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*)

POST-HEARING BRIEF OF AVISTA CORPORATION

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TABLE OF CONTENTS

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1 COMES NOW, Avista Corporation (hereinafter "Avista" or the "Company"), by and through its undersigned attorney, and respectfully submits this Post-Hearing Brief in the above-captioned matter.

I. THE PARTIAL MULTI-PARTY SETTLEMENT ENJOYS BROAD SUPPORT AND SHOULD BE APPROVED, AS IN THE "PUBLIC INTEREST"

A. Overview.

2 The Joint Testimony of the Parties recommends approval of the Partial Multiparty Settlement Stipulation (hereinafter the "Settlement") by the Commission.[1] If approved, the Settlement resolves all issues in this proceeding, with the exception of (1) continuation of the Company's decoupling proposal, which is opposed by Public Counsel; (2) the natural gas revenue requirement of $8.0 Million, which Public Counsel does not support; and (3) the remaining Energy Recovery Mechanism ("ERM") issues in UE-190222 (that are not otherwise addressed in the investigation being conducted in UE-190882).

3 The Settlement represents, not surprisingly, a compromise among differing points of view. Concessions were made by the Parties to reach a reasonable balancing of interests. The Settlement received significant scrutiny by the Parties and is supported by sound analysis and substantial

[1] Exh. JT-1.

evidence. Its approval is in the public interest. The Partial Multiparty Settlement Stipulation has been marked as Exh. JT-2.

4 The principal elements of the Settlement are as follows:

- Effective with service on and after April 1, 2020, Avista's annual electric revenues would increase by $28.5 Million from 2018 levels, representing a $17.3 Million reduction from the Company's original request of $45.8 Million.
- In addition, all Parties, with the exception of Public Counsel, agree to an annual overall natural gas revenue increase of $8.0 Million above 2018 levels; this is a $4.9 Million reduction from Avista's original request of $12.9 Million.
- The overall increase in base electric rates would be 5.7%[2] under the Settlement, prior to Energy Recovery Mechanism (ERM) refund described below – i.e., down from Avista's original request to increase base electric rates by 9.1%. The Parties agree that the final ERM customer deferred balance approved by the Commission in Docket UE-190222 will be returned to customers over a two-year period beginning April 1, 2020, through March 31, 2022, with the exception of $0.5 Million, which will be applied to the accelerated Colstrip production plant depreciation expense for the rate year beginning April 1, 2020.
- Natural gas rates would increase overall by 8.5%[3] with the Settlement, down from Avista's original request to increase base natural gas rates by 13.8%. This Settlement constitutes a single year rate increase. The Parties do not agree to a second year electric or natural gas rate increase, as proposed by Avista in its original request.
- With the exception of certain items specifically called out below (i.e., cost of capital), the overall electric and natural gas revenue requirements are part of a "black box" settlement, reflecting give-and-take on multiple issues.
- The Parties have specifically agreed to a capital structure consisting of 51.5% debt and 48.5% common equity. The authorized return on common equity will be set at 9.4%, with a cost of debt of 5.15%. The resulting authorized rate of return would be 7.21%.[4]
- The Partial Multiparty Settlement Stipulation also addresses other items agreed to by the Parties, including electric and natural gas rate spread and rate design, as well as certain miscellaneous agreed-to items including, but not limited to, increases to low-income weatherization and Low Income Rate Assistance Program (LIRAP)

[2] The net overall increase in electric billed rates, prior to the effect of the ERM refund, is 5.4%.
[3] The net overall increase in natural gas billed rates is 5.2%.
[4] The 7.21% also represents the agreed-upon "Allowance For Funds Used During Construction" (AFUDC).

funding, review and development of special contracts, as well as agreement regarding the amortization of certain deferrals.

- As part of the Settlement, the Parties agree to the acceleration of Colstrip Units 3 and 4 production plant to 2025, the placement of decommissioning and remediation (D&R) costs into a regulatory asset ("Colstrip D&R Regulatory Asset"), as well as the recovery of these costs over time.
- In addition, the Parties agree, among other things, to a Colstrip Community Transition Fund of $3.0 Million, that will be funded 50% (or $1.5 Million) from customers[5], and 50% (or $1.5 Million) from Avista's shareholders.[6]
- The Settlement calls for an effective date of April 1, 2020.

