

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

COMPLAINANT

V.

AVISTA CORPORATION, d/b/a AVISTA UTILITIES,

RESPONDENT

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

RESPONSE TESTIMONY OF DONNA M. RAMAS

ON BEHALF OF

PUBLIC COUNSEL

EXHIBIT DMR-27T

September 13, 2019

DOCKETS UE-150204 and UG-105205 (*Consolidated*)

RESPONSE TESTIMONY OF DONNA M. RAMAS

EXHIBIT DMR-27T

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DOCKETS UE-150204 and UG-105205 (*Consolidated*)

RESPONSE TESTIMONY OF DONNA M. RAMAS

EXHIBIT DMR-27T

EXHIBITS LIST

Exhibit No. DMR-28	Calculation of Attrition Adjustment Caused by Escalation of Rate Base – Electric Operations
Exhibit No. DMR-29	Calculation of Attrition Adjustment Caused by Escalation of Rate Base – Natural Gas Operations
Exhibit No. DMR-30	Calculation of Natural Gas Refund with Earnings Sharing Offset
Exhibit No. DMR-31	Calculation of Refund Including Net Power Cost Update Correction – Electric Operations
Exhibit No. DMR-32	Calculation of Refund Using Company Methodology - Electric Operations
Exhibit No. DMR-33	Calculation of Refund Using Company Methodology with Power Cost Update Correction - Electric Operations
Exhibit No. DMR-34	Calculation of Refund Using Company Methodology - Natural Gas Operations
Exhibit No. DMR-35	Published Opinion in Court of Appeals, 48982-1-II
Exhibit No. DMR-36	Avista’s Response to Public Counsel’s Data Request No. 103
Exhibit No. DMR-37	Brief of Respondent WUTC in Court of Appeals, 48982-1-II

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I. INTRODUCTION

Q. Please state your name, occupation and business address.

A. My name is Donna M. Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. Are you the same Donna Ramas that previously submitted testimony in these dockets?

A. Yes. On July 27, 2015, my direct testimony, Exhibit No. DMR-1CT, was filed on behalf of the Public Counsel Unit of the Washington Attorney General’s Office (“Public Counsel”). Subsequently, my cross-answering testimony, Exhibit No. DMR-26T, was submitted on September 4, 2015. I also underwent cross examination in these dockets on October 6, 2015. My professional qualifications were submitted with my direct testimony as Exhibit No. DMR-4.

Q. On whose behalf are you testifying in this phase of the dockets?

A. I am testifying on behalf of Public Counsel.

Q. What exhibits are you sponsoring in this phase of the proceeding?

A. I am sponsoring the following exhibits:

- Exhibit No. DMR-28 Calculation of Attrition Adjustment Caused by Escalation of Rate Base – Electric Operations
- Exhibit No. DMR-29 Calculation of Attrition Adjustment Caused by Escalation of Rate Base – Natural Gas Operations
- Exhibit No. DMR-30 Calculation of Natural Gas Refund with Earnings Sharing Offset
- Exhibit No. DMR-31 Calculation of Refund Including Net Power Cost Update Correction – Electric Operations

1	Exhibit No. DMR-32	Calculation of Refund Using Company
2		Methodology – Electric Operations
3	Exhibit No. DMR-33	Calculation of Refund Using Company
4		Methodology with Power Cost Update
5		Correction – Electric Operations
6	Exhibit No. DMR-34	Calculation of Refund Using Company
7		Methodology – Natural Gas Operations
8	Exhibit No. DMR-35	Published Opinion in Court of Appeals, 48982-1-II
9	Exhibit No. DMR-36	Avista’s Response to Public Counsel’s Data
10		Request No. 103
11	Exhibit No. DMR-37	Brief of Respondent WUTC in Court of Appeals,
12		48982-1-II

13 **Q. What is the scope of this testimony?**

14 A. I first present a background regarding the scope of this remand proceeding. With
15 this background established, I then address the absurdity of Avista’s contention
16 that no refund is due to its customers. I next discuss the time period impacted by
17 the remand and explain why the time period asserted by Avista is incorrect.

18 I then present my calculation of the amount of refund owed to Avista’s
19 electric and natural gas ratepayers as a result of removing the escalation of rate
20 base from the attrition studies approved by the Commission in this case. As part
21 of this discussion, I explain why Avista’s method of calculating the refund owed
22 to customers due to the escalation of rate base is incorrect. While I do not
23 recommend that the amounts to be refunded to customers be offset by earnings
24 sharing unless the treatment of the power supply cost update in revenue
25 requirement is also corrected, I discuss the amount of earnings sharing offset in
26 the event the Commission agrees with Avista’s position regarding the earnings
27 sharing offset.

1 I next provide the additional amounts that should be refunded to Avista's
2 electric customers to correct for the error in reflecting the October 29, 2015,
3 power supply update in the revenue requirements for electric operations. Finally,
4 in the event the Commission finds merit in Avista's method of calculating the
5 amount to be refunded, I provide the amount of refund that would result under
6 Avista's methodology if the refund were extended to cover the entire period that
7 rates from this proceeding were in effect.

8 **Q. How much should be refunded to Avista's electric and natural gas**
9 **customers?**

10 A. Before consideration of the impact of the power supply costs update at issue in
11 this proceeding, Avista's electric operation customers should be refunded
12 \$11,996,000 and the natural gas operation customers should be refunded
13 \$8,710,000, resulting in a combined total amount of \$20,706,000 owed to
14 Avista's Washington customers. These amounts do not include an offset for past
15 decoupling-related earnings sharing amounts and do not include the refund owed
16 to electric operation customers for the impacts of the power supply cost update.
17 However, if the Commission agrees that refunds should be made to Avista's
18 customers associated with the power supply cost update, then I agree it would be
19 reasonable to offset the amounts to be refunded with past earnings sharing
20 amounts. Once the impacts of the net power cost update are added to the amount
21 to be refunded, as discussed later in this testimony, the total refund owed to
22 Avista's electric customers increases from \$11,996,000 to \$36,189,000, and the
23 total refund to Avista's natural gas customers would decline from \$8,710,000 to
24 \$4,907,000 as a result of the earnings sharing offset. The calculation of the refund

1 amounts are discussed later in this testimony and presented in Exhibit Nos. DMR-
2 28 through DMR-31.

