 2025, the Company proposes to reduce the rates associated with Schedule 99, "Colstrip Tracker" to reflect the removal of certain costs associated with Colstrip Units 3 and 4, in compliance with the law, as discussed further by Company witness Ms. Andrews. In order to effectuate the change in base rates on the assumed Rate Year 2 effective date of December 21, 2025, and the mandatory change in Tariff Schedule 99 to remove the costs associated with Colstrip prior to January 1, 2026, the Company will file on or before October 21, 2025, to align the Colstrip Tariff 99 reduction and the Rate Year 2 base rate change, to become effective on December 21, 2025. This will allow for the Commission to authorize one net bill change for customers.

proposing a Two-Year Rate Plan for years 2024 and 2025, with proposed rate changes effective in December of each year.[2] Accordingly, the Company has filed two sets of tariffs for each of the electric and natural gas service schedules. The first tariff for each rate schedule provides for an effective date of February 21, 2024; however, in the Company's filing in this case, Avista expects that the tariffs related to the 2024 rate request will be suspended with an effective date requested of December 21, 2024 (slightly more than eleven months after the date the Company files this case). The second set of tariffs filed for each of the electric and natural gas service schedules have an effective date of December 21, 2025, consistent with the Company's second-step rate change proposal.

Provided below in Table Nos. 1 & 2 is a summary of the proposed change, by rate schedule, on a billing basis (inclusive of all base and billing rate components, including the effect of the electric Colstrip tariff reduction in Rate Year 2):

Table No. 1 – Rate Year 1 & Rate Year 2 Electric Billing Change by Schedule

Rate Schedule	Rate Year 1 Billing Change	Rate Year 2 Billing Change
Residential Schedule 1	13.8%	6.7%
General Service Schedules 11/12	11.8%	8.8%
General Service Schedule - Transportation 13	11.8%	8.7%
Large General Service Schedules 21/22	11.7%	8.7%
Large General Service Schedule - Transportation 23	12.1%	9.4%
Extra Large General Service Schedule 25	11.7%	9.6%
Extra Large Special Contract 25I	11.4%	9.4%
Pumping Service Schedules 31/32	11.8%	5.9%
Street & Area Lights Schedules 41-48	11.9%	6.2%
Overall	**12.6%**	**7.8%**

[2] Because the rates would change in December of each year and be in effect largely through the ensuing calendar year, for ease of reference the Company has generally referred to Rate Year 1 as the "2025" rate year and Rate Year 2 as the "2026" rate year.

Table No. 2 – Rate Year 1 & Rate Year 2 Natural Gas Billing Change by Schedule

Rate Schedule	Rate Year 1 Billing Change	Rate Year 2 Billing Change
General Service Schedule 101	6.9%	1.7%
Large General Service Schedules 111/112/116	4.5%	1.1%
Interrupt. Sales Service Schedules 131/132	5.2%	1.3%
Transportation Service Schedule 146	14.3%	3.3%
Overall	**6.3%**	**1.6%**

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 by me or 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 Exhs. JDM-2 and JDM-3?

A. Yes. Exh. JDM-2 contains a copy of the Company's present electric tariffs/service schedules presently on file with the Commission. Exh. JDM-3 contains the proposed electric tariff sheets for Rate Year 1 and Rate Year 2 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 Rate Year 1 and Rate Year 2 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 Rate Year 1 general increase. Page 3 and 4 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 Rate Year 1 and Rate Year 2 rate 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, Residential Time of Use Pilot Schedules 7 and 8, General Service Schedules 11 and 12, Optional Commercial Electric Vehicle General Service Schedule 13, General Service Time of Use Pilot Schedules 17 and 18, Large General Service Schedules 21 and 22, Optional

Commercial Electric Vehicle Large General Service Schedule 23, 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 and a single large customer Special Contract designated as 25I.[3] 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. 3 below shows the type and number of customers served in Washington as of June 2023 (the test year utilized in this case) under each of the service schedules:

Table No. 3 – Electric Customers by Service Schedule

Rate Schedule	No. of Customers
Residential Schedule 1	228,181
General Service Schedules 11/12	34,728
General Service Schedule - Transportation 13	13
Large General Service Schedules 21/22	1,701
Large General Service Schedule - Transportation 23	3
Extra Large General Service Schedule 25	21
Extra Large General Service Special Contract	1
Pumping Service Schedules 31/32	2,552
Street & Area Light Schedules 41-48	499

Proposed Electric Rate Spread

Q. For Rate Year 1, what is the proposed electric revenue increase, and how is the Company proposing to spread the increase by rate schedule?