B. Issues Were Thoroughly Vetted.

5 Extensive discussions occurred on all components of the Company's filing, such as the cost of capital, rate base, and various expense items. Moreover, testimony was filed by all Parties and admitted into evidence concerning all contested issues. Ultimately, with the exception of certain items specifically called out below (e.g., cost of capital), the overall electric and natural gas revenue requirements[7] were agreed to as part of a "black box" settlement, reflecting the "give-and-take" on multiple issues by the Parties that characterizes settlement discussions, resulting in a reasonable balance of differing interests. Each of the Parties ultimately agreed to concessions on matters which would not have been agreed to if each of the Parties were to proceed to evidentiary hearings.[8]

C. Especially Noteworthy Features of Settlement: Rate Mitigation and Resolution of Colstrip Issues.

6 Partially offsetting the $28.5 Million electric increase for customers, the Parties agree that the final ERM customer deferred balance approved by the Commission in Docket UE-190222 will

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5 The customer portion of $1.5 million would be funded on April 1, 2020 and deferred for future rate recovery without a carrying charge.

6 The shareholder portion would be funded on April 1, 2020, after the Settlement is approved by the Commission.

7 Public Counsel does not support the overall change in natural gas revenue requirement described in the Settlement.

8 Significant discovery occurred over the months preceding finalization of the Settlement. The Company responded to over 840 data requests (including sub-parts) and provided the responses to all Parties. As a result, the Parties believe that the issues were thoroughly vetted among themselves.

be returned to customers over a two-year period beginning April 1, 2020 through March 31, 2022, through Tariff Schedule 93. [See Section 12 of Settlement, Exh. JT-2]

7 The ERM balance on the Company's books as of December 31, 2019 is $35,912,182. The forecasted balance, inclusive of accrued interest, as of March 31, 2020 is expected to be $36,290,433. As described in paragraph 12 of the Settlement Stipulation, $0.5 Million of the ERM balance will be applied to the accelerated Colstrip production plant depreciation expense, leaving a projected ERM balance as of April 1, 2020 of $35,790,433 available to be rebated to customers over the agreed-upon two year period. The forecasted amount to be rebated to customers over the two-year period, inclusive of accrued interest during the rebate period,[9] is approximately $39,240,083. See Bench Request No. 1 and Attachment A for the detailed calculation of the ERM balances described above.

8 With regards to the Company's investment in its 15% ownership of Colstrip Units 3 and 4, the Settlement resolves the accounting and recovery of accelerating the depreciation of its Colstrip production plant to 2025, in accordance with new Washington "Clean" initiative, signed into law in May 2019, requiring the removal of coal as a resource for ratemaking in Washington by 2025. The Settlement also resolves the final disposition of remaining electric TCJA tax benefits set aside as a possible offset against the accelerated depreciation of the Colstrip production assets, and the amortization of Avista's share of current estimated levels of Colstrip decommissioning and remediation costs. [See Section 13 of Settlement, Exh. JT-2]

D. Negotiated $8 Million Gas Revenue Requirement Increase is Well Within the Zone of Reasonableness.

9 In opposing the natural gas revenue increase request of $8 Million, Public Counsel argues "[q]uite simply, the increase is too high and does not result in fair, just, and reasonable rates."[10]

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[9] The carrying charge for the ERM mechanism is calculated using the Company's actual cost of debt, updated semi-annually, and applied to the Energy Cost Deferral balance less associated accumulated deferred income taxes.

[10] Exh. ACC-14T at 4:17-18.

