

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant, v.

AVISTA CORPORATION d/b/a AVISTA
UTILITIES,

Respondent.

DOCKET NOS. UE-190334, UG-
190335, UE-190222 (*Consolidated*)

**POST-HEARING BRIEF OF
NW ENERGY COALITION**

February 5, 2020

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I. INTRODUCTION

1. The NW Energy Coalition (“NVEC”) hereby respectfully submits this Post-Hearing Brief to the Washington Utilities and Transportation Commission (“UTC” or “Commission”) in support of the Partial Multiparty Settlement Stipulation in this case and with regard to the decoupling issues not settled. The settlement reaches the appropriate balance that will result in rates and services that are fair to both Avista Corporation (“Avista” or the “Company”) and its ratepayers.
2. Further, Avista’s decoupling mechanism is generally appropriate and should be continued. However, the Commission should also approve two other adjustments related to decoupling: 1) require that Avista use a 20-year moving average for weather in the next rate case and maintain 30-, 15-, and 10-year moving averages for comparison; and 2) adjust the Company’s conservation adder of 5% for each electricity and gas efficiency target to a combined 10% adder, five of which must be met with electricity and five of which could be met through either electricity or gas, whichever is more cost effective.

II. DISCUSSION

A. Avista’s Decoupling Mechanism Should be Approved with Two Modifications

1. The Decoupling Mechanism is Working as Intended and Should Be Continued

3. The Commission initially approved Avista’s decoupling mechanism because it found it was in the public interest, it would promote the policy goal of increased conservation and it

would result in fair, just, reasonable, and sufficient rates.¹ The Commission required that any review of Avista's decoupling mechanism include at a minimum an analysis of:

- The mechanism's impact on conservation achievement;
- The mechanism's impact on Company revenues (i.e., whether there has been a stabilizing effect);
- The extent to which fixed costs are recovered in fixed charges for the customer classes excluded from the decoupling mechanism; and
- Whether the allowed revenues from the residential class, non-residential class, and customers not subject to decoupling are recovering their cost of service.²

Additionally, the Commission has approved the continuation of decoupling mechanisms where the mechanism is working as intended to promote a more aggressive pursuit of cost-effective conservation by eliminating the throughput incentive and making the utility indifferent to sales lost as a result of conservation efforts.³

4. Here, Avista's decoupling mechanism is working as intended⁴ and should be continued with minor improvements. Since approval of decoupling, the Company saw greater conservation achievement by exceeding its I-937 electricity conservation target and the 5% adder approved with the initial decoupling mechanism.⁵ For example, in 2016-2017,

¹ *Wash. Utils. and Transp. Comm'n v. Avista*, Dockets UE-140188 and UG-140189, Order 05 at 13 (Nov. 25, 2014).

² *Id.* at 13-14.

³ *See Wash. Utils. and Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 and UG-170034, Order 08 at 90-91 (Dec. 5, 2017).

⁴ Levin, Exh. AML-1T at 9:13-14.

⁵ *Id.* at 8:13-9:1; Energy Independence Act, Initiative 937, 60th Leg., Reg. Sess. (Wash. 2007), 2007 Wash. Sess. Laws 1.

Avista acquired 183% of its I-937 target.⁶ Therefore, while decoupling alone is not a driver of conservation, it is “an important factor facilitating Conservation Achievement.”⁷

5. Further, Avista’s decoupling mechanism has not adversely impacted Company operations, service, and customer satisfaction.⁸ There have been no indications of any adverse effects on the utility’s cost control, operational efficiency and service quality or any perverse price signals that weakened customer participation in conservation programs.⁹ As explained by NWECC witness Amanda Levin: “Decoupling mechanisms do not guarantee profits or weaken incentives to control costs: they solely provide greater assurance to a utility and its customers that the utility will recover only authorized revenues – and no more.”¹⁰ In the case of Avista, a third-party evaluation concluded that there were “no indications of any lack of attention to cost control and operational efficiency,” but that Avista “maintains a careful and prudent approach to controlling costs.”¹¹

6. Avista’s proposed decoupling modifications should also be approved, with a change to the 5% natural gas conservation target discussed below. First, Avista’s proposed adjustment to the revenue-per-customer (“RPC”) for new customers sufficiently addresses historical concerns raised about the potential for “double recovery” of costs under an RPC approach that covers distribution, transmission, and production-related fixed costs.¹² Avista proposes to address this issue by excluding fixed transmission and production costs from the

⁶ *Id.* at 9:1-2.

