

**Exh. ELJ-1T
Dockets UE-190334, UG-190335, and
UE-190222
Witness: Elaine L. Jordan**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION, d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-190334, UG-190335,
and UE-190222 (*Consolidated*)**

CROSS-ANSWERING TESTIMONY OF

Elaine L. Jordan

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Decoupling

November 21, 2019

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1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Elaine L. Jordan, and my business address is 621 Woodland Square
5 Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box
6 47250, Olympia, Washington 98504-7250. My business email address is
7 elaine.jordan@utc.wa.gov.

8

9 **Q. By whom are you employed and in what capacity?**

10 A. I am employed by the Washington Utilities and Transportation Commission
11 (Commission) as a Regulatory Analyst in the Energy Regulation Section of the
12 Regulatory Services Division.

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have been employed by the Commission since September 2018.

16

17 **Q. Please state your qualifications to provide testimony in this proceeding.**

18 A. I graduated with honors from Oregon State University in 2017 with a Bachelor of
19 Science in Environmental Economics and Policy. The following year, I graduated
20 with a Master of Science in Applied Economics, also from Oregon State University.
21 In October 2018 I attended The Basics Practical Regulatory Training hosted by The
22 New Mexico State Center for Public Utilities. In September 2019 I was an attendee
23 at the Transformational Electric Pricing: Advanced Seminar in Utility Rate Theory,

1 Methods, and Applications hosted by the Financial Research Institute. I am currently
2 enrolled in a Graduate Certificate in Public Utility Regulation and Economics
3 through New Mexico State University, with an expected completion date of May
4 2020.

5 I am the lead for the Commission’s cost of service rulemaking, Dockets UE-
6 170002 and UG-170003. I have provided formal recommendations to the
7 Commission through filed memoranda in Docket UG-180794, Puget Sound Energy’s
8 (PSE) 2018 purchased gas adjustment, and in Dockets UE-190231 and UG-190232,
9 PSE’s 2018 annual decoupling true-up.

10

11 **Q. Have you testified previously before the Commission?**

12 A. I have not.

13

14 **Q. Did Commission Staff (Staff) file response testimony addressing Avista
15 Corporation’s (“Avista’s” or “Company’s”) proposed extension and
16 modification of its decoupling program?**

17 A. No. Staff supports the extension of Avista’s decoupling program and considers the
18 Company’s proposed modifications to be reasonable.

19

20 **II. SCOPE AND SUMMARY OF TESTIMONY**

21

22 **Q. What is the scope and purpose of your testimony?**

1 A. I am responding to Public Counsel’s and the NW Energy Coalition’s (NWEC)
2 proposed changes to Avista’s decoupling mechanism. My testimony in particular
3 focuses on the guidance provided by the Commission in its final order in NW
4 Natural’s recently concluded general rate case (NW Natural Order 06).¹

5
6 **Q. How is your testimony organized?**

7 A. First, I discuss the Commission’s most recent policy guidance on decoupling based
8 on NW Natural Order 06. Second, I respond to recommendations offered by Public
9 Counsel, particularly within the context of NW Natural Order 06. Third, I respond to
10 NWEC’s proposal to apply an alternative natural gas conservation target to Avista’s
11 decoupling mechanism.

12
13 **Q. Please summarize your recommendation regarding Public Counsel’s proposals.**

14 A. The Commission does not need to address Public Counsel’s questions regarding the
15 purpose of decoupling mechanisms; the majority of the testimony offered by Public
16 Counsel, asking the Commission to declare the intent of decoupling, has already
17 been answered in NW Natural Order 06. Further, I recommend the Commission
18 reject Public Counsel’s proposed two changes to the operation of the decoupling
19 mechanism. The first, calculating verified energy savings, is not feasible and the
20 Commission has previously declined to incorporate similar calculations. The second
21 seeks to eliminate decoupling surcharges if the Company earns more than the
22 authorized revenue. This is outside the scope of revenue decoupling since it

¹ *Wash. Utils. & Transp. Comm’n v. Northwest Natural Gas*, Docket UG-181053, Order 6 (Oct. 21, 2019) (NW Natural Order 6).

1 functionally requires the Commission to include *costs as well as revenues* in the
2 decoupling mechanism.

3

4 **Q. Please summarize your recommendation regarding NWECE's proposals.**

5 A. The Commission should not adopt NWECE's proposal to use a combined
6 conservation target. NWECE's proposal requires mixing Avista's electric and natural
7 gas businesses, which the Commission has already rejected. Additionally, NWECE's
8 justifications are not designed to improve decoupling as a mechanism, but appear to
9 be broader goals related to conservation policy.

