

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION
COMMISSION,

Complainant,

v.

AVISTA CORPORATION, D/B/A
AVISTA UTILITIES,

Respondent.

DOCKETS UE-160228 and
UG-160229 (*Consolidated*)

**POST-HEARING BRIEF OF
PUBLIC COUNSEL**

November 7, 2016

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I. INTRODUCTION

1. This general rate case is the most recent in a long line of sequential rate cases filed by Avista Corporation, d/b/a Avista Utilities (Avista). It appears that Avista intends to continue the pattern of annual rate increases, which will directly impact all customers in Avista's service territory. This impact must be weighed against the evidence before the Commission that Avista is a very healthy utility that seems to have little need for increased revenue. The Commission should carefully consider whether Avista needs yet another rate increase, or whether Avista is able to live within its means. Given that evidence shows that Avista has over-earned in its electric operations over the last several years and is projected to over-earn in both its electric and natural gas operations in 2016, it would be reasonable for the Commission to reject Avista's rate request and require Avista to live within its means.

2. In this brief, Public Counsel will address Avista's request to increase its authorized return on equity, request for attrition adjustments, and use of "cross check studies" based on projections. Public Counsel will also address Avista's rate spread, Staff's proposal for a generic proceeding on cost of service studies, and Avista's basic charge. Finally, Public Counsel will address the Industrial Customers of Northwest Utilities' (ICNU) proposal regarding DSM funding and will highlight public comments made in this case.

II. RETURN ON EQUITY CONTINUES TO TREND DOWNWARD, CONTRARY TO AVISTA'S PROPOSED REQUEST TO INCREASE ITS AUTHORIZED RETURN ON EQUITY.

3. In this case, Avista proposes to set the authorized return on equity at 9.9 percent with a common equity ratio of 48.5 percent. In Avista's last general rate case, cost of capital and

capital structure were resolved by settlement, which was adopted by the Commission in Order 05 of Dockets UE-150204 and UG-150205.¹ Avista's current authorized return on equity is 9.5 percent, and the capital structure adopted in Order 05 from Avista's last general rate case includes 48.5 percent equity. Thus, Avista is seeking to keep its authorized capital structure steady and to increase its return on equity by 40 basis points.

4. Avista's request to increase its authorized return on equity runs contrary to how state regulatory agencies have set return on equity in recent years. Staff witness David Parcell testifies that the costs of capital have declined since the Great Recession.² In particular, from 2012 and into the second quarter of 2016, the average return on equity authorized by state regulatory agencies declined from 10.01 percent to 9.52 percent for electric and from 9.94 percent to 9.45 percent for natural gas.³

5. State regulatory agencies must set rates such that regulated utilities are able to maintain their credit and attract capital.⁴ Indeed, if a utility is able to maintain its credit and attract capital at reasonable terms, its rates are not confiscatory and thus, meet the constitutional test established under *Hope*.

6. Avista is a healthy utility. Notably, Avista's bond ratings have improved over the past decade.⁵ According to Mr. Gorman's testimony, "Avista's current corporate bond ratings from

¹ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-150204 and UG-150205 (*Consolidated*), Order 05 ¶¶ 12, 23 (Jan. 6, 2016) (Order 05).

² The Great Recession describes the period after the 2007 collapse of the sub-prime mortgage market from 2008 to mid-2009.

³ Testimony of David C. Parcell, Exhibit No. DCP-1T at 14:10-15.

⁴ *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603, 64 S. Ct. 281, 88 L. Ed. 333 (1944). *See also, In re Permian Basin Area Rate Cases*, 390 U.S. 747, 791-792, 88 S. Ct. 1344, 20 L. Ed. 2d 312 (1968).

⁵ Parcell, Exhibit No. DCP-1T at 16:8-9; Exhibit No. DCP-5.