3 **Q. How much is owed to Avista's customers if the methodology recommended**
4 **by Avista is adopted by the Commission, but extended to cover the entire**
5 **period that rates from this docket were in effect?**

6 A. Under Avista's refund calculation methodology, as extended to cover the entire
7 rate effective period, the amount of refund owed to Avista's electric operations
8 customers is \$3,647,000 and the amount owed to the natural gas operations
9 customers is \$4,348,000, resulting in a combined total refund amount of
10 \$7,995,000. The calculation of the amount of refunds owed to Avista's electric
11 and natural gas customers under Avista's proposed methodology are described
12 later in this testimony and presented on Exhibit Nos. DMR-32 and DMR-34,
13 respectively. It should be noted that the electric operations amounts under
14 Avista's calculation methodology do not include the impact of correcting for the
15 power supply cost update.

16 As shown on Exhibit No. DMR-33, the refund owed to electric customers
17 using Avista's methodology, but updated to include the correction for the power
18 supply cost update and extended to cover the entire rate effective period, is
19 \$30,664,000. While I am presenting the amount of refund resulting from Avista's
20 proposed methodology, extended for the entire rate effective period, I explain
21 later in this testimony why the methodology recommended by Avista should not
22 be adopted by the Commission in this proceeding.

1 **II. BACKGROUND AND SCOPE OF PROCEEDING**

2 **Q. What is your understanding of the events that led to this remand**
3 **proceeding?**

4 A. On March 18, 2016, Public Counsel filed a Petition for Judicial Review of
5 Commission Orders 05 and 06 in this docket to the Superior Court for Thurston
6 County. The Thurston County Superior Court then sent the case for direct review
7 by the Court of Appeals of Washington, Division II (hereinafter referred to as
8 “COA”). One of the issues raised by Public Counsel in its Petition for Judicial
9 Review was the inclusion in rates of rate base that was not used and useful in
10 providing utility service to customers as part of the attrition adjustments adopted
11 by the Commission. Public Counsel also addressed the Commission’s failure to
12 correct a calculation error pertaining to the update of power supply costs in its
13 Petition for Judicial Review.

14 In its August 7, 2018, decision in COA No. 48982-1-II¹, the Court of
15 Appeals of the State of Washington Division II reached the following conclusion:

16 Because the projections of future rate base were not ‘used and
17 useful’ for service in Washington, we conclude that the WUTC may
18 not base Avista’s rates on them. Accordingly, the WUTC erred in
19 calculating Avista’s electric and natural gas rates. The WUTC order
20 provided one lump sum attrition allowance without distinguishing
21 what portion was for rate base and which was for O&M expense or
22 other considerations. We strike all portions of the attrition allowance
23 attributable to Avista’s rate base and reverse and remand for the
24 WUTC to recalculate Avista’s rates without relying on rate base that
25 is not used and useful.

¹ *Wash. Att’y Gen.’s Office, Pub. Counsel Unit v. Wash. Utils. & Transp. Comm’n*, 4 Wash.App.2d 657, 423 P.3d 861 (2018) (included as Exhibit No. DMR-35).

1 Subsequently, on April 16, 2019, the Thurston County Superior Court issued an
2 Order Granting Parties' Motion to Remand to Washington Utilities and
3 Transportation Commission.² Thus, the case was remanded to the Commission.

4 **Q. Did the decision in COA No. 48982-1-II also address Public Counsel's**
5 **concerns regarding the calculation error pertaining to the update of power**
6 **supply costs?**

7 A. The decision in COA No. 48982-1-II³, states as follows:

8 PCU alleges that the WUTC erred in its calculation of the final
9 attrition adjustment based on confusion relating to Avista's updated
10 power supply costs. The WUTC denied PCU's and ICNU's motions
11 for clarification of its order and Staff's motion for reconsideration,
12 finding that the electric rates set by Order 05 were a fair, just,
13 reasonable, and sufficient end result based on substantial evidence.
14 Because we resolve the case on other grounds, we do not reach the
15 alleged computational errors and do not discuss them further.

16 Since the Appellate Court remanded the case to the Commission on other
17 grounds, it did not specifically discuss or address the computation errors in its
18 conclusion.

19 **Q. Can you please provide some background regarding the power supply cost**
20 **update in this docket?**

21 A. Yes. On May 1, 2015, a Multiparty Settlement Stipulation was filed with the
22 Commission in this proceeding. Under Paragraph 5 of the Multiparty Settlement
23 Stipulation, it was agreed that "Avista shall file with the Commission an updated
24 Power Supply adjustment two months before new electric retail rates from this

² *Wash. State Att'y Gen.'s Office, Pub. Counsel Unit v. Wash. Utils. and Transp. Comm'n*,
Case No. 16-2-01108-34, Order Granting Parties' Motion to Remand to the Wash. Utils. and Transp.
Comm'n (Apr. 16, 2019).

³ Exh. DMR-35 at 19 n.13.

1 electric Docket go into effect.” On October 29, 2015, Avista filed the update to its
2 Power Supply adjustment required by the Multiparty Settlement Stipulation,
3 resulting in an additional \$12,259,000 reduction to revenue requirement. This
4 additional \$12,259,000 reduction to revenue requirement caused by the update to
5 the Power Supply costs was not included in the revenue requirements or in the
6 attrition studies submitted by the parties in this case as the testimonies and
7 rebuttal testimonies, as well as the attrition studies, were completed and filed prior
8 to the power supply cost update. The evidentiary hearings were also conducted
9 prior to the October 29, 2015, update to power supply costs.

10 While the power supply update was reflected in the modified historic test
11 year with known and measurable adjustments in the Commission’s Order 05,
12 Public Counsel, Industrial Customers of Northwest Utilities (“ICNU”)⁴ and
13 Commission Staff all asserted that the power cost update was not correctly
14 considered in the Commission’s attrition adjustment for the electric operations,
15 resulting in the power supply cost update effectively not being included in the
16 rates determined for Avista’s electric customers. Since the agreement to update
17 the power supply costs was a component of the Multiparty Settlement Stipulation,
18 it is imperative that the update be correctly reflected in the resulting rates charged
19 to Avista’s electric ratepayers.