⁷ *Id.* at 9:2-3 (quoting Ehrbar, Exh. PDE-2 at 182).

⁸ *Id.* at 9:6-10.

⁹ *Id.*

¹⁰ Levin, Exh. AML-4T at 1:20-23.

¹¹ *Id.* at 2:19-3:1 (quoting Ehrbar, Exh. PDE-2 at 200).

¹² Levin, Exh. AML-1T at 11:15-20.

RPC for new customers.¹³ “The objective of a decoupling mechanism is to enable the utility to recover its fixed costs regardless of how much energy it sells. Nothing more, nothing less.”¹⁴ There will be inevitable downward pressure on utility earnings in between rate cases as the result of increased costs like inflation and system growth.¹⁵ Without decoupling, the utility would seek to alleviate this pressure through increased sales.¹⁶ However, Avista’s proposed revision to the decoupling mechanism uses the number of customers served as a reasonable proxy for increases in fixed distribution system costs and allows Avista to recover those costs between rate cases rather than through increased sales.¹⁷ Therefore, Avista’s decoupling mechanism should be continued with this modification.

2. The Proposed Decoupling Mechanism Should be Modified in Two Ways

7. Avista’s decoupling mechanism should also be modified in the following two ways:
 - 1) use a 20-year moving average for weather in the next rate case; and
 - 2) make the proposed 5% conservation adder for natural gas into a combined 10% goal for gas and electric, half of which (5%) would be met by the current electric conservation adder and the other half of which (5%) could be met through either electric or gas conservation.
8. First, Avista should use a 20-year moving average and maintain analysis of a 30-, 15- and 10-year moving average for comparison. The change to a 20-year moving average is recommended by the third-party decoupling evaluation to improve the forecasting of

¹³ *Id.* at 10:16-18.

¹⁴ Levin, Exh. AML-4T at 4:3-4.

¹⁵ *Id.* at 4:10-12.

¹⁶ *Id.* at 4:12-15.

¹⁷ *Id.* at 4:15-5:3.

expected sales by reflecting the warming trend that has been seen in recent decades.¹⁸ The evaluation showed that the weather over the three years studied (2015 to 2017) was, on average, warmer than the 30-year average weather.¹⁹ Weather is an important factor effecting energy use and energy efficiency especially on the natural gas side of Avista’s operations.²⁰

Continuously warmer than average or planned for winter weather can result in perpetual under recovery of fixed costs for Avista’s gas side: anticipated sales are higher than actual due to expectations of more heating degree days, and thus the price per therm (total allowed revenue to be recovered via volumetric sales/anticipated volumetric sales) is set too low in a rate case. When actual sales are lower due to warmer (than “normal”) winter weather, the utility would see an under recovery of authorized revenue and customers would see a surcharge via the decoupling mechanism the next year to address this shortfall.²¹

Therefore, by redefining “normal” to reflect a more recent timeline more in-line with warming trends, Avista can more closely align its expectations with reality and avoid such under recovery.²² As such, the Commission should direct Avista to use a 20-year moving average in its next rate case and also maintain a 30-, 15- and 10-year moving average for comparison.

9. Finally, the Commission should not approve Avista’s proposed 5% conservation adder for natural gas and should instead approve a 5% conservation adder that can be met either through gas conservation or through electric conservation. Avista’s proposed 5% conservation adder for natural gas is not necessary to the proper functioning of the

¹⁸ Levin, Exh. AML-1T at 15:7-15.

¹⁹ *Id.* at 15:19-20.

²⁰ *Id.* at 15:16-19.

²¹ *Id.* at 15:21-16:7.