S&P and Moody's are BBB and Baa1, respectively. Both rating agencies have a Stable outlook for Avista."⁶

7. Another indication of Avista's financial health is its return on equity. For its electric operations, it has earned near or above its authorized return on equity since 2013.⁷ Earnings projections based on the first two quarters of 2016 yield a return on equity for electric operations of 9.54 percent, just above the authorized return of 9.5 percent.⁸ Although natural gas operations have yielded lower returns since 2013, Avista projects a healthy return of 10.2 percent in 2016 based on the first two quarters of 2016.⁹
8. Public Counsel supports setting an authorized return on equity for Avista lower than 9.9 percent, and both witnesses for Staff and ICNU present analysis showing returns on equity lower than 9.9 percent. Staff witness Mr. Parcell recommends a return on equity of 9.2 percent.¹⁰ ICNU witness Michael Gorman recommends a return on equity of 9.1 percent.¹¹

III. THE COMMISSION SHOULD DENY AVISTA'S REQUEST FOR AN ATTRITION ADJUSTMENT FOR ELECTRIC AND NATURAL GAS RATES.

9. In this rate case, Avista requests attrition adjustments above revenue requirement calculations resulting from the Commission's standard modified historical test year methodology for both electric and natural gas operations. Additionally, Avista seeks an 18-month rate plan with rate increases going into effect in January 2017 and January 2018. For electric operations, Avista proposes rate increase of \$38.6 million, or 7.8 percent, effective January 2017, and

⁶ Response Testimony of Michael P. Gorman, Exhibit No. MPG-1T at 14:5-6.

⁷ Rebuttal Testimony of Kelly O. Norwood, Exhibit No. KON-1T at 11:3-11.

⁸ Norwood, Exhibit No. KON-1T at 13:1-18.

⁹ *Id.*

¹⁰ Parcell, Exhibit No. DCP-1T at 35:13-14.

¹¹ Gorman, Exhibit No. MPG-1T at 2:2-12.

\$10.3 million, or 3.9 percent, effective January 2018. For natural gas operations, Avista proposes a rate increase of \$4.4 million, or five percent, effective January 2017, and \$900,000, or 1.8 percent, effective January 2018.¹²

10. In Avista’s last rate case, the Commission provided guidance with respect to how a utility requests attrition adjustments. In particular, although the Commission determined that extraordinary circumstances are no longer required to justify attrition adjustments, utilities are required “to demonstrate persuasively that the attrition occurring is outside of their control.”¹³ In doing so, the Commission acknowledged Avista’s argument that low load and revenue growth was contributing to “a challenging environment.”¹⁴ However, the Commission also recognized that embracing attrition adjustments posed a risk to ratepayers that Avista could manage its capital expenditures without regard to rate impact, actual need, and only in reference to its own budgeted targets.¹⁵ In this case, Avista has not persuasively demonstrated that the claimed attrition is occurring outside of its control, and as discussed below, the Commission should deny Avista’s request for attrition adjustments.

A. Avista failed to meet its burden of proving that its expenses are escalating beyond its control, thus failing to justify its proposed attrition adjustment.

1. Avista’s expenses are increasing over time more rapidly than measures of inflation.

11. Public Counsel witness, Mr. Glenn Watkins evaluates certain expenses that are generally within a utility’s control over a number of years to examine how Avista’s expenses have

¹² Avista’s costs continued to rise during the course of the rate case, but the Company is not seeking the increased revenue requirement. Avista is limiting its request to the amount in its original filing.

¹³ Order 05 ¶ 119.

¹⁴ *Id.*

¹⁵ *Id.*

performed. In particular, Mr. Watkins evaluated Avista's (1) distribution operating and maintenance expenses, (2) customer accounting and service expenses, and (3) administrative and general expenses for both electric and natural gas operations.¹⁶ Mr. Watkins chose those categories of expenses because they are, in his opinion, "well within the control of management."¹⁷ These expenses are unlike power supply and transmission costs because power supply and transmission costs are largely not labor-related and are often subject to market variances or fuel prices.¹⁸

12. Mr. Watkins did not evaluate whether the costs were reasonable, and he did not propose a revenue requirement calculation. Mr. Watkins compared the categories of expenses with measures of inflation to evaluate the rate at which the expenses increased over time. He found that the expenses increased at a faster rate than the rate of inflation, as discussed below. He also evaluated Avista's explanation, or lack thereof, regarding why its expenses are increasing.