A. For Rate Year 1, the proposed electric increase is $77,067,000 or 13.0% over

[3] This schedule is with reference to the Special Contract entered into with Inland Empire Paper (IEP), which was approved by the Commission in the Company's prior rate case Docket UE-200900.

present base tariff rates in effect. The proposed general increase over present billing rates, after including all other rate adjustments (such as DSM and Residential Exchange), is 12.6%. The proposed percentage increase by rate schedule is as follows:

Table No. 4 – Proposed % Electric Increase by Schedule – Rate Year 1

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	13.1%	13.8%
General Service Schedules 11/12	13.1%	11.8%
General Service Schedule - Transportation 13	13.1%	11.8%
Large General Service Schedules 21/22	13.1%	11.7%
Large General Service Schedule - Transportation 23	13.1%	12.1%
Extra Large General Service Schedule 25	13.1%	11.7%
Extra Large Special Contract 25I	12.8%	11.4%
Pumping Service Schedules 31/32	13.1%	11.8%
Street & Area Lights Schedules 41-48	13.1%	11.9%
Overall	**13.0%**	**12.6%**

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 Mr. Garbarino) could be used as a guide to spread the general increase. However, 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 at the proposed levels.[4] This

[4] The rate spread for the Special Contract customer is defined within the approved contract approved in Order 08/05 in Dockets UE-200900, et. al. That contract states that the "total level of revenue requirement assigned to the Special Contract will be updated as a result of any base rate percentage changes approved for Schedule 25 by the WUTC that occur after Docket UE-200900. A Schedule 25 rate factor will be established equal to the Special Contract rate divided by Schedule 25's final base rate approved in UE-200900, where rates are expressed as rate year revenue divided by rate year MWh. The Special Contract rate change will be equal to the Schedule 25 rate factor times the Schedule 25 rate change".

proposed rate spread makes modest movement for all rate schedules toward rate parity on a return ratio basis.

Table No. 5 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 Rate Year 1 base rate increase:

Table No. 5 - Present & Proposed Ratios (Electric)

	Present		Proposed	
Rate Schedule	Parity Ratio	Return Ratio	Parity Ratio	Return Ratio
Residential Schedule 1	0.86	0.43	0.86	0.59
General Service Schedules 11/12	1.18	1.74	1.18	1.52
Transportation - General Service 13	0.27	-1.50	0.27	-0.85
Large General Service Schedules 21/22	1.21	1.85	1.21	1.61
Transportation - Large General Service 23	0.14	-1.87	0.14	-1.12
Extra Large General Service Schedule 25	1.20	1.86	1.20	1.69
Pumping Service Schedules 31/32	1.05	1.20	1.05	1.13
Street & Area Lights Schedules	1.06	1.36	1.06	1.12
Overall	**1.00**	**1.00**	**1.00**	**1.00**

As one can see, the Company's proposal makes some movement toward unity for each Schedule's Return Ratio.

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 Schedule 1, given its overall parity and return ratios shown above. The Company also proposes

that both Large and Extra Large Transportation General Service Schedules 13 and 23[5], 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, Schedule 21/22, and Schedule 25 as those schedules are providing significantly more than their relative cost of service as discussed by Mr. Garbarino.

Q. For Rate Year 2, what is the proposed electric revenue increase, and how is the Company proposing to spread the increase by rate schedule?

A. For Rate Year 2, the proposed base electric increase is $78,130,000, or 11.7% over base tariff rates. The proposed general increase over billing rates, including all other rate adjustments (such as DSM and Residential Exchange) including the removal of costs related to Colstrip Schedule 99, is $53,711,000 or 7.8%. The Company proposes to allocate the Rate Year 2 rate spread in a consistent manner with the final approved rate spread for Rate Year 1 in this proceeding. Consistent with the Rate Year 1 rate spread proposal, the Company used a uniform percentage of revenue for purposes of spreading the proposed Rate Year 2 electric revenue increase to all electric rate schedules. The proposed percentage increase by rate schedule is as follows:

[5] General Service Optional Electric Vehicle (Schedule 13) and Large General Service Optional Electric Vehicle (Schedule 23) were approved in Docket UE-210182 with an effective date of April 26, 2021. Given the limited number of customers taking service on these schedules, and the varying levels of usage for some customers throughout the full test year, the cost of service study results for these schedules appear irregular. The Company expects these schedules to mature over time as EV technology continues to evolve and customers usage becomes more consistent, which the Company believes may yield more meaningful cost of service study results in future cost of service studies.

Table No. 6 – Proposed % Electric Increase by Schedule – Rate Year 2

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	11.7%	6.7%
General Service Schedules 11/12	11.7%	8.8%
General Service Schedule - Transportation 13	11.7%	8.7%
Large General Service Schedules 21/22	11.7%	8.7%
Large General Service Schedule - Transportation 23	11.7%	9.4%
Extra Large General Service Schedule 25	11.7%	9.6%
Extra Large Special Contract 25I	11.5%	9.4%
Pumping Service Schedules 31/32	11.7%	5.9%
Street & Area Lights Schedules 41-48	11.7%	6.2%
Overall	**11.7%**	**7.8%**

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

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 (for Rate Year 1) and 4 (for Rate Year 2) of Exh. JDM-4 show 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 estimated Colstrip Schedule 99 rate reduction in Rate Year 2. 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 Schedule 1, would you please describe the present rate structure under these schedules?

A. Yes. Residential Schedule 1 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 9.067 cents per kWh, 10.653 cents per kWh for the next 700 kWhs, and 12.606 cents for all kWhs over 1,500.

Q. How does the Company propose to spread the proposed Rate Year 1 revenue increase of $36,561,000 to Schedule 1?

A. The Company is proposing to increase the basic charge by $6.00 per month, from $9.00 to $15.00 per month, and is proposing to apply an equal percentage increase to the three energy blocks. I will discuss the justification and rationale for the increase in the basic charge later in my testimony.