20 **Q. Can you please elaborate on the various parties’ contention that the power**
21 **supply cost update was not correctly included in determining the revenue**
22 **requirement for Avista’s electric customers?**

⁴ ICNU is now known as the Alliance of Western Energy Consumers.

1 A. Yes. On January 19, 2016, Public Counsel and ICNU filed a Motion for
2 Clarification of Order 05 in this docket. In the Motion, Public Counsel and ICNU
3 stated that the Company's power supply update did not include the 2016 power
4 supply cost data that is needed to properly incorporate the stipulated-to update
5 into Staff's attrition model⁵. Rather, the power supply update should have been
6 reflected as a discrete adjustment outside of the attrition model. Specifically,
7 Attachment A of the Motion, under Note 1,⁶ stated:

8 The attrition models used by Staff and the Company contain as
9 inputs two power supply cost runs, one using historical normalized
10 loads and another using pro-forma 2016 loads. In its October 29,
11 2015 power supply update filing, the Company provided updated
12 cost detail for the run that used historical loads but did not provide
13 updated cost detail for the run that used 2016 pro forma loads. The
14 Company's update filing, however, represented that the power
15 supply update was a reduction of \$12.3 million to its proposed
16 revenue requirement. Accordingly, absent the updated cost detail for
17 the 2016 power supply cost run to insert into the attrition model, the
18 \$12.3 million should be applied as a separate reduction outside of
19 the attrition model.

20 The Motion explained that based on the adjustments described in the
21 Commission's Order 05, a different attrition revenue requirement reduction would
22 result than the attrition adjustment order by the Commission, with the majority of
23 the difference caused by the update to power supply costs agreed to by the parties
24 as part of the Multiparty Settlement Stipulation in this case.⁷

25 On the same date the above discussed Motion for Clarification was filed,
26 Commission Staff also filed a Motion to Reconsider. In the Motion to Reconsider,
27 Staff indicated that it also was unable to arrive at the attrition adjustment specified

⁵ Joint Motion for Clarification of the Industrial Customers of Northwest Utilities and Public Counsel, at 4-5, Attach. A (Jan. 19, 2016).

⁶ *Id.* Attach. A at 1, Note 1.

⁷ *Id.* at 3.

1 in the Commission’s Order 05.⁸ Staff states in its Motion to Reconsider that “Staff
2 suspects that an error occurred when Avista’s power supply costs were updated
3 within the attrition model.” It then elaborated on why it felt an error occurred and
4 indicated that: “Because there are multiple interdependent formulas in the attrition
5 model, Staff recommends that the Commission input the October 29, 2015, power
6 supply update (\$12.3 million) outside of, rather than within, the attrition model.”⁹

7 Subsequently, on February 4, 2016, Commission Staff filed a Motion to
8 Reopen the Record for the Limited Purpose of Receiving into Evidence
9 Instruction on Use and Application of Staff’s Attrition Model (hereinafter referred
10 to as “Motion to Reopen”). In the concluding paragraph, Staff stated, in part, as
11 follows:

12 It is well settled that the formulation of a revenue requirement is
13 directly impacted by changes in expenses, such as power costs. The
14 fact that a model did not properly reflect the impact of a documented
15 change in power costs does not change the fact that the impact has
16 occurred. Knowledge of the Staff model’s inability to properly
17 account for power cost changes now requires that the record be
18 reopened so that a revenue requirement can be determined that
19 accounts for major changes in costs such that the resulting rates are
20 indeed fair, just, reasonable and sufficient.¹⁰

21 **Q. Above you indicate that Public Counsel, ICNU and Commission Staff were**
22 **unable to reconcile to the attrition adjustment incorporated in the**
23 **Commission’s Order 05. Has Avista been able to reconcile to the**
24 **Commission’s attrition adjustment for the electric operations?**

⁸ Commission Staff’s Motion to Reconsider (Jan. 19, 2016).

⁹ *Id.* at 5.

¹⁰ Commission Staff’s Motion to Reopen Record for the Limited Purpose of Receiving into Evidence Instruction on Use and Application of Staff’s Attrition Model, at 4 (Feb. 4, 2016) (“Motion to Reopen”).

1 A. No, it has not. Avista’s Response to Public Counsel’s Data Request No. 103¹¹
2 asked the Company if it “prepared a revised version of the electric attrition study
3 that ties to the electric revenue requirement and electric attrition adjustment
4 identified in the Commission’s Order 05.” The Company responded “No” and
5 stated, in part: “Based on the Commission Order, the Company could not replicate
6 an electric attrition study model showing the approved reduction for electric base
7 rates of \$8.1 million revenue requirement and the electric attrition adjustment of
8 approximately \$28.3 million.”¹²

9 **Q. Has the Commission given any indication that it would be appropriate to**
10 **reopen the record to ensure that the power cost update is implemented**
11 **correctly?**

12 A. In the Brief of Respondent Washington Utilities and Transportation Commission
13 filed on March 29, 2017, in COA No. 48982-1-II¹³, the Commission stated as
14 follows:

15 The Commission agrees with Public Counsel that this Court should
16 partially remand the matter for a supplementary evidentiary hearing
17 on the power cost update. Staff’s attrition study was a complex
18 Excel model “populated by myriad data” that seems to have
19 confused Public Counsel and other parties. AR 1143; *see* AR 1145-
20 51 (summary of various post-order motions seeking clarification of
21 the Commission’s final revenue requirement calculation). Because
22 the parties may not have understood the model’s proper functioning,
23 the Commission believes it would be beneficial to reopen the
24 administrative record to reevaluate the implementation of the power
25 cost update. It therefore respectfully requests that this Court remand
26 for that limited purpose.

¹¹ Avista’s Response to Public Counsel’s Data Request No. 103, included as Exhibit No. DMR-36.

¹² Exh. DMR-36 at 1.

¹³ *Wash. Att’y Gen.’s Office, Pub. Counsel Unit v. Utils. & Transp. Comm’n*, Wash.App.2d, 2017 WL 3193307, at 37 (Mar. 29, 2017) (included as Exhibit No. DMR-37).

1 Thus, the Commission, in its Brief filed before the COA, agreed that the record
2 should be reopened to “reevaluate the implementation of the power cost update.”
3 It is the Commission Staff’s attrition study that was used by the Commission in
4 determining the attrition adjustment incorporated in its Order 05, and Staff
5 recommended in its January 19, 2016, Motion to Reconsider that the \$12.3
6 million reduction in revenue requirement caused by the power supply update be
7 incorporated outside of, rather than within, the attrition model.