Instead, Public Counsel recommends the Commission authorize a natural gas revenue requirement increase of $5.081 Million.[11]

10 Public Counsel's argument points to base rate increases customers have experienced from 2009 to 2016, which resulted in an average annual increase over this period of 3.02%. It then goes on to argue that the "natural gas base revenue increase of $8.0 Million results in a base increase of 8.5% to customers that have been burdened by significant increases over the last few years."[12]

11 The Company, in fact, has not had base rate increases "over the last few years." Natural gas base rates have remained unchanged from January 11, 2016 through April 30, 2018. In fact, on May 1, 2018, base rates were reduced by $2.1 Million, or 2.4%, and they remain at these levels today. In effect, it will have been over four (4) years since customers have experienced a base rate natural gas increase, as of the time new rates go into effect on April 1, 2020, if the Settlement is approved.[13]

12 Furthermore, comparing rates from January 1, 2015 to today, an average residential customer's bill using 66 therms per month has decreased from an average bill of $66.42 per month to $54.94 per month, representing a decrease of $11.48 per month, or 17.3%. Expressed differently, if the Settlement is approved, the average residential bill will become $57.85 per month, still a decrease of $8.57 per month, or 12.9% from 2015 levels.[14]

13 Put in a different context, until the time new rates go into effect as a result of this general rate case (April 1, 2020), Avista will not have recovered its costs associated with most of its 2017 capital investment, the entirety of its capital investment in 2018 and 2019, and a portion of the 2020 capital investment. In total, this unrecovered incremental capital investment alone exceeds $80 Million.[15] In the Company's view, this significant amount of lag from unrecovered capital

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11 Exh. ACC-14T at 4:8-11.
12 Exh. ACC-14T at 5:8-12.
13 EMA-9T at 5:1-11.
14 Id. at 6:13-18.
15 See Exh. KKS-1T, pages 13 and 15, Table 4 and Illustration 2, respectively, in Docket UE-190335, for 2019 natural gas rate base level ($393.4 Million). See final Order 06, Appendix B in Docket UG-170486 for current

investment is the primary driver in both the electric and natural gas increased revenue requirement reflected in the Settlement.[16]

14 As seen from yet a different perspective, the updated litigation position[17] of Avista is $11.2 Million, Staff is $7.3 Million and Public Counsel is $5.1 Million. Accordingly, an $8 Million settlement figure is only just above the Staff litigation position and well below the Company's litigation position.[18] As such, it falls well within the "zone of reasonableness."[19]

15 Finally, even Public Counsel's litigation position of $5.1 Million is grossly understated. Public Counsel removed the Company's "Pro Forma 2019 Major Capital Additions" adjustment (3.10) in its entirety, ignoring the fact that many capital projects, such as those included by Staff, were already in-service and "known and measurable" as of July 2019 — well before the filing of their testimony on October 3, 2019.[20] Recognition of these 2019 Pro Forma Capital Additions alone by Public Counsel would have added another $2.2 Million of revenue requirement, bringing their litigation position up to $7.3 Million.[21] Even this result does not take into consideration any other contested adjustments that were the result of "known and measurable" incremental increases in expense or contract changes above test period levels, inclusion of which would have been consistent with past Commission orders. Therefore, as seen in the bigger context of the give-and-take of settlement discussion, an $8 Million resolution on revenue requirement for natural gas is well within the "zone of reasonableness."

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natural gas authorized rate base level ($310.1 Million). Of course, this does not even include associated depreciation expense.

16 EMA-9T at 6:5-9.

17 Updated for agreed-upon cost of capital in Settlement.

18 EMA-9T at 7:1-14.

19 The end result of ratemaking may fall within a "broad zone of reasonableness." Permian Basin Area Rate Cases, 390 U.S. 747, 770, 20 L.Ed.2d 312, 88 S.Ct. 1344 (1968). The heavy burden of establishing unreasonableness must be borne by the challenger. FPC v. Hope Natural Gas Co., 320 U.S. 591, 602, 88 L.Ed.333, 64 S.Ct. 281 (1944).

20 This, in and of itself, removed $2.2 Million of associated revenue requirement. (EMA-9T at 8:3-4)

21 Id. at 8:1-3.

II. AVISTA'S DECOUPLING MECHANISMS SHOULD BE EXTENDED, WITH MODIFICATIONS

A. Introduction.

16 The Company requests that the Commission authorize the approval of changes to the Company's electric and natural gas Decoupling Mechanism Tariff Schedule's 75 and 175. These changes seek to: [22]

1) Extend the current Decoupling Mechanisms through March 31, 2025;

2) Modify the Decoupling Mechanisms to exclude new customers added after a new decoupling base is set in a general rate case;

3) Change the effective date of the annual tariff revisions from November 1st to August 1st of every year;

4) Implement an annual true-up to the mechanisms;

5) Extend the natural gas quarterly reporting requirement from 45 to 60 days; and

6) Approve a natural gas conservation target of 5%, with penalties.