Q. How does the Company propose to spread Schedule 1's proposed Rate Year 2 general revenue increase of $37,066,000 to the rates within that schedule?

A. Similar to Rate Year 1, the Company is proposing to increase the basic charge by $5.00 per month, from $15.00 to $20.00 per month, and is proposing to apply an equal percentage increase to the three energy blocks.

Q. What is the proposed Rate Year 1 monthly bill change for a residential electric customer with average consumption?

A. The proposed monthly bill change for a residential customer using an average of 945 kWhs per month is $12.94 per month, or a 13.3% increase in their electric bill. The

present bill for 945 kWhs is $97.26, and the proposed monthly bill would be $110.20, including the effects of the proposed $6.00 increase in the monthly basic charge.

Q. For Rate Year 2, what is the proposed increase for a residential electric customer with average consumption?

A. The proposed increase for a residential customer using an average of 945 kWhs per month after the estimated rate reduction to Colstrip Schedule 99 is $6.87 per month, or a 6.2% increase in their electric bill, resulting in an overall bill of $117.07, including the effects of the proposed $5.00 increase in the monthly basic charge.

Q. How is the Company proposing to apply the proposed Rate Year 1 general revenue increases to the time-of-use pilot rates under Schedules 7 and 8?

A. The time-of-use pilot rates under Schedules 7, 8, 17 and 18 were approved in Docket UE-230212. These new TOU rates will be available to a limited number of customers likely to begin in Q2 of 2024 for a two-year pilot period. As described in the Company's TOU filing, at the conclusion of the two-year pilot period, Avista will engage a third party to evaluate the results of the pilot programs and the Company will make a filing with the Commission to determine the permanency of the time-of-use and peak time rebate rate schedules. For this case, the Company is proposing to treat Schedules 7 and 8 similar to Schedule 1, by increasing the monthly basic charge by $6.00, from $9.00 to $15.00 per month. The Company proposes a uniform percentage increase applied to the two (block) energy rates consistent with the percentage change applied to the Schedule 1 block rates.

Q. How is the Company proposing to apply the proposed Rate Year 2 general revenue increases to the rates under Schedules 7 and 8?

A. Consistent with Schedule 1, for Rate Year 2 the Company is proposing that the

monthly basic charge increase from $15.00 to $20.00. The revenue remaining increase for those schedules is proposed to be recovered through a uniform percentage increase consistent with the percentage change applied to the Schedule 1 block rates.

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 $21.00, an energy rate of 12.385 cents per kWh for all usage up to 3,650 kWhs per month, and an energy rate of 9.015 cents per kWh for usage over 3,650 kWhs per month. There is also a demand charge of $7.50 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 <u>Rate Year 1</u> general revenue increase of $11,709,000 to the rates under Schedules 11/12?

A. The Company is proposing that the customer charge be increased by $4.00, from $21.00 to $25.00 per month. In addition, the Company is proposing that the demand charge (over 20 kW) be increased $1.50 per kW, from $7.50 to $9.00. The remaining 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 1.485 cents per kWh, and 1.081 cents per kWh for the second block rate. Finally, the Company is proposing to increase the minimum charge for single phase service from $21.00 to $25.00 per month, and three phase service from $28.35 to $32.35 per month.

Q. Why is the Company proposing a $4.00 increase to the customer charge?

A. Similar to the residential basic charge increases discussed below, 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 11, as shown in Exh. MJG-2, page 41, line 45, are $28.60 per customer per month. These costs do not include any demand related costs that are not recovered in the demand charges discussed below. 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.

Q. Why is the Company proposing a $1.50 increase to the demand charge?

A. The system allocated demand cost from the cost of service study is $26.71 per kilowatt (kW) month. The Company's present monthly demand charge is $7.50/kW or kVA, which was set in Docket UE-220053. While the exact level of costs classified as demand-related can be debated, the proposed 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. The Company must also 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. How is the Company proposing to apply Schedule 11/12's proposed Rate Year 2 general revenue increase of $11,872,000 to the rates within those schedules?

A. The Company is proposing that the customer charge be increased by $5.00, from $25.00 to $30.00 per month. In addition, the Company is proposing that the demand charge (over 20 kW) be increased $1.00 per kW, from $9.00 to $10.00. The remaining revenue increase for the schedules is proposed to be recovered through a uniform percentage increase

applied to the two (block) energy rates.

Q. How is the Company proposing to apply the proposed Rate Year 1 general revenue increases to the rates under Schedules 17 and 18?

A. Similar to the TOU Schedules 7 and 8 the Company is proposing to treat Schedules 17 and 18 similar to Schedule 11/12 by increasing the customer charge by $4.00, from $21.00 to $25.00 per month. The Company proposes a uniform percentage increase applied to the two (block) energy rates consistent with the percentage change applied to the Schedule 11 block rates.

Q. How is the Company proposing to apply the proposed Rate Year 2 general revenue increases to the rates under Schedules 17 and 18?

A. Consistent with Schedule 11/12, for Rate Year 2 the Company is proposing that the customer charge increase from $25.00 to $30.00. The remaining revenue increase for those schedules is proposed to be recovered through a uniform percentage increase consistent with the percentage change applied to the Schedule 11 block rates.

Q. Turning to Optional Commercial Electric Vehicle Rate General Service Schedule 13, would you please describe the present rate structure and rates under this schedule?