8 **Q. What is Public Counsel’s position regarding the issues that should be**
9 **addressed by the Commission in this remand proceeding?**

10 A. It is Public Counsel’s position that the Commission should determine the amounts
11 owed to customers as a result of: (1) including the escalation of rate base in the
12 attrition studies; and (2) the failure to correctly incorporate the updated power
13 supply costs in the electric revenue requirement.

14 **III. REFUNDS ARE OWED TO CUSTOMERS**

15 **Q. What is the Company’s position regarding the amount to be refunded to its**
16 **electric and natural gas customers?**

17 A. Avista contends that no refund is owed to its customers. It asserts that the
18 Commission should compare the actual rate base for 2016 contained in its filed
19 Commission Basis Reports (CBRs) to the amount of rate base incorporated in the
20 attrition studies. Since the actual AMA electric rate base for 2016 contained in the
21 CBRs exceeded the escalated electric rate base included in the attrition studies, it
22 is the Company’s position that rates did not include rate base that was not used

1 and useful.¹⁴ Similarly, Avista acknowledges that the natural gas escalated
2 attrition rate base is less than the actual level of AMA 2016 rate base for the
3 natural gas operations, but asserts that the resulting refund would have been
4 entirely offset by the natural gas earnings sharing that occurred for 2016.¹⁵

5 **Q. Do you agree with the Company's position?**

6 A. Absolutely not. In fact, I find the position absurd. Rates were determined in this
7 docket premised on a modified historic test year with known and measurable
8 adjustments. The known and measurable adjustments included updating the test
9 year to reflect the results of the 2014 CBRs and the inclusion of major post-test
10 year plant additions actually placed into service through June 30, 2015.

11 The Commission applied attrition adjustments to both the electric and
12 natural gas operations as succinct adjustments to the modified historic test year
13 with known and measurable adjustment amounts. The COA concluded, in part,
14 "Because the projections of future rate base were not 'used and useful' for service
15 in Washington, we conclude that the WUTC may not base Avista's rates on
16 them."¹⁶ At the time the Commission's Order 05 was issued on January 6, 2016,
17 the 2016 CBRs clearly were not available and could not have been used as a basis
18 in determining the rates that went into effect as a result of this docket. The
19 Commission could not have relied on actual 2016 rate base amounts contained in
20 the CBRs when setting rates in this docket. It is not reasonable or appropriate to
21 now retroactively go back and compare the actual 2016 rate base amounts in the
22 2016 CBRs with the escalated amounts which the COA found were

¹⁴ Testimony of Elizabeth M. Andrews, Exh. EMA-9T at 18:7 – 19:2.

¹⁵ Andrews, Exh. EMA-9T at 22:1-11.

¹⁶ Exh. DMR-35 at 31.

1 inappropriately included in the attrition studies. Avista's contention that no
2 refunds are due to customers should be rejected outright.

3 **IV. RATE EFFECTIVE PERIOD**

4 **Q. What is Avista's position regarding the effective period for the rates that are**
5 **the subject of this remand proceeding?**

6 A. It is Avista's position that the time period at issue in this remand proceeding is the
7 11-month period spanning from January 11, 2016, to December 15, 2016. Avista
8 witness Elizabeth M. Andrews states in her testimony that: "rates were re-
9 examined in Docket Nos. UE-160228 and UG-160229, based on fresh evidence
10 and a new test period, and then-existing rates were deemed just, reasonable and
11 sufficient (even though some parties had argued for a rate reduction)."¹⁷
12 Ms. Andrews also asserts that the Commission did not rely on the 2015 case, but
13 rather, relied "on fresh data based on new information within the 2016 case."¹⁸
14 Thus, it is apparently the Company's position that the rate effective period for
15 rates established in Docket Nos. UE-150204 and UG-150205 ceased when the
16 Commission's order was issued in Docket Nos. UE-160228 and UG-160229,
17 which was issued on December 15, 2016, for purposes of determining the refund
18 owed to customers in this proceeding.

19 **Q. Did the Commission change the base rates charged to Avista's electric and**
20 **natural gas customers in Docket Nos. UE-160228 and UG-160229?**

21 A. No. In its Order 06 in Docket Nos. UE-160228 and UG-160229, under the
22 Conclusions of Law, the Commission stated as follows:

¹⁷ Andrews, Exh. EMA-9T at 11:7-10.

¹⁸ *Id.* at 11:10-12 (emphases added).

1 Avista failed to carry its burden to prove that its existing rates for electric
2 service and natural gas service provided in Washington State are
3 insufficient to yield reasonable compensation for the service rendered or are
4 otherwise in any manner not fair, just, reasonable, and sufficient. The
5 Commission accordingly has neither the authority, nor an obligation, to
6 determine fair, just, reasonable, or sufficient rates, charges, regulations,
7 practices or contracts to be hereafter observed and in force or to fix the same
8 by order. RCW 80.28.020.¹⁹

9 In the following paragraph, the Commission also stated: “Avista’s existing rates
10 continue to be fair, just, reasonable, and sufficient and should remain in effect
11 prospectively from the date of this Order.”²⁰

12 **Q. What timeframe should be used in determining the amount of refund owed**
13 **to Avista’s ratepayers as a result of this remand proceeding?**

14 A. The period in which the rates that are the subject of this remand proceeding
15 remained in effect is January 11, 2016, until May 1, 2018. In its Order 06 in
16 Docket Nos. UE-160288 and UG-160229, the Commission found that Avista
17 failed to carry its burden of proof in seeking an increase in its rates. The
18 Commission did not reset Avista’s rates based on a new test period and fresh data,
19 nor did it determine that any new data presented by Avista in that docket resulted
20 in the same overall revenue requirement as determined in Docket Nos.
21 UE-150204 and UG-150205. The rates set by the Commission in its Order 05 in
22 this docket, which are subject to remand, remained in effect until new rates were
23 established by the Commission in Docket Nos. UE-170485 and UG-170486.
24 Rates from Docket Nos. UE-170485 and UG-170486 took effect on May 1, 2018.
25 Thus, the period covered by the rates that are subject to this remand proceeding is

¹⁹ *Wash. Utils. and Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Docket Nos. 160228 and UG-160229, Order 06 ¶ 111 (Dec. 15, 2016).