Mr. Ehrbar placed the Company's decoupling efforts into a broader perspective: "By extending the mechanisms and providing some certainty to the Company that it can recover a significant portion of its fixed costs of providing service, the Company is able to maintain its central focus of being a trusted energy advisor to its customers without adverse or uncertain financial impacts from evolving customer choice in the future."[23]

17 The Commission recently approved Puget Sound Energy's request to extend their Decoupling Mechanisms in Dockets UE-170033 and UG-170034. In Order 08 in those dockets, the Commission found "that decoupling is working as intended" and that decoupling is "a rate methodology for recovering a defined portion of the fixed costs PSE incurs to deliver electricity and natural gas to its customers."[24]

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22 Exh. PDE-3T at 15:8-21.
23 PDE-1T at 3:1-4.
24 Order 08, ¶260, Dockets UE-170033 and UG-170034.

18 Given that Avista's Decoupling Mechanisms "are similar in most ways" to Puget Sound Energy's mechanisms (Avista, after all, designed our mechanisms based on Puget's), and that the same independent third-party evaluator[25] found that Avista's Decoupling Mechanisms were also working as intended (as discussed below), Avista believes there is sound precedent for an extension of Avista's mechanisms.[26]

B. <u>Findings of Third-Party Evaluator</u>.

19 The Commission required a third-party evaluation, paid for by Avista shareholders, to be completed by the end of the third full year (2018) of the implementation of the mechanisms.

20 H. Gil Peach & Associates was ultimately selected as the consultant for that purpose, after consultation with the Parties.[27] In addition to meeting the requirements set forth in the Statement of Work contained within the RFP, H. Gil Peach & Associates had recently completed a similar review for Puget Sound Energy, which in the Company's view, only added to their qualifications.

21 The final report, labeled "Avista Decoupling Evaluation" ("Independent Final Report"), is included as Exh. PDE-2. The summary conclusion as stated on Page 1 of the Independent Final Report states that "(w)e find that Avista's decoupling is working well within the specific window of time examined." It found:[28]

- The deferrals and rates to have been calculated by the Company in accordance with the Commission order and the Amended Petition, as determined by methodological specifications in Schedule 75 and Schedule 175.
- Impacts of decoupling on customer bills have been small over the first three calendar years of operation, partly due to the timing of billing impacts.
- The decoupling deferral tracker adjustment, Schedule 75 for electric and Schedule 175 for natural gas, has had a relatively small impact on low-income customer bills.

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25 The third-party evaluator, H. Gil Peach, performed a review of both sets of mechanisms for PSE and Avista.
26 PDE-1T at 3:15-19.
27 The Company consulted with its Energy Efficiency Advisory Group ("Advisory Group") in the development of the Request for Proposals (RFPs) and the selection of the consultant to perform the evaluation.
28 PDE-1T at 17-23.

- Avista's decoupling mechanism has had a stabilizing effect on revenue, reducing variability to between 30% and 70% of variability without decoupling.
- In the presence of a strong driver like I-937 or like the Commission's direction to use the gross UCT test, it provided revenue stability and more timely revenue recovery and so is a part of a "package" in that it eliminates the "throughput" incentive.
- We find no conclusive evidence of current adverse impact of decoupling on cost control, operational efficiency, price signals or service quality.

22 Its conclusion was that: "The decoupling mechanisms have worked as expected to stabilize revenue without impacting utility operations and energy efficiency programs. We also found no evidence of adverse impacts to any customer groups. We recommend the electric and natural gas mechanisms be continued and certain modifications be considered.[29] Some of these modifications, where agreed-upon by the Company, are discussed below.

C. **Proposed Modifications.**

(i) Extend Through March 21, 2025.

23 Based on proven benefits to both the customer and the Company that the Decoupling Mechanisms have shown to date, as validated in the Independent Final Report, and the lack of adverse impacts associated with these mechanisms, the Company has requested that the Commission approve the continuation of the Decoupling Mechanisms until March 21, 2025.