A. Yes. The present "time-of-use" rate structure under this schedule includes a monthly customer charge of $21.00, an energy rate of 22.149 cents per kWh for all on-peak kWhs per month, and an energy rate of 8.820 cents for all off-peak kWhs per month.

Q. How is the Company proposing to apply the proposed Rate Year 1 general revenue increases to the rates under Schedule 13?

A. The Company is proposing to treat Schedule 13 similar to Schedule 11 by

increasing the customer charge by $4.00, from $21.00 to $25.00 per month. The remaining revenue increase for the schedules is proposed to be recovered through a uniform percentage increase applied to the two (block) energy rates. Finally, the Company is proposing to increase the minimum charge for single phase service from $21.00 to $25.00 per month, and three phase service from $28.35 to $32.35 per month.

Q. How is the Company proposing to apply the proposed Rate Year 2 general revenue increases to the rates under Schedule 13?

A. Consistent with Schedule 11, the Company is proposing that the customer charge be increased by $5.00, from $25.00 to $30.00 per month. The remaining revenue increase for the schedules is proposed to be recovered through a uniform percentage increase applied to the two (block) energy rates.

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 Rate Year 1 increase of $17,299,000 to the rates within the schedules?

A. Yes. Large General Service Schedules 21/22 consists of a minimum monthly charge of $600.00 for the first 50 kW or less, a demand charge of $7.50 per kW for monthly demand in excess of 50 kW, and two energy block rates: 7.914 cents per kWh for the first 250,000 kWhs per month, and 7.054 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) increase from the present level of $600.00 per month to $750.00 per month. The demand charge for over 50 kW per month would be increased by $1.50 per kW, from $7.50 to $9.00, for the reasons provided previously in my testimony. The remaining 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 0.813 cents per kWh, and an increase of 0.726 cents per kWh for usage over 250,000 kWhs per month.

Q. Would you please describe how the Company is proposing to apply Schedule 21/22's Rate Year 2 increase of $17,536,000 to the rates within the schedule?

A. Yes. The Company is proposing that the minimum demand charge (for the first 50 kW or less) increase from the proposed Rate Year 1 level of $750.00 per month to $900.00 per month. The demand charge for over 50 kW per month would be increased by $1.00 per kW, from $9.00 to $10.00. The remaining 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 under the schedules is 0.934 cents per kWh, and an increase of 0.833 cents per kWh for usage over 250,000 kWhs per month.

Q. Turning to Optional Commercial Electric Vehicle Rate Large General Service Schedules 23, would you please describe the present rate structure and rates under these schedules?

A. Yes. The present "time-of-use" rate structure under this schedule includes a monthly customer charge of $600.00, an energy rate of 17.039 cents per kWh for all on-peak kWhs per month, and an energy rate of 6.885 cents for all off-peak kWhs per month.

Q. How is the Company proposing to apply the proposed Rate Year 1 general revenue increases to the rates under Schedule 23?

A. The Company is proposing to increase the customer charge by $150.00, from $600.00 to $750.00 per month. The Company proposes the remaining revenue be applied as a

uniform percentage increase to the two (block) energy rates.

Q. How is the Company proposing to apply the proposed Rate Year 2 general revenue increases to the rates under Schedule 23?

A. Consistent with Schedule 21/22, the Company is proposing that the customer charge be increased by $150.00, from $750.00 to $900.00 per month. The remaining revenue increase for the schedules is proposed to be recovered through a uniform percentage increase applied to the two (block) energy rates.

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 Rate Year 1 increase of $6,049,000 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: 5.895 cents per kWh for the first 500,000 kWhs per month, 5.294 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 of $30,650 per month remain unchanged and the demand charge for kVa over 3,000 per month of $8.30 increase to $9.00. The remaining 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 0.981 cents per kWh, 0.881 cents per kWh for the next 5.5 million, and 0.719 cents per kWh for all usage over 6 million kWhs per month.

Q. Would you please describe how the Company is proposing to apply

Schedule 25's Rate Year 2 increase of $6,132,000 to the rates within the schedule?

A. Yes. The Company is proposing that the present minimum demand charge of $30,650 per month remain unchanged and the proposed Rate Year 1 demand charge for kVa over 3,000 per month of $9.00 increase to $10.00. The remaining revenue increase for the schedules 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 0.964 cents per kWh, 0.866 cents per kWh for the next 5.5 million, and 0.706 cents per kWh for all usage over 6 million kWhs per month.

Q. Turning to the large Special Contract, would you please describe the present rate structure under that schedule and how the Company is proposing to apply both the Rate Year 1 and Rate Year 2 increases to the rates within the schedule?

A. The single large Special Contract with Inland Empire Paper Company has a rate design similar to Extra Large General Service Schedule 25 which 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: 4.784 cents per kWh for the first 500,000 kWhs per month, 4.299 cents per kWh for the next 5.5 million kWhs, and 3.667 cents per kWh for all usage in excess of 6 million kWhs.

The Company's single large Special Contract approved in Docket UE-200900 specifies that the rate design for the special contract will remain consistent with Schedule 25. Consistent with the rate design previously discussed for Schedule 25, the Company proposes to increase the demand charge for kVa over 3,000 per month of $8.30 increase to $9.00 in Rate Year 1 and from $9.00 to $10.00 in Rate Year 2. The remaining base rate increase would be applied to the three energy blocks on a uniform percentage basis for both Rate Year 1 and Rate Year 2.