B. Mr. Watkins' uses the Producer Price Index (PPI) and Consumer Price Index (CPI) to measure general inflation.

1. PPI and CPI are reasonable proxies for general inflation.

13. Both Avista and Commission Staff criticize Mr. Watkins' use of PPI and CPI in his analysis of trends in Avista's expenses.¹⁹ Mr. Watkins uses PPI and CPI as proxies against which to measure the growth in Avista's expenses. Generally, PPI measures a broad group of goods and services while CPI measures the average change over time in the prices paid by urban

¹⁶ Direct Testimony of Glenn A. Watkins, Exhibit No. GAW-1T at 11:14-16 and 22:8-10.

¹⁷ Watkins, Exhibit No. GAW-1T at 11:16-17 and 22:10-11.

¹⁸ Watkins, Exhibit No. GAW-1T at 11:17-19.

¹⁹ Testimony of Christopher S. Hancock, Exhibit No. CSH-10T; Rebuttal Testimony of Dr. Grant D. Forsyth, Exhibit No. GDF-1T.

customers for a market basket of consumer goods and services.²⁰ The term “urban” refers to metropolitan statistical areas, and Spokane is the major component of the metropolitan statistical area to which it belongs.²¹ Indeed, the remaining areas of Spokane’s metropolitan statistical area are quite rural and were recently added to the metropolitan statistical area due to worker flows.²²

14. Indices can be used as approximations to measure how similar or different things are.²³ Mr. Watkins choose CPI and PPI over CPI-Utility and PPI-Utility, which were used by Staff witness Mr. Hancock, because they did not include items that are beyond the utility’s control, such as fuel costs. PPI-Utility, in particular, includes fuel costs, which are beyond the control of the utility.²⁴ In recognition of the lack of control over fuel costs, Avista has a purchase gas adjustment mechanism, which passes fuel costs through to its customers.²⁵ Expenses that are rising beyond the control of the utility should be within the utility’s control in the first instance, but fuel costs are not in the utility’s control. As a result, using an index that includes the impact of fuel costs to compare how a utility’s expenses are performing is not the most appropriate measure to use in an attrition case.

15. The Washington Employment Securities Department provides another example of a proxy used to measure inflation. The Washington Employment Securities Department maintains salary information for the state by county, and it uses the Personal Consumer Expenditure Implicit Price Deflator to convert nominal wages into constant dollars. The Personal Consumer

²⁰ Hancock, Exhibit No. CSH at 2:12-16.

²¹ Mr. Forsyth criticizes Mr. Watkins for using the CPI due to the measure being “urban.” Forsyth, Exhibit No. GDF-1T at 14:23; TR. 143:1-14, 144:4-18.

²² Forsyth, TR. 143:2 – 144:18; 154:23 – 156:5.

²³ See, Danner, TR. 162:1 – 165:9.

²⁴ Hancock Cross Exhibit, Exhibit No. CSH-12CX; Hancock, Exhibit No. CSH-13CX.

²⁵ Hancock, TR. 386:18 – 387:23.

Expenditure measure is similar to CPI.²⁶ When looking at the annual percentage change for the counties in Avista’s service territory with the inflation rates listed in Mr. Watkins’ testimony as measured by CPI and PPI, the values are very similar.²⁷ Mr. Watkins’ use of CPI and PPI to measure inflation in this case was appropriate and reasonable. Indeed, Mr. Hancock stated at hearing, “[W]e probably could get measures of Consumer Price Index specific to the Spokane metro area, which could be used as a proxy for Avista service territory. And I would not expect to see them to divert wildly from the national measure.”²⁸

2. Avista’s expenses are increasing at a faster rate than the rate of inflation.

16. Regardless of the measure used to quantify the rate of inflation, Avista’s costs are increasing greater than the pace of inflation.²⁹ As Mr. Hancock noted at hearing, Avista’s “operating expenses in both services outpace all of the measures of inflation that have been presented in this case.”³⁰

17. Without demonstrating persuasively that the expenses are increasing beyond the utility’s control, as required by the Commission pursuant to Order 05,³¹ the utility has no real incentive to constrain costs and operate efficiently. In this case, Avista failed meet this standard, and as a result, the Commission should decline to award Avista with attrition adjustments for its electric and natural gas services.