²⁰ *Id.* ¶ 112.

1 January 11, 2016, through April 30, 2018.

2 **V. CALCULATION OF REFUND – ESCALATION OF RATE BASE**

3 **Q. What specifically did the Washington State Court of Appeals conclude in**
4 **COA No. 48982-1-II regarding the escalated rate base?**

5 A. As previously indicated in this testimony, the Conclusion of the Opinion in COA
6 No. 48982-1-II stated as follows:

7 Because the projections of future rate base were not ‘used and
8 useful’ for service in Washington, we conclude that the WUTC may
9 not base Avista’s rates on them. Accordingly, the WUTC erred in
10 calculating Avista’s electric and natural gas rates. The WUTC order
11 provided one lump sum attrition allowance without distinguishing
12 what portion was for rate base and which was for O&M expense or
13 other considerations. We strike all portions of the attrition allowance
14 attributable to Avista’s rate base and reverse and remand for the
15 WUTC to recalculate Avista’s rates without relying on rate base that
16 is not used and useful.²¹

17

18 **Q. While the Commission did not specify what portion of its attrition**
19 **adjustments was caused by the escalation of rate base, can such information**
20 **be derived?**

21 A. Yes. Avista provided calculations of the amount of escalation of rate base
22 included in the Commission’s attrition adjustment based on information contained
23 in Commission Order 05. In its Exhibit No. EMA-15, Avista provided an attrition
24 rate base calculation for the electric operations based on information contained in
25 Commission Order 05²². Ms. Andrews’ testimony²³ indicates that page 2 of
26 Exhibit No. EMA-15 “represents the isolated calculation of the electric attrition
27 rate base approved in the 2015 case, based on the Commission’s approved

²¹ Exh. DMR-35 at 31.

²² Andrews, Exh. EMA-15 at 2.

²³ Andrews, Exh. EMA-9T at 14 n.11.

1 escalation factor (8.41 percent) multiplied by the December 2014 rate base
2 ‘Escalation Base.’” Avista Exhibit No. EMA-15 shows the Commission’s Order
3 results in \$52,527,000 being included in the electric attrition study for the
4 escalation of rate base prior to the application of the revenue growth factor²⁴.

5 At page 5 of its Exhibit No. EMA-15, Avista similarly provided an
6 attrition rate base calculation for the natural gas operations based on information
7 contained in Commission Order 05. Ms. Andrews’ testimony²⁵ indicates that page
8 5 of Exhibit No. EMA-15 “represents the isolated calculation of the natural gas
9 rate base approved in the 2015 case, based on the Commission’s approved
10 escalation factor (16.86 percent) multiplied by the December 2104 rate base
11 ‘Escalation Base.’” Avista Exhibit No. EMA-15 shows the Commission’s Order
12 results in \$38,087,000 being included in the natural gas attrition study for the
13 escalation of rate base prior to the application of the revenue growth factor.²⁶

14 **Q. What does Avista’s calculations show as the amount of rate base included in**
15 **the attrition studies for the escalation of rate base?**

16 A. As indicated above, Avista’s own calculations, informed by the language
17 contained in the Commission’s Order 05 in this docket, results in \$52,527,000
18 being included in rate base in the electric attrition study for the escalation of
19 electric rate base and \$38,087,000 included in rate base in the natural gas attrition
20 study for the escalation of rate base. Each of these amounts are prior to the
21 application of the revenue growth factor contained in the attrition studies, which
22 would lower the rate base amount. As shown on Exhibit No. DMR-28, the amount

²⁴ Andrews, Exh. EMA-15 at 2, line 22, Column G.

²⁵ Andrews, Exh. EMA-9T at 19 n.17.

²⁶ Andrews, Exh. EMA-15 at 5, line 20, Column G.

1 included in the rate base in the electric attrition study for escalation is
2 \$51,847,000 after application of the electric revenue growth factor of 1.013115.²⁷
3 Exhibit No. DMR-29 shows that the amount included in rate base in the natural
4 gas attrition study is \$37,651,000 after the application of the natural gas revenue
5 growth factor of 1.01157.²⁸

6 **Q. Have you been able to modify the attrition studies submitted in Docket Nos.**
7 **UE-150204 and UG-150205 for the findings in the Commission's Order 05**
8 **and tie into the attrition adjustments specified in the order?**

9 A. No. Using the attrition studies submitted by Commission Staff with its direct
10 testimonies and the attrition studies submitted by Avista with its rebuttal
11 testimonies, and attempting to adjust those attrition studies based on the findings
12 in the Commission's Order 05, I have not been able to arrive at the amount of
13 attrition adjustments indicated by the Commission in its Order. However, I am not
14 challenging Avista's calculation of the amount of escalation of rate base that is
15 included in the Commission's attrition adjustments for the electric and the natural
16 gas operations. The rate base amounts upon which the escalation factors are
17 applied in Avista's calculation in Exhibit No. EMA-15 are consistent with the rate
18 base amounts found in Staff's attrition models and in the attrition models
19 submitted by Avista with its rebuttal testimonies.

20 **Q. What is the amount of overall attrition adjustment caused by the escalation**
21 **of rate base for the electric operations?**

²⁷ Calculated as $\$52,527,000 / 1.013115 = \$51,847,000$.

²⁸ Calculated as $\$38,087,000 / 1.01157 = \$37,651,000$.

1 A. The calculation of the amount of attrition adjustment that was caused by the
2 inclusion of the escalation of rate base for the electric operations is presented in
3 Exhibit No. DMR-28. The calculation is based on the amount included in the
4 electric attrition study for the escalation of rate base discussed above, which is
5 \$52,527,000 before application of the revenue growth factor and \$51,847,000
6 after application of the revenue growth factor. The electric attrition studies
7 presented by Staff and by Avista in its rebuttal position incorporate the same
8 revenue growth factor, authorized rate of return, revenue conversion factors and
9 authorized cost of debt, each of which impact the calculation of the amount of
10 attrition resulting from the escalation of rate base. The language found in the
11 Commission’s Order 05 did not modify these components of the attrition studies.
12 Thus, the Commission’s adjusted attrition study presumably applied the same
13 revenue growth factor, authorized rate of return, revenue conversion factor and
14 authorized cost of debt. These same factors are shown in Avista Exhibit No.
15 EMA-15, at page 2. As shown on Exhibit No. DMR-28, the escalation of rate base
16 resulted in \$5,310,000 of revenue requirement that would have been included in
17 the Commission’s attrition study. In other words, the \$28,332,000 electric attrition
18 allowance adjustment contained in Commission Order 05²⁹ would have been
19 \$5,310,000 lower if the escalation of rate base had been excluded from the
20 attrition study.