(ii) Excludes New Customers.

24 It is fair to note that the Commission recently rejected a settlement stipulation in the Northwest Natural Gas (NW Natural) general rate case which would have established a natural gas decoupling mechanism.[30] In doing so, the Commission observed that a mechanism should be "tailored to address reductions in short-term earnings that are a direct result of the Company's energy conservation programs or other usage variations."[31] Avista's mechanisms do just that - address usage variation, including variation in usage due to our energy efficiency efforts, as well

[29] Exh. PDE-2 at 10-1.
[30] Docket UG-181053, Order 06, ¶35.
[31] Id. at ¶34. .

as weather and other factors. Avista's Decoupling Mechanisms are not designed or intended for the recovery of incremental costs of serving new customers and has not otherwise served to address regulatory lag or assist with timely cost recovery of new investment.

25 Due to stated concerns about the applicability of the mechanism as a means of cost recovery for new customers in the recent NW Natural proceeding, Avista is now proposing that only existing customers continue to be decoupled (the level of customers included in this case based on 12-months ending December 2018), and that all new customers after January 1, 2019, be excluded until such time as the costs associated with serving those customers are included in a future general rate case. In essence, existing customers through the 2018 test year would be decoupled, and all new customers would not be.[32]

26 On re-direct examination, Mr. Ehrbar nicely differentiated Avista's situation from that of Northwest Natural:

> . . . my understanding is that their mechanism was somewhat deemed more of a cost recovery mechanism to recover costs in between rate cases associated with hooking up what sounds like a substantial growth in number of customers that they were projecting in their Vancouver service territory. For us, we don't have that - that situation. One, we've never treated it as a cost recovery mechanism separate from a general rate case or anything like that. It's been really recovery costs due to fluctuations in customers' energy usage and the effects of energy efficiency.
>
> And then the only other thing I'd say is it - of course the Northwest Natural order informed us taking that additional step to just remove new customers entirely from the mechanism. So, if - and my understanding of Northwest Natural's case, new customers used less on average than the existing base. So, to the extent that that is true for Avista, and I've not done such analysis, it's now moot. So that is not embedded - it would not be embedded in the mechanism prospectively. Their usage,

[32] To the extent the Company adds new customers beyond the test year (i.e., starting January 1, 2019), the Company would use a new customer-connects revenue report to determine the usage and revenue from new customers. Those new customer usage and revenue amounts would then be deducted from the total monthly actual usage and revenue to identify the decoupled revenue from test year existing customers to calculate the decoupling deferral entry. PDE-3T at pp. 4-5. To the extent Avista files a future rate case with a new test year (for example a case with a calendar-year 2022 test year), all customers through the test year would comprise the new level of "existing customers" for purposes of decoupling, and any new connects post 2022, in this example, would then be the "new customers."

> their costs would track independently and would inform a future base in a future rate proceeding when they're actually embedded in a test year. (Emphasis added)

(TR at 239:2-25)

(iii) Change Effective Date of Annual Revisions.

27 This change reflects Recommendation 2, in Section 10 of the Independent Final Report which provides:

> *If practical for Avista, move the decoupling tariff effective date up from November 1st to July 1st to substantially increase the likelihood that reported revenue will be collected within two years, as required by the Securities and Exchange Commission.*

Because of this revenue recognition issue, the Company proposes to implement amortization of the deferred revenue balance earlier in the year following the deferral. Therefore, the Company proposes to move up the effective date of the annual decoupling rate filing to August 1st to coincide with Company's annual Demand Side Management rate adjustment filings (Schedules 91 and 191).[33]

(iv) Annual True-Up.

28 The Company is proposing to add an additional step that would, at the end of a 12 month deferral calculation, take the annual decoupled revenue per customer (multiplied by the average annual number of actual customers) and compare that to the actual deferred revenue for the period. The benefit of this calculation is that the method of monthly shaping (i.e., using test period loads to shape decoupled monthly revenues) is not necessarily a perfect methodology. The proposed change in our view puts the actual results more on par with the derivation of the authorized amounts – i.e., authorized annual revenue per customer as compared to actual annual revenue per customer.[34]

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33 PDE-1T at 27:1-13.
34 Id. at 27:20 - 28:4.