²⁶ Hancock, TR. 389:5-24; Hancock, Exhibit No. CSH-14CX.

²⁷ Hancock, Exhibit No. CSH-14CX; Watkins, Exhibit No. GAW-1T at 5, Table 1.

²⁸ Hancock, TR. 392:1 – 393:6.

²⁹ Hancock, TR. 393:7 – 394:20; Hancock, Exhibit No. CSH-10T at 4:4-8.

³⁰ Hancock, TR. 394:17-20.

³¹ Order 05 ¶ 119.

C. The evidence does not demonstrate that expenses escalating beyond Avista’s control.

18. Company witness Ms. Elizabeth Andrews testifies that Public Counsel would have understood the reasons for its expense increases, and thus the reasons for its attrition, “if only one were to ask.”³² This statement ignores that Avista – and Avista alone – carries the burden to establish that the rate increase it seeks is fair, just, reasonable, and sufficient.³³ Rather, Avista shifts the burden to the non-company parties with this statement.³⁴
19. Avista provided one example of costs escalating beyond its control in its rebuttal testimony: the windstorm in November.³⁵ Although Avista understood the directive in the Commission’s Order 05, it states that there are other reasons its expenses are increasing in addition to the November storm.³⁶ It is incumbent upon Avista to provide the evidence of why expenses are escalating beyond its control before the Commission allows further attrition adjustments. Because Avista has failed to meet this burden, the Commission should decline to provide further attrition adjustments in this case.
20. Similarly, Staff recommends an attrition adjustment without providing evidence that Avista’s expenses are escalating beyond the utility’s control. Instead, Staff – who does not carry the burden of proof – merely notes that “Avista will likely experience attrition and that the forces

³² Rebuttal Testimony of Elizabeth M. Andrews, Exhibit No. EMA-6T at 51:21-22.

³³ Avista witness Mr. Kelly Norwood stated at hearing that Avista bears the burden in this case. Norwood, TR. at 83:7-14.

³⁴ Moreover, as Ms. Andrews acknowledges, the parties did share information, both formally and informally during the discovery phase of the case. Andrews, TR. 126:11-13.

³⁵ Andrews, TR. 126:8-10.

³⁶ Andrews, TR. 125:15-24; Andrews, Exhibit No. EMA-6T at 51:19-27.

driving attrition *are more likely than not* outside of the Company’s control.”³⁷ “More likely than not” seems to fall short of “demonstrate persuasively,” as used in Order 05.

D. The Commission should decline to order rate increases to go into effect in January 2017 and then again in January 2018.

21. Avista requests an 18-month rate plan, with rates going into effect in January 2017 and January 2018. Public Counsel recommends that the Commission decline to allow Avista to raise rates in January 2018. A recent National Regulatory Research Institute (NRRI) article on Multiyear Rate Plans discusses whether such plans are in the public interest.³⁸ Nearly all multiyear rate plans have “stay out” provisions that provide an incentive for cost efficiency and reduce the frequency of rate cases.³⁹

22. However, Avista’s proposal builds in a scant six-month stay out along with imposing a rate impact on customers with a second rate increase. This second rate increase eliminates the incentive for cost efficiency that might occur under a situation where a rate is set and a utility stays out for a multiyear period.

23. Additionally, multiyear rate plans have the potential to be based on biased forecasts.⁴⁰ There is the potential for utilities to overstate their costs and understate their revenues, and there is a strong possibility of information asymmetry.⁴¹ Multiyear rate plans also introduce difficulty in determining imprudent costs in a utility’s filing, reducing the threat of disallowances, and

³⁷ Hancock, Exhibit No. CSH-1T at 3:13-16 (emphasis added).

³⁸ Ken Costello. *Multiyear Rate Plans and the Public Interest* (National Regulatory Research Institute 2016).

³⁹ *Id.* at 38.

⁴⁰ *Id.* at 37.

⁴¹ *Id.* at 35-36.

“removing an important regulatory tool to control a utility’s costs.”⁴² With these considerations in mind, Public Counsel does not believe that the 18-month rate plan proposed in this case is in the public interest.