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 $21.00 per month, and three energy block rates: 11.464 cents per kWh for the first 85 kWh per kW of demand, 11.464 cents per kWh for the next 80 kWh per kW of demand (but not more than 3,000 kWhs), and 8.023 cents per kWh for all additional usage.

Q. What changes are you proposing to the rates under Pumping Schedules 31/32 to recover the Rate Year 1 general revenue increase of $1,774,000?

A. The Company is proposing that the customer charge be increased by $4.00, from $21.00 to $25.00 per month, with the remaining revenue increase 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 1.464 cents per kWh, and the increase in the third block rate is 1.024 cents per kWh.

Q. Please describe how the Company is proposing to apply Schedule 31/32's Rate Year 2 increase of $1,798,000 to the rates within the schedules.

A. The Company is proposing that the customer charge of $25.00 per month increase to $30.00 per month, and that the remaining revenue increase be spread on a uniform percentage basis to the energy rate blocks under the schedules. The proposed increase in the first and second block rate is 1.457 cents per kWh, and the increase in the third block rate is 1.020 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 Rate Year 1 revenue increase of $967,000 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.

Q. How is the Company proposing to spread the proposed Rate Year 2 revenue increase of $981,000 applicable to Street and Area Light (Schedules 41-48)?

A. Consistent with Rate Year 1, the Company proposes to increase present street and area light (base) rates on a uniform percentage basis. The (base tariff) rates for both Rate Year 1 and Rate Year 2 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. First, the Company proposes to cancel tariff schedule 41. Schedule 41 is a Company-owned street light service for mercury vapor streetlights. Mercury vapor lighting technology has been obsolete for some time and new customers have been precluded from taking service on this schedule since December 18, 1981. All customers who had been taking service on this schedule have either moved to a newer lighting technology served on Rate Schedule 42 or discontinued their lighting service altogether. Given that no customers are taking service on this rate schedule, and any new installations are precluded from taking service on this rate schedule, the Company asks that this tariff be cancelled in its entirety.

Second, 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 prior general rate cases, the Company will, as a part of its Compliance Filing for both rate years, 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 Exhs. JDM-5 and JDM-6?

A. Yes. Exh. JDM-5 contains a copy of the Company's present natural gas tariffs presently on file with the Commission. Exh. JDM-6 contains the proposed natural gas tariff sheets incorporating the proposed changes for Rate Year 1 and Rate Year 2.

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 Rate Year 1 and Rate Year 2 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 Rate Year 1 general increase. Page 3 and 4 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 Rate Year 1 and Rate Year 2 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.[6]

Q. Would you please explain which customers are eligible for service under Schedules 112 and 132?

A. Yes. 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 will not receive natural gas costs deferrals which are not

[6] Schedule 148 contracts negotiated under Schedule 148 have fixed rates that do not vary with changes in base rates.

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 June 2023 (the test year utilized in this case), the Company provided service to the following number of Washington customers under each of its schedules:

Table No. 7 – Natural Gas Customers by Service Schedule

Rate Schedule	No. of Customers
General Service Schedule 101	173,320
Large General Service Schedules 111/112/116	3,554
Interruptible Sales Service Schedules 131/132	4
Transportation Service Schedule 146/148	44

Proposed Natural Gas Rate Spread

Q. For Rate Year 1, what is the proposed natural gas revenue increase, and how is the Company proposing to spread the increases by rate schedule?

A. For Rate Year 1, the proposed base revenue increase is $17,293,000, or 13.6% in base margin[7] revenue. The proposed general change over present billing rates, after including

[7] 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.

all other rate adjustments (such as the Purchased Gas Cost Adjustment, DSM and LIRAP), is 6.3%. Provided below is a table showing the effect of the Company's proposed natural gas change by rate schedule:

Table No. 8 - Proposed % Natural Gas Change by Schedule[8]

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedule 101	13.8%	6.9%
Large General Service Schedules 111/112/116	13.8%	4.5%
Interrupt. Sales Service Schedules 131/132	13.8%	5.2%
Transportation Service Schedule 146	13.8%	14.3%
Overall	**13.6%**	**6.3%**

Q. What rationale 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 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 is proposing to spread the revenue increase on a uniform percent of margin revenue basis. This proposed rate spread makes modest movement for all rate schedules toward rate parity on a return ratio basis. Table No. 9 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:

[8] For Schedule 146, customers served on this schedule procure their own natural gas commodity and interstate transportation. As such, their billed percentage does not include a value for commodity and transportation, while the other service schedules billed percentage increases do incorporate those items, as set forth in Schedule 150.

Table No. 9 – Present and Proposed Ratios

	Present		Proposed	
Rate Schedule	Parity Ratio	Return Ratio	Parity Ratio	Return Ratio
General Service Schedule 101	0.97	0.89	0.97	0.93
Large General Service Schedules 111/112	1.21	1.58	1.21	1.38
Interruptible Sales Service Schedules 131/132	1.34	1.90	1.34	1.61
Transportation Service Schedule 146	0.74	0.41	0.74	0.49
Overall	**1.00**	**1.00**	**1.00**	**1.00**

As you can see, the rate spread proposal makes some additional movement towards parity for all rate schedules under the Return Ratio.