21 **Q. What amount should be refunded to Avista’s electric customers for the**
22 **amount included in the revenue requirements caused by the escalation of**
23 **rate base?**

²⁹ Order 05, ¶ 140 and Appendix A at Table A1.

1 A. As indicated above, the impact on the revenue requirements caused by the
2 escalation of electric rate base was \$5,310,000. However, as previously discussed,
3 the rates that are subject to remand were in effect from January 11, 2016, through
4 April 30, 2018. As shown on Exhibit No. DMR-28, \$11,996,000 should be
5 refunded to electric customers as a result of the escalation of rate base included in
6 the attrition adjustment.

7 **Q. Exhibit No. DMR-28 contains an additional column titled “Annual Amount**
8 **at 21% FIT.” Can you explain the purpose of this column?**

9 A. Yes. The Tax Cuts and Jobs Act reduced the corporate federal income tax rate
10 from 35 percent to 21 percent effective January 1, 2018. It is my understanding
11 that the excess amounts collected by Avista from its customers due to rates being
12 based the 35 percent federal income tax rate during 2018 are to be refunded.
13 While the rates resulting from Commission Order 05 in this proceeding were
14 effective for the first four months of 2018, the portion collected associated with
15 the difference between the 35 percent federal income tax rate and the current
16 federal income tax rate of 21 percent will be returned to customers. The “Annual
17 Amount at 21% FIT” column on Exhibit Nos. DMR-28 (electric operations) and
18 DMR-29 (natural gas operations), calculates the impact of the escalation of rate
19 base on revenue requirements utilizing the 21 percent federal income tax rate
20 instead of the 35 percent rate. As shown on line 6 of each of these exhibits, the
21 lower tax rate impacted the revenue conversion factor used in determining the
22 revenue requirement impacts. Thus, the amount of refund calculated for the
23 period January 1, 2018, through April 30, 2018, is determined based on the lower
24 21 percent FIT rate.

1 **Q. What is the amount of overall attrition adjustment caused by the escalation**
2 **of rate base for the natural gas operations?**

3 A. The calculation of the amount of attrition adjustment that was caused by the
4 inclusion of the escalation of rate base for the natural gas operations is presented
5 in Exhibit No. DMR-29. The calculation is based on the amount included in the
6 natural gas attrition study for the escalation of rate based discussed above, which
7 is \$38,087,000 before application of the revenue growth factor and \$37,651,000
8 after application of the revenue growth factor. The natural gas attrition studies
9 presented by Staff and by Avista in its rebuttal position incorporate the same
10 revenue growth factor, authorized rate of return, revenue conversion factors and
11 authorized cost of debt, each of which impact the calculation of the amount of
12 attrition resulting from the escalation of rate base. The Commission's adjusted
13 attrition study presumably applied the same revenue growth factor, authorized
14 rate of return, revenue conversion factor, and authorized cost of debt. These same
15 factors are shown in Avista Exhibit No. EMA-15, at page 5. As shown on Exhibit
16 No. DMR-29, the escalation of natural gas rate base resulted in \$3,855,000 of
17 revenue requirement that would have been included in the Commission's attrition
18 study. In other words, the \$6,849,000 natural gas attrition allowance adjustment
19 contained in Commission Order 05³⁰ would have been \$3,855,000 lower if the
20 escalation of rate base had been excluded from the attrition study.

³⁰ Order 05, ¶ 124 and Appendix A at Table A2.

1 **Q. What amount should be refunded to Avista’s natural gas customers for the**
2 **amount included in the revenue requirements caused by the escalation of**
3 **rate base?**

4 A. As indicated above, the impact on the revenue requirements caused by the
5 escalation of electric rate base was \$3,855,000. The resulting rates subject to
6 remand in this proceeding were in effect from January 11, 2016, through April 30,
7 2018. As shown on Exhibit No. DMR-29, \$8,710,000 should be refunded to
8 natural gas customers as a result of the escalation of rate base included in the
9 attrition adjustment.

10 **Q. How does the annual revenue requirement impact of the inclusion of the**
11 **escalation of rate base in the attrition studies compare to the amount**
12 **presented by Avista?**

13 A. As indicated above, and shown in Exhibit Nos. DMR-28 and DMR-29, the
14 amount of attrition adjustment caused by the escalation of rate base was
15 \$5,310,000 for the electric operations and \$3,855,000 for the natural gas
16 operations. This was calculated based on the amount included in the attrition
17 studies for the escalation of rate base, which was provided by Avista in its Exhibit
18 No. EMA-15.

19 In its analysis, Avista calculated the difference between the total attrition
20 adjusted rate base and the adjusted pro forma rate base identified by the
21 Commission in its Order 05. It then calculated the revenue requirement impact of
22 the difference, which was \$2,865,000 for the electric operations³¹ and \$3,416,000

³¹ Andrews, Exh. EMA-9T at 15 (Table No. 1) and Exh. EMA-15 at 2.

1 for the natural gas operations.³² In other words, Avista's calculation went beyond
2 simply removing the escalation of rate base from the attrition studies.

3 **Q. Do you agree that Avista's method of calculating the annual revenue**
4 **requirement impact resulting from the escalation of rate base is reasonable**
5 **or appropriate in this case?**

6 A. No, I do not. It is not reasonable, as the Company proposes to compare the
7 amount of rate base included in the attrition study to the amount of rate base
8 included in the modified historic test year with known and measurable
9 adjustments for purposes of determining the impact on revenue requirements
10 resulting from the escalation of rate base incorporated in the attrition study. In its
11 Order 05, the Commission determined the revenue requirement for the electric
12 and natural gas operations based on a modified historical test year with known
13 and measurable pro forma adjustments. The Commission included the attrition
14 adjustments of \$28.3 million for the electric operations and \$6.8 million for the
15 natural gas operations as adjustments to the modified historical test year amounts.
16 A single attrition adjustment was applied by the Commission in determining the
17 appropriate decrease in the overall electric operations revenue requirements.
18 Similarly, the Commission applied a single attrition adjustment in determining the
19 appropriate increase in the overall revenue requirements for the natural gas
20 operations.