E. The Commission should reject Avista’s proposal to use the ERM to offset the second step rate increase, which would go into effect on January 1, 2018.

24. Avista proposes to use ERM balances to offset the second year rate increases proposed for electric rates.⁴³ In the event the Commission allows a two-step rate plan for Avista, Public Counsel recommends that the Commission reject the proposal to use ERM dollars to offset the second step rate increase. Public Counsel agrees with Staff on this issue. Staff witness Mr. Hancock testified that Avista has not shown a “compelling reason to interfere with the function of the ERM as it was designed.”⁴⁴ Mr. Hancock describes the ERM as a “tool to blunt the impact of power cost variation.” It is not meant to absorb rate increases, and if it is used to absorb rate increases it could result in a rate increase for customers when the credit expires. It could also result in a double rate increase if Avista were to seek another rate increase to go into effect as the credit expires.⁴⁵ Additionally, if the ERM balance is used to absorb a rate impact, it would not be available to absorb changes in power supply costs.⁴⁶ The ERM balance should remain in the ERM absent a compelling reason otherwise, and there is no compelling reason present in this case.

⁴² *Id.* at 38.

⁴³ Direct Testimony of Scott L. Morris, Exhibit No. SLM at 5:1-15.

⁴⁴ Hancock, Exhibit No. CSH-1T at 6:6-8.

⁴⁵ Hancock, Exhibit No. CSH-1T at 7:8-13.

⁴⁶ Hancock, Exhibit No. CSH-1T at 7:1-7.

IV. THE COMMISSION REJECTED AVISTA’S CROSS CHECK STUDY IN THE LAST GENERAL RATE CASE, AND IT SHOULD BE REJECTED IN THIS CASE.

25. In this case, Avista presents several calculations of revenue requirement in its presentation. It presents a pro forma analysis for both electric and natural gas through witness Jennifer Smith and attrition analysis through witness Elizabeth Andrews. According to the Commission’s Order 05 from Avista’s last general rate case, parties must first present a revenue requirement analysis based on a modified historic test year, and Avista accomplishes this analysis through Ms. Smith and Ms. Andrews.⁴⁷

26. Ms. Smith also presents a cross check analysis for both electric and natural gas operations based on projections. In Avista’s last general rate case, Avista based its initial attrition adjustment on budgeted capital spending and portrayed its testimony as a “cross-check” study.⁴⁸ The Commission characterized Avista’s cross-check testimony in the 2015 general rate case as “uncertain and speculative.” In the current case, the Commission should again reject Avista’s cross-check studies as an inappropriate and “uncertain and speculative” method because they continue to be projection-based.

V. THE COMMISSION SHOULD ADOPT STAFF’S RATE SPREAD PROPOSAL AND OPEN A GENERIC PROCEEDING TO ADDRESS ISSUES ASSOCIATED WITH CONDUCTING COST OF SERVICE STUDIES.

27. Commission Staff proposes to maintain the current rate spread among Avista’s customer classes until the Commission opens a generic proceeding to address issues associated with conducting utility cost of service studies. Public Counsel supports Staff’s proposal. As Staff

⁴⁷ Order 05 ¶ 47 at 19 n.60, and ¶ 111.

⁴⁸ Order 05 ¶ 112.

notes, one can determine that the cost of service studies offered in the current case are “directionally accurate” in that one could tell that customer classes were over or under unity.⁴⁹ Commission Staff witness Mr. Jason Ball could not definitively determine how far off of parity the customer classes were, so he was uncomfortable with adjusting parity at this time.⁵⁰

28. Staff is not proposing a one-size-fits-all solution to cost of service studies with respect to the proposed generic proceeding.⁵¹ Rather, Staff envisions a generic proceeding that would produce useful information regarding how cost of service methodology should be applied universally to the investor-owned utilities regulated by the Commission.⁵² Public Counsel is prepared to fully engage in the generic proceeding and believes that such a proceeding would be useful and beneficial.