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 and Transportation Service Schedule 146, given those schedules distance from a Return and Parity ratio of 1.0. 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.

Q. For Rate Year 2, what is the proposed natural gas revenue increase, and how is the Company proposing to spread the increase by rate schedule?

A. For Rate Year 2, the proposed natural gas increase is $4,564,000, or 3.2% over base tariff rates. The proposed general increase over billing rates, including all other rate adjustments (such as the Purchased Gas Cost Adjustment, DSM and LIRAP), is 1.6%. Consistent with the proposed Rate Year 1 rate spread, the Company used a uniform percentage of revenue for purposes of spreading the proposed Rate Year 2 natural gas revenue increase to

all rate schedules. The proposed percentage increase by rate schedule is as follows:

Table No. 10 - Proposed % Natural Gas Change by Schedule

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedule 101	3.2%	1.7%
Large General Service Schedules 111/112/116	3.2%	1.1%
Interrupt. Sales Service Schedules 131/132	3.2%	1.3%
Transportation Service Schedule 146	3.2%	3.3%
Overall	**3.2%**	**1.6%**

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 Schedule 101 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 (for Rate Year 1) and 4 (for Rate Year 2) of Exh. JDM-7 shows the present and proposed rates under each of the rate schedules, including all present rate adjustments (adders). Column (e) 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 <u>Rate Year 1</u> general revenue increase to the rates within Schedule 101?

A. The Company proposes to increase the monthly basic/customer charge by $5.50 per month, from $9.50 to $15.00 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 $0.50669 to $0.51963, and the second block (over 70 therms) would increase from $0.65853 per therm to $0.67533 per therm. I will discuss the rationale for the increase in the basic charge later in my testimony.

Q. How does the Company propose to spread Schedule 101's proposed <u>Rate Year 2</u> general revenue increase of $3,536,000 to the rates within that schedule?

A. The Company proposes to increase the monthly basic/customer charge by $5.00 per month, from $15.00 to $20.00 per month. The Company proposes to apply the remaining revenue as an equal percentage decrease to the two energy blocks.

Q. For Rate Year 1, what would be the change in a residential customer's bill with average usage based on the proposed increase for Schedule 101?

A. The proposed monthly bill change for a residential customer using an average of 66 therms of natural gas per month would be $6.36 per month, or 6.7%. The present bill for 66 therms per month is $94.86, and the proposed bill would be $101.22, including the effects of the proposed $5.50 increase in the monthly basic charge.

Q. For Rate Year 2, what would be the change in a residential customer's bill with average usage based on the proposed increase for Schedule 101?

A. The proposed monthly bill change for a residential customer using an average of 66 therms of natural gas per month would be $2.04 per month, or 2.0%. The proposed bill for 66 therms per month is $103.26, including the effects of the proposed $5.00 increase in the monthly basic charge, offset by a decrease in volumetric rates.

Q. For Rate Year 1, please explain the proposed changes in the rates for Large General Service Schedules 111/112/116.

A. The present rates for Schedules 101 and 111/112/116 provide a clear distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedule 101, 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 $139.17 per month for Schedules 111/112/116 (for 200 therms or less) maintains the present relationship between the Schedules 101 and 111/112/116 and will minimize customer shifting.[9] The remaining proposed revenue increase for Schedules 111/112/116 was then spread on a uniform percentage increase of 15.9% to the remaining rate blocks.

Q. For Rate Year 2, please explain the proposed changes in the rates for Large General Service Schedules 111/112/116.

A. For the reasons provided for Rate Year 1 the Company proposes a minimum charge of $133.45 per month for Schedules 111/112/116 (for 200 therms or less) to maintain the present relationship between the Schedules 101/102 and 111/112/116 and minimize customer shifting. The remaining proposed revenue for Schedules 111/112/116 was then spread on a uniform percentage increase of 5.2% to the remaining rate blocks.

Q. For Rate Year 1, how is the Company proposing to spread the proposed increase of $89,000 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 13.9%.

Q. For Rate Year 2, how is the Company proposing to spread the proposed increase of $24,000 to the rates under Interruptible Schedules 131/132?

[9] The calculation of the minimum charge for Schedules 111/112/116 is equal to the total bill for 200 therms priced at Schedule 101 base rates (excluding Schedule 150 natural gas rates and all other rate schedules).

A. The Company proposes to increase the four block rates under the schedule by a uniform percentage increase of approximately 3.2%.

Q. For Rate Year 1, please explain the proposed changes in the rates for Transportation Schedule 146.

A. The Company is proposing to increase the present basic charge of $700 per month by $150, to $850 per month. For the remaining revenue requirement, the Company is proposing to spread the increase on a uniform percentage basis of approximately 13.1% to each of the present five block rates under the schedule.

Q. For Rate Year 2, please explain the proposed changes in the rates for Transportation Schedule 146.

A. The Company is proposing to increase the present basic charge of $850 per month by $50, to $900 per month. The revenue requirement is proposed to be spread on a uniform percentage basis of approximately 2.9% 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 prior general rate cases, 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 for both Rate Year 1 and Rate Year 2.