10

11 **III. COMMISSION GUIDANCE ON DECOUPLING**

12

13 **Q. Has the Commission offered policy guidance for decoupling mechanisms?**

14 A. Yes. In 2010, the Commission issued its *Report and Policy Statement on Regulatory*
15 *Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their*
16 *Conservation Targets* (Decoupling Policy Statement).² Since 2010, The Decoupling
17 Policy Statement has been used as a guide for utilities seeking to establish or
18 continue decoupling while pursuing cost-effective conservation; the Commission has
19 granted decoupling for Puget Sound Energy,³ Avista,⁴ Pacific Power & Light

² *In Re Wash. Utils. & Transp. Comm'n Investigation into Energy Conservation Incentives*, Docket U-100522 (Nov. 4, 2010) (Decoupling Policy Statement).

³ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-121697, UG-121705, UE-130137, and UG-130138, Order 07 (June 25, 2013), and *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 and UG-170034, Order 08 (Dec. 5, 2017).

⁴ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 and UG-140189, Order 05 (Nov. 25, 2014).

1 Company,⁵ and Cascade Natural Gas Corporation.⁶ On October 21, 2019, in NW
2 Natural Order 06, the Commission further clarified its policy on decoupling.

3

4 **Q. Please describe the clarification the Commission provided in NW Natural**
5 **Order 06.**

6 A. NW Natural Order 06 clearly states the purpose of decoupling: to address “revenue
7 volatility resulting from to [sic] usage variations, primarily due to a utility’s energy
8 conservation efforts.”⁷ The Commission also explains in this order that decoupling is
9 not meant to be used as a revenue sufficiency tool for costs related to new
10 customers.⁸

11

12 **Q. Why is NW Natural Order 06 relevant to this proceeding?**

13 A. Avista proposes to continue its decoupling mechanism with several modifications. In
14 response, Public Counsel asks the Commission to respond to a fundamental question
15 about decoupling. Public Counsel’s question is directly addressed by NW Natural
16 Order 06.

17

18 **IV. RESPONSE TO PUBLIC COUNSEL**

19

20 **Q. Please summarize Public Counsel’s policy question regarding decoupling.**

⁵ *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Company*, Docket UE-152253, Order 12 (Sept. 1, 2016).

⁶ *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04 (Jul. 7, 2016).

⁷ NW Natural Order 6 at 16, ¶ 39.

⁸ NW Natural Order 6 at 17, ¶ 40.

1 A. Public Counsel essentially asks what the purpose of decoupling is: Is it to
2 compensate the Company for lost sales due to energy efficiency programs, or is the
3 intent of decoupling to ensure recovery of authorized revenue?
4

5 **Q. You indicated earlier in your testimony that Public Counsel’s question on the
6 intent of decoupling has been resolved. Can you please explain?**

7 A. Yes. In NW Natural Order 06, and consistent with its Decoupling Policy Statement,
8 the Commission reiterated that the purpose of decoupling is to address “revenue
9 volatility resulting from usage variations, primarily due to energy conservation.”⁹
10 This pronouncement renders moot Public Counsel’s other arguments regarding rate
11 class decoupling.
12

13 **Q. Does Public Counsel propose changes to the mechanism?**

14 A. Yes, two. The first proposed change is that, given the purpose of decoupling is to
15 compensate utilities for lost revenues from usage variations, Public Counsel
16 recommends the Commission tie “decoupling adjustments specifically to verified
17 energy savings (lost sales) from approved energy efficiency programs.”¹⁰ The second
18 change is in regards to decoupling surcharges when the Company over-earns.
19

20 **Q. Do you agree with Public Counsel’s proposal that decoupling adjustments
21 should be explicitly related to verified conservation savings?**

⁹ NW Natural Order 6 at 16, ¶ 39.

¹⁰ Crane, Exh. AAC-1T at 56:4-7.

1 A. No. Public Counsel’s proposal is problematic for two reasons. First, the argument
2 depends on the Commission limiting the purpose of decoupling to address volatility
3 in usage variations related *only* to conservation. This is counter to the Commission’s
4 Policy Statement related to full decoupling mechanisms.¹¹ Further, Public Counsel
5 made a similar recommendation in Avista’s 2009 general rate case.¹² In that case, the
6 Commission did not impose Public Counsel’s proposed limitations on Avista’s
7 decoupling mechanism,¹³ and I believe that to be the correct course of action in this
8 case.

9 Second, it simply is not possible to disaggregate the causes of load variations
10 in the way Public Counsel requests, nor does Public Counsel provide any guidance
11 as to how this would be accomplished. Essentially, Public Counsel is recommending
12 a company estimate the amount of energy usage that might have existed but for the
13 decoupling program. The confidence in that analysis would be extremely low; it is
14 nearly impossible to predict how customers would have responded to different price
15 signals under different circumstances.

16
17 **Q. What is Public Counsel’s second proposed change to the operation of Avista’s**
18 **decoupling mechanism?**

19 A. Public Counsel argues if the Company earns a higher than authorized rate of return
20 during a deferral period, there should be no decoupling adjustment in the surcharge
21 direction. For example, Public Counsel highlights that in 2015, the Company’s

¹¹ Decoupling Policy Statement at 8, ¶ 12.

¹² *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-090134, UG-090135 & UG-060518, Order 10, 107, ¶ 269 (Dec. 22, 2009) (2009 Avista GRC Order).