VI. AVISTA’S BASIC MONTHLY CHARGE SHOULD REMAIN UNCHANGED FOR ELECTRIC AND NATURAL GAS.

29. Avista seeks to increase the basic monthly charge for electric residential customers from \$8.50 to \$9.50 and from \$9.00 to \$9.50 for natural gas residential customers. Public Counsel opposes the proposal to increase the basic customer charge. First, Avista received an increase in its basic charge in Dockets UE-140188 and UG-140189. The regulatory principle of gradualism, combined with Avista’s frequent rate filings, would support delaying any further increases to the customer charge for residential customers.

30. Second, as recognized by Mr. Ball, Avista has a newly implemented full decoupling mechanism, and 2016 is the first full calendar year after implementation of the mechanism.

⁴⁹ Jason L. Ball, TR. 320:2 – 321:12.

⁵⁰ *Id.*

⁵¹ Ball, TR. 327:4-21.

⁵² Ball, TR. 335:6-12.

Avista has not demonstrated that the increase is justified.⁵³ Decoupling supports maintaining a lower customer charge because the mechanism increases the likelihood that a utility will recover its fixed costs.

31. Third, the Commission has a strong policy of not overburdening the customer charge. The Commission has recognized that charges that are not recovered through a utility's "basic charge" are recovered through the variable charges.⁵⁴ Additionally, higher basic charges could reduce the performance of a utility's energy efficiency program.⁵⁵

32. As a result, Public Counsel recommends that the Commission reject Avista's proposal to increase the basic customer charge for residential customers and leave the charges unchanged.

VII. THE COMMISSION SHOULD NOT MODIFY CONTRIBUTIONS FROM SCHEDULE 25 TO DSM.

A. Contributions to the DSM Schedule should not change.

33. ICNU witness Mr. Robert Stephens proposed to change the application of Schedule 91, Demand-Side Management (DSM) Rate Adjustment-Washington to Schedule 25 customers. In particular, Mr. Stephens proposed that Schedule 91 DSM funding apply to only the first two blocks of Schedule 25, resulting in the third block of Schedule 25 not being subject to Schedule 91 DSM funding.⁵⁶ The amount that would have been collected from Schedule 25 would be spread uniformly across all other rate schedules, including the first two blocks of Schedule 25.⁵⁷

⁵³ Ball, Exhibit No. JLB-1T at 17:3-6.

⁵⁴ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-100749, Order 06 at 114, ¶¶ 333-334 (Mar. 25, 2011).

⁵⁵ *Id.*

⁵⁶ Response Testimony of Robert R. Stephens, Exhibit No. RRS-1TC at 42:18-21.

⁵⁷ Stephens, Exhibit No. RRS-1TC at 42:24 – 43:2.

34. Avista witness Mr. Ehrbar offered an alternative that would allow the third block of Schedule 25 to pay one-half of its present DSM rate.⁵⁸ Mr. Ehrbar disagrees that any customer should receive an opt-out option because “the system benefits of the Company’s DSM programs (i.e., lower generation costs due to load reduction) would still accrue to the customer even though the customer did not pay.”⁵⁹

35. Public Counsel recommends that the Commission reject both ICNU and Avista’s proposed modifications to DSM funding. Schedule 25 receives indirect benefits, such as system benefits and reduced power costs. Indeed, Staff witness Mr. Ball noted at hearing that Schedule 25 is benefiting from DSM benefits and to divorce those costs from the benefits violates the cost causation principle.⁶⁰ Schedule 25 customers accrue energy efficiency incentives, but also benefits derived from access to Avista’s DSM staff, who assist commercial customers in evaluating projects.⁶¹

36. Staff’s analysis shows that “the direct and indirect benefits from DSM far exceed the DSM contributions by Schedule 25 customers no matter which allocator is used.”⁶² Cross Exhibit No. PDE-11CX contains funding levels from Schedule 25 customers, and Cross Exhibit No. PDE-12CX includes only the direct rebate benefits received by Schedule 25 customers.⁶³ Cross Exhibit No. PDE-13CX contains information regarding direct incentives received by all customers, including Schedule 25 customers. As a result, no change in funding is needed.

⁵⁸ Rebuttal Testimony of Patrick D. Ehrbar, Exhibit No. PDE-8T at 15:2-3.