(v) Extend Natural Gas Quarterly Reporting Requirements.

29 Throughout the first three years of the Decoupling Mechanisms there have been instances where the Company has not released its financial earnings prior to the due date of the natural gas quarterly report. This circumstance necessitates the need to file the natural gas quarterly report confidentially prior to the release of the Company's earnings (pursuant to WAC 480-07-160) and then re-filing the quarterly report again non-confidentially after the earnings release. To alleviate the need to file the quarterly reports twice in these instances, the Company proposes to file the natural gas report within 60 days after each quarter end to be consistent with the 60-day requirement for the electric quarterly reports.[35] It seeks a permanent waiver or exemption of WAC 480-90-275 and 480-100-275, to allow for such.[36]

(vi) Approve a 5% Natural Gas Conservation Target.

30 The Company's existing natural gas Decoupling Mechanism does not include a commitment to increasing its natural gas energy efficiency targets. If the Decoupling Mechanisms are extended as proposed in this Petition, Avista will commit to achieving at least 5% more natural gas conservation than required from the Avista natural gas Integrated Resource Plan (IRP) over each of the same two-year reporting biennium as is used to determine compliance with the electrical conservation requirements in RCW 19.285.[37] Given that its natural gas target is new, and is also consistent with the target recently approved for Puget Sound Energy in the extension of its natural gas decoupling mechanism, it is premature to have a target above 5% at this time, as suggested by NWEC.

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35 PDE-1T at 30:1-9.

36 TR at 203:22 - 204:1.

37 In addition, Avista commits to a penalty arrangement should it not achieve its conservation commitments. Avista proposes to pay $20,000 for meeting between 4.5% and 5.0% of its incremental natural gas conservation commitment, $50,000 for meeting between 3.75% and 4.5% of its incremental commitment, and $75,000 for less than 3.75% of its incremental commitment. These penalties are consistent with what Puget Sound Energy (PSE) has for its natural gas Decoupling Mechanism. (Exh. PDE-1T at 11:17-27)

D. Public Counsel' "Rate Class" Decoupling is Bad Regulatory Policy and Has Been Rejected.

31 After accounting for variable power supply revenue and revenue associated with fixed charges (i.e., the Basic Charge for Schedule 1), Public Counsel Witness Crane would fix the Company's total revenue at the level set in this case. [38] When new customers take service from the Company, all revenue from those new customers, after accounting for power supply and fixed charges, would be deferred for return to all customers, so as to not exceed the approved revenue requirement. Sometimes this is referred to as "found margin." As Mr. Ehrbar appropriately notes:

> That is not how proper ratemaking works and is bad policy that would exacerbate regulatory lag.[39]
>
> Public Counsel is in essence promoting the same "complete" decoupling model proposed by Public Counsel witness Mr. Brosch in Puget Sound Energy's (PSE) 2017 rate case where the Commission approved the extension of PSE's decoupling mechanisms[40].

Mr. Ehrbar went on to explain that:

> The type of decoupling espoused by Public Counsel would, in essence, violate the relationship of revenues, costs and investments. Public Counsel is supportive of a mechanism that would actually set the level of authorized revenue by rate class at the revenue requirement set in this general rate case, serving as an absolute cap.
>
> The utility, in this view, would be forced to absorb all increases in costs and investment (which it does today), but any additional revenue provided beyond that set by the Commission in this proceeding (in total – not per customer), would have to be returned to all customers.[41]

According to Mr. Ehrbar, that does not make sense, violates the matching principles, and is not a sound regulatory practice.[42]/[43] Public Counsel would take all new revenue beyond that approved

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38 PDE-3T at 6:12-14.
39 PDE-3T at 7:1-9.
40 See, Dockets UE-170033 and UG-170034, Order 08, ¶289.
41 PDE-3T at 8:13-18.
42 PDE-3T at 9:1-4.
43 Commission witness Ms. Liu in the above-referenced NW Natural Docket No. UG-181053 also characterized this as "bad regulatory policy": "Public Counsel's decoupling proposal is bad regulatory policy for a number of reasons. The proposal does not match revenue with cost of service in the rate years and would make the Company worse off than if it had no decoupling mechanism at all. Under this proposal, Public Counsel is arguing that the Company should absorb the cost of new customers but should be deprived of the revenues to offset the costs of serving those new customers. Public Counsel's proposal does not balance new revenues with new costs and, as a