²² *Id.* at 16:13-19.

decoupling mechanism and decoupling has worked in the past without it.²³ Rather Avista proposes to commit to achieving 5% more natural gas conservation above what it is required to meet from the Avista natural gas integrated resource plan over each of the same two-year reporting biennia used to determine compliance with the electrical conservation requirements.²⁴ Rather than approving an additional 5% for natural gas conservation, the Commission should approve a total 10% conservation adder, with the 5% target currently existing for electric conservation and an additional 5% that Avista can meet either through natural gas conservation or through electric conservation.²⁵

10. Staff is concerned that this concept will require subsidization of fuel switching between electricity and natural gas.²⁶ However, implementing this concept or something similar will not require Avista electric customers to subsidize their fellow electric customers' conversion to natural gas or vice versa. Previously, this Commission has found that "it is not appropriate for electric ratepayers to subsidize their fellow electric customers' conversion to natural gas," but that those fleeing customers should pay a transition fee to the remaining electric customers so they are not left with costs resulting from load loss.²⁷ In that case, the

²³ See Exh. PDE-2 at 222 (Avista Decoupling Evaluation Final Report).

²⁴ Ehrbar, Exh PDE-1T at 30:12-17.

²⁵ Avista appears to think that NWECC is proposing a natural gas conservation target of over 5%. See Ehrbar, Exh. PDE-3T at 6:11-14. To be clear, NWECC is not proposing an additional 10%, but rather proposing a total of 10%, half of which (5%) must be met under the existing 5% conservation adder for electric and the other half of which (5%) must be met through either electric or gas. Therefore, the *most* that could be under the new gas target would be 5%, but there could be higher than 5% on the electric side.

²⁶ Jordan, Exh. ELJ-1T at 10:11-15.

²⁷ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-170485 and UG-170486, Order 07 at 93, ¶ 285 (Apr. 26, 2018).

Commission concluded that Avista could continue its natural gas fuel conversion program but that it should not be funded through an electric conservation rider.²⁸ Here, however, the additional 5% conservation adder to be met through either electric or natural gas is not a subsidy to encourage customers to switch between different fuel types, but is simply a flexible approach to achieving greater conservation regardless of the fuel type used and allows Avista to achieve conservation where it is most cost effective. While NWECC discusses the potential for future economics or policies that may lead to fuel switching, the proposed gas/electric shared 5% conservation target is not intended to encourage such activities, but only to be a mechanism for meeting conservation targets regardless of whether they are natural gas or electric.²⁹ Therefore, it would not run afoul of Staff's concern.³⁰

11. The commitment to meet this conservation target through either electric or gas conservation is also consistent with the Commission policies for decoupling mechanisms. It will still promote increased conservation, but will provide flexibility for Avista to procure the most cost-effective end-use equipment regardless of fuel or future policies.³¹ It will result in fair, just, reasonable, and sufficient rates and is in the public interest. Therefore, the Commission should approve this modification.

B. The Partial Multiparty Settlement Stipulation Represents a Reasonable Balancing of Interests and is in the Public Interest

12. The Partial Multiparty Settlement Stipulation filed in this docket on November 21, 2019 appropriately resolves NWECC's concerns regarding Colstrip depreciation, Colstrip

²⁸ *Id.*

²⁹ Levin, Exh. AML-1T at 18:5-12.

³⁰ See Jordan, Exh. ELJ-1T at 10:11-15.

³¹ Levin, Exh. AML-1T at 18:5-12.

community transition funding, on-bill repayment for cost-effective energy efficiency acquisitions, and low-income weatherization funding.

13. First, the settlement appropriately matches the Colstrip depreciation timeline with Washington State’s newly enacted Clean Energy Transformation Act (“CETA”). Under CETA, each electric utility “must eliminate coal-fired resources from its allocation of electricity” by December 31, 2025, and the Commission “must accelerate depreciation schedules for any coal-fired resources to a date no later than December 31, 2025.”³² The penalty for failure to eliminate coal-fired resources after 2025 will result in a penalty of \$150 per megawatt-hour for noncomplying power.³³ The Partial Multiparty Settlement Stipulation meets this requirement by accelerating the depreciation for Colstrip Units 3 and 4 from 2034 and 2036 respectively to 2025.³⁴