⁵⁹ Ehrbar, Exhibit No. PDE-8T at 13:17-22.

⁶⁰ Ball, TR. 314:16-23.

⁶¹ Ehrbar, Cross Exhibit No. PDE-12CX; TR. 271:12 – 272:18.

⁶² Ball, Exhibit No. JLB-5T at 5:3-4.

⁶³ Ehrbar, TR. 272:1-5.

37. Moreover, the Commission’s biennium conservation review order supports leaving DSM funding unchanged. Avista’s biennial budget includes a substantial increase in funding for non-residential customers, while the same is not true of residential customers.⁶⁴ Additionally, Condition 9 requires that the rate spread and rate design must match Avista’s underlying base volumetric rates, which indicates that the level of funding among classes cannot be changed without also changing the conservation conditions in Docket UE-152076.

B. The Commission should not order a new Demand Response program for Schedule 25 customers in this docket.

38. ICNU witness Mr. Stephens recommends a new demand response pilot program for large Schedule 25 customers.⁶⁵ Public Counsel agrees with Staff that this general rate case docket is not the appropriate proceeding in which this proposal should be decided. ICNU’s proposal is narrowly tailored to target a specific customer, so it should not be a tariffed service.⁶⁶ If ICNU’s goal is to implement a demand response program for a single customer, the proposal should be discussed with the Energy Efficiency or IRP Advisory Groups.⁶⁷

VIII. PUBLIC COMMENT

39. Avista customers have experienced near annual rate increases since 2004, and each rate increase has a real and substantial impact on customers. With each announcement of a rate increase, customers take time to communicate with the Commission about what impact the rate increase will have on them. For example, one customer states, “As a Senior Citizen, I’m hoping the proposed rate hike by Avista will be denied. With no Social Security raise this year, it’s

⁶⁴ *In re: Avista Corp, d/b/a Avista Utilities, Biennial Conservation Target*, Docket UE-152076 Order 01 ¶ 6, Table 2 (Jan. 28, 2016).

⁶⁵ Stephens, Exhibit No. RRS-1TC at 46:24 – 47:2.

⁶⁶ Ball, Exhibit No. JLB-5T at 3:7-10.

⁶⁷ *Id.*

becoming difficult for us to absorb this proposed increase. I don't intend to sound whiny... it's just a fact of life for us Seniors. It seems so often that Avista is asking for increased rate hikes."

40. At times, the request from the public is simple: "Please look out after the interest of us regular folks." Another commenter weighed in regarding the increase to Avista's basic charge. She describes the burden that a higher basic charge has on those whose small budgets: "Most of us have no other options, and so must pay this extra fee – whether or not we can afford it." She suggests allowing the electric rates and natural gas rates increase if necessary, but not the basic charge.

41. Avista ratepayers rely on the Commission and the regulatory process to ensure that the rates they pay are fair, just, reasonable, and sufficient. Ratepayers should expect that the regulatory process will hold the utility accountable, such that it holds up its end of the deal – safe, reliable service at affordable rates.

IX. CONCLUSION

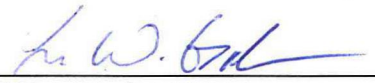
42. Avista has not met its burden with respect to its request for attrition adjustments for its electric and natural gas services. Its expenses are escalating rapidly, as analyzed by Public Counsel witness Mr. Watkins. Avista, however, has not provided persuasive demonstration that the escalating costs are increasing beyond its control to cause attrition that must be remedied with attrition adjustments. Moreover, Avista is doing very well and is quite healthy as a utility. It has very little need for additional annual revenue, and the Commission should deny the request for attrition adjustments. The Commission should also reject Avista's "cross-check" studies.

43. Additionally, the Commission should set Avista's authorized return on equity at a lower rate commensurate with Staff and ICNU's market analysis. The Commission should adopt

Staff's rate spread proposal and open a generic proceeding to address issues associated with utility cost of service studies. Lastly, the Commission should leave DSM funding unchanged and decline to order a new demand response program form Schedule 25 customers.

44. DATED this 7th day of November, 2016.

ROBERT FERGUSON
Attorney General


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