IV. BASIC CHARGE FOR SCHEDULES 1, 7, 8 & 101

Q. Why is the Company proposing to increase the residential electric monthly customer charge for Schedules 1, 7 and 8 from $9.00 to $15.00 per month in Rate Year 1 and $15.00 to $20.00 in Rate Year 2?

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 Exh. MJG-2, page 41, line 45, are $26.55 per customer per month. As reflected in this filing, the fixed costs of operating and maintaining our electric system are increasing. Even with decoupling mechanisms, the Company believes it is important that rates better reflect these increasing costs to serve customers.

Q. When was the last time the Commission approved an increase to the monthly customer charge?

A. The last approved increase to the customers charge occurred in May of 2018 in Docket UE-170485 when the customer charge increased from $8.50 per month to $9.00 per month. By the time the proposed rates go into effect from the current general rate case it will have been approximately 6.5 years since the last time the customer charge was increased.

Q. Why is the Company now proposing significant basic charge increases in this filing?

A. One of the arguments against higher residential basic charges in the past was one of customer understandability, acceptance, and equity. 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 in nature, and have become accustomed to paying a relatively constant monthly fee for service.

Q. Are there in examples of other utilities in the region who are charging higher customer charges?

A. Yes. Consumer-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 $26.55 per month. Avista's nearest neighbor in North Idaho, Kootenai Electric Cooperative, has a residential monthly basic charge of $32.50. Avista's Idaho jurisdiction has a present $15.00 basic charge that will increase to $20.00 on September 1, 2024.

The California Public Utility Commission has several proposals before it today from its three major utilities that would implement a fixed charge based on income. As an example, San Diego Gas and Electric is proposing a $24.00 fixed charge for those with annual household income of less than $28,000, $34.00 for household income between $28,000 to about $69,000, $73.00 for household income between $69,000 to $180,000, and $128.00 for household income above $180,000. The other two utilities have proposed monthly fixed charges as low as $15.00 for low-income customers that would increase up to $85.00 - $92.00 for higher earners.[10]

[10] https://www.usatoday.com/story/money/personalfinance/2023/06/20/california-electricity-bills-income-based/70331875007/

Q. Turning now to natural gas, why is the Company proposing to increase the Schedule 101 monthly customer charge from $9.50 to $15.00 per month in Rate Year 1 and $15.00 to $20.00 in Rate Year 2?

A. Upon evaluation of the Schedule 101 total customer allocated costs, as shown in Mr. Anderson's Exh. JCA-3, page 4, line 24, those costs are $37.43 per customer per month. Included in the fixed costs in the $37.43 noted above are the cost of the meter and service, and the costs associated with billing and providing customer service, which amounts to $18.60 per customer per month, as shown in Exh. JCA-3, page 4 line 22.

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

A. Because rate design is a "zero sum game", if customer charges are set below the cost of providing those services, 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, and vice versa in the 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. 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. Will 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 even with the Company's proposed basic charge increase will still send a very clear price signal to conserve.

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 based on the Basic Charge and volumetric rates being increased on a uniform percentage basis, versus the Company's proposed changes. Table No. 11 below details results of that analysis for residential electric customers on Schedule 1:

Table No. 11–Bill Impacts for Low, Medium and High Electric Customers on Schedule 1

Monthly Bill Impact	Current Billed Rate	Equal Percentage	Avista Proposed	Difference Equal % vs. Proposed	Percent. Difference
500 kWh/mo Customer	$54.48	$61.58	$64.06	$2.48	**4.0%**
945 kWh/mo Customer	$97.26	$109.93	$110.19	$0.27	**0.2%**
1600 kWh/mo Customer	$169.18	$191.21	$187.77	-$3.44	**-1.8%**

Table No. 12 below details the analysis for natural gas customers on Schedule 101:

Table No. 12 – Bill Impacts for Low, Medium and High Gas Customers on Schedule 101

Monthly Bill Impact	Current Billed Rate	Equal Percentage	Avista Proposed	Difference Equal % vs. Proposed	Percent. Difference
30 therms/mo Customer	$48.30	$51.71	$54.19	$2.48	**4.8%**
66 therms/mo Customer	$94.86	$100.79	$101.22	$0.43	**0.4%**
90 therms/mo Customer	$128.94	$136.96	$135.68	-$1.28	**-0.9%**

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 945 kWh's and/or 66 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 No. 13 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 0.2% annual difference in overall payment.

Table No. 13 – Monthly Bills for a Residential Schedule 1 Electric Customer using an Average of 945 kWhs per Month

Month	kWh's	Equal Percentage	Avista Proposed	Higher / Lower Bill
January	1,236	$145.06	$143.72	($1.33)
February	1,049	$122.48	$122.18	($0.30)
March	1,010	$117.77	$117.68	($0.09)
April	832	$96.28	$97.18	$0.89
May	768	$88.56	$89.80	$1.24
June	750	$87.28	$88.58	$1.30
July	863	$98.90	$99.67	$0.77
August	949	$110.41	$110.66	$0.25
September	733	$85.53	$86.91	$1.38
October	786	$90.98	$92.11	$1.13
November	1,019	$118.86	$118.72	($0.14)
December	1,344	$158.10	$156.17	($1.93)
Total Annual	**11,339**	**$1,320.21**	**$1,323.39**	**$3.18**
Total % Bill Change				**0.2%**