21 The attrition adjustment is based on the difference between the revenue
22 requirement under the attrition study and the revenue requirement using the
23 modified historical test year with known and measurable pro forma adjustments.

³² Andrews, Exh. EMA-9T at 19 (Table No. 5) and Exh. EMA-15 at 5.

1 Thus, for purposes of determining the impact of the escalation of rate base
2 incorporated in the attrition studies, one should simply reduce the attrition
3 adjustment by the amount included in the resulting attrition revenue requirement
4 for the escalation of rate base. This would result in a revised attrition adjustment
5 for the electric operations and a revised attrition adjustment for the natural gas
6 operations. As indicated previously, the removal of the escalation of rate base
7 from the attrition studies would reduce the electric attrition adjustment by
8 \$5,310,000 and would reduce the natural gas attrition adjustment by \$3,855,000.

9 Since the attrition adjustment is made to the modified historic test year
10 with known and measurable adjustments, revenue requirement still includes the
11 known and measurable post-test year plant addition adjustments allowed by the
12 Commission in Order 05, even after the attrition adjustment is revised to exclude
13 the escalation of plant additions.

14 VI. EARNINGS SHARING OFFSET

15 **Q. Avista contends that it has already effectively refunded amounts to**
16 **customers as part of earning sharing. Can you please summarize your**
17 **understanding of Avista's position regarding the impact of earnings sharing?**

18 **A.** Yes. As part of the electric and natural gas decoupling mechanisms for Avista, an
19 annual earnings test is performed. If the Company earns in excess of its
20 authorized rate of return, then one-half or 50 percent of the earnings in excess of
21 the authorized rate of return is used to either increase the decoupling rebate or to
22 reduce the decoupling surcharge, depending on if a rebate or surcharge balance
23 exists in the decoupling mechanism. Avista contends in this case that if a refund

1 to customers is required by the Commission, the amount should be adjusted to
2 reflect the revenue sharing that it contends has already been returned to
3 customers.

4 **Q. Do the refunds you recommended previously in this testimony include offsets**
5 **associated with the earnings sharing amounts incorporated in the annual**
6 **calculation of rebates or surcharges under the operation of Avista's**
7 **decoupling mechanism?**

8 A. No. As indicated above, Avista's electric customers should be refunded
9 \$11,996,000 and its natural gas customers should be refunded \$8,710,000. This is
10 prior to the consideration of additional refunds to the electric customers
11 associated with the power supply cost update. The failure to properly include the
12 power supply cost update in the electric revenue requirements would have
13 contributed to Avista having excess earnings above its authorized rate of return
14 for the electric operations. Unless refunds are issued to Avista's electric
15 ratepayers to correct for the power cost update, it is Public Counsel's position that
16 the amounts to be refunded to ratepayers should not be offset by any earnings
17 sharing that occurred during the rate effective period. Avista's shareholders
18 benefitted as a result of the power supply cost update not being correctly included
19 in rates, and should not be further rewarded by offsetting refunds required as a
20 result of this remand with earnings sharing incorporated in the decoupling
21 mechanism.

1 **Q. Have you calculated the potential impact of the earnings sharing offset on the**
2 **refunds?**

3 A. As indicated above, it is not Public Counsel’s position that the amounts to be
4 refunded should be offset by any past earnings sharing under the operation of the
5 Avista’s decoupling mechanism unless a refund is issued to Avista’s electric
6 customers to correct the power supply update that was incorporated in rates. In the
7 event the Commission corrects for the power supply cost update error, or the
8 Commission finds merit in Avista’s contention regarding the earnings sharing
9 amounts factored into the decoupling mechanism calculations, I have calculated
10 what the impact would be on my recommended refund amounts.

11 **Q. What is the impact of the potential earnings sharing offsets on the refund to**
12 **electric customers?**

13 A. As previously indicated, the portion of the electric attrition adjustment caused by
14 the escalation of rate base was \$5,310,000. The 2016 earnings above the
15 authorized rate of return was \$5,194,000, of which \$2,597,000 was flowed to
16 customers through decoupling mechanism.³³ Since the rates at issue in this case
17 were in effect for 355 days of 2016,³⁴ the portion of the \$2,597,000 of earnings
18 shared with electric customers applicable to the 2016 rate effective period would
19 be \$2.526 million.³⁵

³³ Andrews,Exh. EMA-9T at 15, Table 2 and Electric Decoupling Rate Adjustment (Attach. A) at 6, Docket No. UE-170939 (Aug. 31, 2017).

³⁴ Rate effective date from Order 05 was January 11, 2016.

³⁵ Calculated as \$2,597,000 x (355/365).

1 The 2017 earnings above the authorized rate of return was \$2,987,000, of
2 which \$1,493,000 was flowed to customers through decoupling mechanism.³⁶ The
3 entire 2017 amount falls within the rate effective period. Both the 2016 and 2017
4 excess earnings calculated under the decoupling mechanism are less than the
5 \$5,310,000 of electric attrition adjustment caused by the escalation of rate base;
6 thus, there is no need to calculate the impact of the amount to be refunded on
7 earnings sharing. Thus, if the Commission determines that the refund for the
8 electric operations should be offset by the earnings sharing that was flowed to
9 customers through the decoupling mechanism, the offset amount would be the
10 entire earnings sharing that flowed to electric customers during the rate effective
11 period of \$4,019,000 (\$2,526,000 for 2016 + \$1,493,000 for 2017). The
12 \$11,996,000 to be refunded to electric customers as a result of the escalation of
13 rate base included in the attrition adjustment would be reduced by \$4,019,000 to
14 \$7,977,000.