¹³ 2009 Avista GRC Order at 128, ¶ 344.

1 electric business earned \$1.11 million over its authorized revenue, but still charged
2 residential ratepayers nearly \$6.5 million for decoupling, even with 50 percent over-
3 earnings shared with decoupled customers.

4
5 **Q. Do you agree with Public Counsel’s proposal to tie decoupling deferrals to**
6 **achieved earnings?**

7 No. Staff is perplexed by Public Counsel’s proposal because it is only tenuously
8 linked to decoupling. Decoupling revenues are set during a general rate case, where
9 the Company is authorized to recover that amount annually, irrespective of the
10 utility’s expenses. Expenses are influenced by a myriad of factors such as: abnormal
11 weather, customer growth during the rate year, or cost cutting measures. Public
12 Counsel’s recommendation transforms the decoupling mechanism into a revenue
13 sufficiency mechanism by effectively tying revenue volatility to costs. As stated
14 previously, the Commission’s guidance from NW Natural Order 06 is clear:
15 decoupling addresses *revenue* volatility, primarily due to conservation.

16
17 **Q. Doesn’t the decoupling mechanism have an earnings test that includes costs?**

18 A. Yes, but not as a means to address revenue sufficiency. The earnings test is in place
19 to promote business efficiencies during a period of stabilized revenues. Since the
20 Company is insulated from volatile swings in revenue for certain classes via
21 decoupling, it is free to achieve increasing level of efficiencies in its day-to-day
22 operations. The earnings tests incentivizes this behavior by allowing the Company to

1 share in the cost savings, i.e. the 50 percent that may be retained after the earnings
2 test.

3 Public Counsel's proposal, on the other hand, punishes the Company for
4 earning a higher than authorized rate of return. The Company would then be directly
5 incentivized to *increase its expenses* in direct proportion to revenue so as to not lose
6 the additional revenue.

7

8 **V. RESPONSE TO NVEC**

9

10 **Q. Please summarize NVEC's testimony regarding decoupling.**

11 A. NVEC generally supports decoupling. However, NVEC proposes three
12 modification to the Company's decoupling mechanism:

- 13 1. Increase spending on low-income conservation programs;
- 14 2. Change from the current 30-year moving average for weather to a 20-year
15 moving average; and,
- 16 3. Calculate the Company's proposed five percent increase in natural gas
17 conservation targets through a combination of electric and natural gas
18 conservation.

19

20 **Q. Are you addressing all of the recommendations made by NVEC?**

21 A. No. I take issue only with NVEC's third recommendation, to combine electric and
22 natural gas conservation targets.

23

1 **Q. Please describe NWEC’s proposal for combining the gas and electric**
2 **conservation target adders.**

3 A. Avista’s initial testimony proposed to acquire an additional five percent natural gas
4 conservation savings over and above the target established in the Company’s IRP,
5 with penalties.¹⁴ NWEC proposes instead that the Company achieve an additional
6 five percent of conservation from *either* natural gas or electricity, or a combination
7 thereof.

8
9 **Q. Do you agree with NWEC’s proposal to combine natural gas and electric**
10 **conservation targets?**

11 A. No. Avista’s electric and natural gas operations are two separate businesses. NWEC
12 is proposing that Avista’s conservation commitment for natural gas decoupling be
13 met via Avista’s electric business. Therefore, NWEC is arguing that the electric
14 business should subsidize the natural gas business. The Commission has previously
15 rejected inter-business subsidization,¹⁵ and it should do so again.

16
17 **Q. Does NWEC provide any additional justifications for a combined conservation**
18 **target?**

19 A. Yes. NWEC outlines four justifications:

¹⁴ Ehrbar, Exh. PDE-1T at 30:12-17.

¹⁵ See, for example, *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-170485 and UG-170486, Order 07, 94, ¶ 285 (April 26, 2018).

- 1 1. Natural gas prices are volatile, and “there is no guarantee that prices will
2 remain low over an extended period of time;”¹⁶
3 2. There is a growing effort to price greenhouse gas emissions;¹⁷
4 3. It may already be cost-effective for customers to switch from natural gas to
5 electric;¹⁸ and,
6 4. A combined conservation target would incentivize “the most efficient (and
7 clean) way to heat.”¹⁹
8

9 **Q. Are these justifications relevant to the Commission determination about
10 decoupling?**

11 A. No. NWECC’s justifications are neither about the operation or purpose of the
12 decoupling mechanism nor the Company’s proposed extra conservation targets.
13 Instead, NWECC discusses at length their general concerns with overall conservation
14 policy goals. This is well beyond the scope of the decoupling mechanism and its
15 operation.
16

17 **Q. Does this conclude your testimony?**

18 A. Yes.

¹⁶ Levin, Exh. AML-1T at 16:22 - 17:2.

¹⁷ *Id.* at 17:3-6.

¹⁸ *Id.* at 18:8-9.

¹⁹ *Id.* at 17:13 - 18:2.