Table No. 14 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 No. 14 – Monthly Bills for a Schedule 101 Natural Gas Customer using an Average of 66 therms per Month

Month	Therms	Equal Percentage	Avista Proposed	Higher / Lower Bill
January	135	$206.09	$201.47	($4.62)
February	116	$176.90	$173.70	($3.21)
March	86	$130.82	$129.83	($0.98)
April	61	$93.97	$94.69	$0.71
May	34	$57.16	$59.41	$2.25
June	19	$36.71	$39.82	$3.11
July	14	$29.90	$33.29	$3.39
August	13	$28.53	$31.98	$3.45
September	23	$42.17	$45.05	$2.88
October	52	$81.70	$82.93	$1.23
November	97	$147.72	$145.92	($1.80)
December	136	$207.62	$202.94	($4.69)
Total Annual	**786**	**$1,239.30**	**$1,241.02**	**$1.72**
Total % Bill Change				**0.1%**

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. Although the Company has not conducted a demographic survey of its customers in recent years, the data that we do have available 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 cannot afford to convert. These limited income

customers, with electric space and water heat, can have electric usage in the tail-block (above 1,500 kWh's) 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 are currently enrolled in the Company's bill discount program and compared their usage during the July 2022 through June 2023 time period to the usage of all other residential customers.[11] The results of the analysis are shown in the Table 15 below:

Table 15 - Electric Residential Billed Usage Analysis (Not Weather Corrected)

	Average Annual kWh Usage	Average Monthly kWh Usage
Total Limited Income	12,721	1,060
Total All Other Residential Customers	11,581	965
Difference	**1,140**	**95**

The analysis shows that limited income customers who only have electric service use 1,140 kWhs more per year than the residential population. For those limited income customers who have electric and natural gas service, they tend to use more electricity on an annual basis.

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

[11] Customer usage extracted from the Company's billing system were from Schedule 1 customers that were enrolled in the Company's bill discount program. 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 known participants to be the proxy group for the limited income population.

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 13 where higher use customers would have less of an overall bill impact with a $15 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., $15 basic charge) than if the basic charge and volumetric rate were increased by a uniform or equal percentage. Data gathered with parameters similar to the electric analysis discussed previously showed that limited income natural gas customers tend to use slightly less natural gas (53 therms per month) than the residential customer population (66 therms per month). As shown in Table 16 below, while there is an impact, it is relatively small both on a dollar and percentage basis (between 0.4% and 1.4%).

Table 16 – Avista Residential vs Limited Income Customer Impact

Monthly Bill Impact	Current Rates	Equal Percentage	Avista Proposed	Difference Equal % vs. Proposed	Percent. Difference
53 Therm/mo Customer	$78.05	$83.07	$84.23	$1.16	**1.4%**
66 Therm/mo Customer	$94.86	$100.79	$101.22	$0.43	**0.4%**

Q. In summary, do you believe it is more equitable for the Company's low-income customers to actually have a higher basic charge?

A. Yes, I do. As I have demonstrated above, low-income electric customers, who use more electricity than non-low-income customers pay more in fixed costs given the Company's inclining block structure under Schedule 1. These fixed costs are more appropriate

to be included in a fixed monthly fee, applicable to all customers, and not shifted to more vulnerable customers who tend to have electric space and water heat, and live in dwellings that tend to be less efficient than their counterparts. The present rate structure on its face is inequitable when low users of electricity are not paying their fair share of fixed costs, and those costs are shifted to higher users who cannot, in some circumstances, do anything about their usage.

Q. Is a higher basic charge also more appropriate when considering the continued adoption of solar and other net energy metering (NEM) technologies?

A. Yes. In fact a recently conducted study by E3 evaluated the effects of cost shifting from NEM technologies in the state of Washington. That study concluded the following results related to cost shifting[12]:

> Compensation through net energy metering significantly exceeds the value of customer solar to the utility, resulting in a cost shift from solar to non-solar customers
>
> - The total residential cost shift (with no changes to the legislative NEM minimum) is forecast to be $40.7M by the end of 2024, and estimated to grow to $56.8M by 2030
> - The total residential cost shift (with the legislative NEM minimum removed) is forecast to be $42.3M by the end of 2024, and estimated to grow to $78.2M by 2030
> - We estimate this results in **low-income bill impacts of $5-29/year** for an average customer among the utilities studied (emphasis added)

Q. Is Avista forecasting a significant penetration rate of solar adoption on its system?

A. Yes. The latest Company forecasts are predicting approximately 15% of all

[12] E3, Washington Utilities NEM Evaluation, Draft Results, November 7, 2023, Pg 32

customers will adopt solar, at some level, by 2040.

Q. What conclusions can be drawn from the E3 study?

A. If utilities do not address the inequities in current rate designs, an even more disproportionate amount of fixed costs will continue to be borne by higher use customers through the volumetric energy charges. In particular, low income customers who tend to have lower adoption rates of NEM technologies and higher usage than average customers will incur higher bill impacts as the continued cost shift is borne by higher use customers in the volumetric energy charges. A higher basic charge, more reflective of the fixed costs to serve each customer, is an important step to address this inequity and help protect low income customers from bearing these costs.

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

A. Yes, it does.