15 **Q. What is the impact of the potential earnings sharing offsets on the refund to**
16 **natural gas customers?**

17 A. As previously indicated, the portion of the natural gas attrition adjustment caused
18 by the escalation of rate base was \$3,855,000. The 2016 earnings above the
19 authorized rate of return was \$5,855,000, of which \$2,927,000 was flowed to
20 customers through the decoupling mechanism.³⁷ The 2017 earnings above the
21 authorized rate of return was \$5,200,000, of which \$2,600,000 was flowed to
22 customers through the decoupling mechanism. The earnings above the authorized

³⁶ Andrews Exh. EMA-9T at 15, Table 2 and Electric Decoupling Rate Adjustment (Attach. A) at 6, Docket No. UG-170942 (Aug. 31, 2017).

³⁷ Andrews Exh. EMA-9T at 20, Table 6.

1 rate of return in both 2016 and 2017 was greater than the amount of the natural
2 gas attrition adjustment caused by the escalation of rate base. On Exhibit No.
3 DMR-30, I present the calculation of the refund owed to natural gas customers for
4 the January 11, 2016, through April 30, 2018, rate effective period that would
5 result if the earnings sharing under the decoupling mechanism is considered. As
6 shown on Exhibit DMR-30, line 16, the refund to natural gas customers would be
7 \$4,907,000 instead of the \$8,710,000 discussed previously in this testimony if the
8 earnings sharing under the decoupling mechanism is allowed to impact the refund
9 amount. Since the Company has not yet filed the natural gas decoupling rate
10 adjustment for 2018, there is no earning sharing offset included in Exhibit No.
11 DMR-30 for the four months of 2018 that fall within the rate effective period at
12 issue in this proceeding.

13 **VII. REFUND FOR POWER SUPPLY UPDATE CORRECTION**

14 **Q. What amount should be refunded to customers as a result of the October 29,**
15 **2015, power supply update not being incorporated in the electric revenue**
16 **requirements?**

17 A. As previously indicated in this testimony, the Multiparty Settlement Stipulation
18 filed in May 2015 required that the power supply adjustment be updated. That
19 update, filed on October 29, 2015, resulted in a \$12.3 million reduction to revenue
20 requirement. Public Counsel, ICNU and Commission Staff all asserted that the
21 Commission's electric attrition adjustment did not correctly include the impact of
22 the power supply update as the resulting revenue requirement did not reflect the
23 resulting \$12.3 million reduction that would be caused by the update. On Exhibit
24 No. DMR-31, I provide the calculation of the refund owed to Avista's electric

1 customers inclusive of the impact of the correction for the power supply cost
2 update. The revenue requirement impact of the power supply update was
3 \$12,259,000. As shown on line 8 the amount of refund owed to customers for the
4 power supply cost update correction is \$28,211,000 based on the \$12.3 million
5 revenue requirement impact of the update applied to the rate effective period of
6 January 11, 2016, through April 30, 2018. On line 9 of the exhibit, I add the
7 amount of refund for the escalation of rate base included in the attrition study of
8 \$11,996,000. The amount of earnings sharing paid to electric customers during
9 the rate effective period of \$4,019,000 is then subtracted on line 11, resulting in a
10 total refund due to electric customers, net of the earnings sharing offset, of
11 \$36,189,000. The calculation is summarized on the table below:

Table 1

Total Refund to Electric Operations Customers, Net of Earnings Sharing (000s)	
Refund for Power Supply Cost Update Correction	\$ 28,211
Refund for Escalation of Rate Base Included in Electric Attrition Study	11,996
Less: Electric Earnings Sharing Paid to Customers	(4,019)
Total Electric Operations Refund, Net of Earnings Sharing	\$ 36,189

12
13 As previously indicated, Public Counsel is recommending that the
14 earnings sharing offset only be applied if the ratepayers are refunded the amounts
15 owed to them to correct for the error in applying the power supply cost update.

1 **VIII. REFUND UNDER AVISTA METHODOLOGY**

2 **Q. Have you determined what the refunds would be if the Commission decides**
3 **that the refunds owed to the electric and natural gas customers should be**
4 **calculated using the method presented by Avista in Exhibit No. EMA-9T, but**
5 **extended to cover the entire rate effective period?**

6 A. Yes. Previously in this testimony, I explained why Avista’s methodology used to
7 calculate the potential amount to be refunded to the electric and natural gas
8 ratepayers is incorrect and should not be used. However, if the Commission
9 decides that Avista’s methodology is reasonable and adopts that methodology, at
10 a minimum the amount of refund should be extended to cover the entire rate
11 effective period that falls under this remand proceeding. On Exhibit No. DMR-31,
12 I calculate what the amount of refund to Avista’s electric customers would be
13 under Avista’s methodology, but extended to cover the entire rate effective period
14 of January 11, 2016, to April 30, 2018. This would result in a refund to electric
15 customers of \$3,647,000. Exhibit No. DMR-32 shows that if the net power cost
16 update is included in determining the amount to be refunded to customers, the
17 \$3,647,000 refund to electric customers under the Company’s methodology
18 increases to \$30,664,000.

19 On Exhibit No. DMR-34, I calculate what the amount of refund to
20 Avista’s natural gas customers would be under Avista’s methodology, but
21 extended to cover the entire rate effective period of January 11, 2016, to April 30,
22 2018. This would result in a refund to Avista’s natural gas customers of
23 \$4,348,000. I have not included an offset to the portion of the refund associated
24 with the four months during 2018 that the rates were in effect for earnings sharing

1 under the decoupling mechanism as the 2018 earnings sharing calculations have
2 not yet been filed for the natural gas operations by Avista.

3 **Q. Could you please re-iterate the amount that you recommend be refunded to**
4 **Avista's electric and natural gas customers in this proceeding?**

5 A. Yes. Before consideration of the impact of the net power costs update at issue in
6 this proceeding, Avista's electric operation customers should be refunded
7 \$11,996,000 and the natural gas operation customers should be refunded
8 \$8,710,000, resulting in a combined total amount of \$20,706,000 owed to
9 Avista's customers in the state of Washington. This is the excess amount Avista's
10 ratepayers have paid due to the inclusion of the escalation of rate base in the
11 attrition studies.

12 Once the impacts of the net power cost update are added to the amount to
13 be refunded and the earnings sharing is considered, the total refund owed to
14 Avista's electric operation customers increases from \$11,996,000 to \$36,189,000,
15 and the total refund to Avista's natural gas customers would decline from
16 \$8,710,000 to \$4,907,000 as a result of the earnings sharing offset.

17 **Q. Does this conclude your testimony on the issues subject to Remand?**

18 A. Yes, it does.