14. Second, the settlement supports the responsible and just transition away from the Colstrip plants. “While CETA does not require the retirement of Colstrip Units 3 and 4, it does signal an end to Washington ratepayer support for generation from the plants,” which combined with other economic forces and environmental concerns, works to reduce the output and eventually lead to their closure.³⁵ Because “Avista and its ratepayers have benefited from the power generated from Colstrip Units 3 and 4 for decades,” the Company and ratepayers “have a responsibility to the community of Colstrip to ensure both clean up

³² S.B. 5116, 66th Leg., Reg. Sess. §3 (Wash. 2019), 2019 Wash. Sess. Laws 1608, 1614.

³³ *Id.* §9, 2019 Wash. Sess. Laws 1608, 1623.

³⁴ Partial Multiparty Settlement Stipulation ¶13.a.

³⁵ Gerlitz, Exh. WMG-1T at 5:18-6:6.

and remediation of the site and assistance with economic transition.”³⁶ Colstrip as a small, rural “coal town” has been so reliant on coal as to make households, businesses, and local governments especially vulnerable.³⁷ The transition funding will show this community that Avista is a good corporate citizen of this town and will help the community transition beyond what is legally required.³⁸ The Partial Multiparty Settlement Stipulation appropriately provides for this transition funding.

15. Third, the Partial Multiparty Settlement Stipulation appropriately requires Avista to develop an on-bill repayment program that will increase the acquisition of cost-effective energy efficiency.³⁹ Energy efficiency acquisition is a primary method to help customers control utility bills and will help to offset the rate increases stemming from this case.⁴⁰ An on-bill repayment program is an opt-in program designed to help overcome the upfront costs of energy efficiency or distributed renewable generation projects by offering financing for customer improvements and allowing customers to repay that cost directly on their utility bills.⁴¹ Such a program will increase the number of customers undertaking energy efficiency upgrades by removing barriers to customer financing.⁴² Therefore, this element of the settlement is appropriate and in the public interest.

16. Fourth, the settlement also appropriately includes an increase to low-income weatherization funding and a commitment to set a goal of having electric vehicle supply

³⁶ *Id.* at 6:4-8.

³⁷ *Id.* at 7:3-11.

³⁸ *Id.* at 7:14-8:5.

³⁹ Partial Multiparty Settlement Stipulation ¶14.d.

⁴⁰ Gerlitz, Exh. WMG-1T at 12:13-19.

⁴¹ Joint Testimony, Exh. JT-1 at 62:13-20.

⁴² *Id.* at 62:20-63:2.

equipment (“EVSE”) funds dedicated to low-income customer benefits.⁴³ The weatherization funding would increase by \$650,000, from \$2.35 million to \$3.0 million, effective August 1, 2020.⁴⁴ This increase in funding will help to offset the rate increase for low-income customers by increasing the amount of energy efficiency assistance, which provides for on-going savings on customer bills.⁴⁵ Additionally, Avista’s commitment in the settlement to set a goal of having at least 30% of EVSE program funds dedicated to low-income customer benefits will help ensure that low-income customers benefit from the transition to transportation electrification and are not left behind as other customers with greater means move forward.⁴⁶ These weatherization and transportation electrification goals further state policies in support of low-income customers and are an essential part of a just transition to clean energy in Washington State, consistent with the intent of CETA.

III. CONCLUSION

17. As articulated herein, the Commission should approve the settlement and continue Avista’s decoupling mechanism with the two modifications recommended above.

Dated this 5th day of February 2020.

[signature page to follow]

⁴³ Partial Multiparty Settlement Stipulation ¶¶14.a, 14.g.

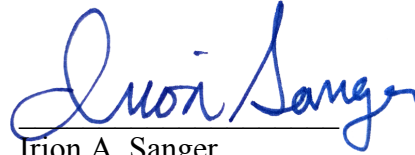
⁴⁴ Joint Testimony, Exh. JT-1 at 63:5-10.

⁴⁵ *Id.*

⁴⁶ *Id.* at 63:13-18.

Respectfully submitted,

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