(i.e., a "cap") and return it to customers. This "method" undermines the use of historical test-year ratemaking, since those revenues would not be available to offset the growth in utility costs following the test year.[44]

32 Avista's revised proposal that would exclude new customers from decoupling, as discussed earlier, actually provides a "middle ground of sorts." Existing customers would be decoupled, and new customers would not be. New customer usage and revenue would fluctuate over time due to changes in their specific usage. However, unlike Public Counsel's approach, the new customer revenue would not be confiscated and rebated to all customers, but rather would be used to cover the cost of new customer's service. Put another way, new customers would be treated like all customers were before the adoption of decoupling, and existing customers would continue to be decoupled.[45]

33 The Commission's goal for approving decoupling was not "to permit the Company to recover the authorized revenue requirement" as argued by Ms. Crane.[46] Avista's Decoupling Mechanisms are not meant to recover the incremental cost of service, which was cited by the Commission as a reason for the rejection of NW Natural's decoupling mechanism.[47] The removal of new customers from the mechanism addresses that.

34 Public Counsel also suggests that a DSM test should be required "in order to impose a revenue decoupling adjustment."[48] That is not necessary. Avista already provides extensive and detailed reports related to its energy efficiency targets and savings, including the incremental 5%

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result, is patently unfair to the utility. Furthermore, Public Counsel's proposal would almost certainly lead to more frequent rate cases than if NW Natural had no decoupling mechanism at all. It does not balance the protection of the utility and the protection of rate payers." (Emphasis added) (Docket UG-181053, Exh. JL-5T at 15:13 – 16:2)

44 In the case of Puget Sound Energy, the Commission did not accept Mr. Brosch's proposed modifications (discussed above) to its decoupling mechanisms – i.e., the "complete" decoupling model. The Commission ultimately stated that it "reject(ed) the 'complete decoupling' approach advocated by Public Counsel and The Energy Project because it fails to take into account all relevant factors and ignores salient facts." In that case, those relevant factors and salient facts included the cost of serving new customers and the recognition that fixed costs do vary based on the number of customers served.

45 PDE-3T at 12:1-3.

46 Id. at 52:11-12.

47 Docket UG-181053, Order 06, ¶36.

48 Exh. ACC-1T at 56:8-10.

test, in its annual DSM filings. The Commission, Commission Staff, and other parties all receive this information, and to the extent Avista failed to meet its targets, any party or the Commission itself could suspend our annual decoupling rate adjustments for further investigation.[49]

III. ERM-RELATED ISSUES IN DKT. UE-190222

35 In Docket UE-190222, at issue is the review of the ERM deferral entries for the prior 2018 calendar year, with the exception of the prudency of replacement power deferred expenses related to the Colstrip outage, which is to be addressed in Docket UE-190822. Specifically, the Colstrip outage issue (or MATS issue[50]), to be decided in Docket UE-190822, relates to the limited issue of Avista's, Puget Sound Energy's and PacifiCorp's decision-making as co-owners of Colstrip leading up to the 2018 outage, and the resulting costs of replacement power.

36 Ms. Andrews provides rebuttal testimony in this docket to AWEC Witness Mullins regarding his proposal to modify the interest rate calculation utilized in the ERM amortization. She also addresses Mr. Mullins' proposal to reset the authorized power supply expense for the "$12.3 Million reduction in power costs" currently being addressed in UE-150204 the "2015 Remand Case" (which should not be at issue here). Company Witness Kalich addressed the response testimony of Public Counsel Witness Allison, primarily related to Avista's natural gas optimization, as it pertains to the electric deferrals.

A. Carrying Charge on the ERM Deferral Balance.

37 The allocation of the refund over the two-year period across rate schedules, including interest amounts, as proposed by the settling Parties, will be consistent with the Company's proposal contained in Exhibit PDE-1T at 6:6-9 in Docket UE-190222.[51]

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49 PDE-3T at 14:3-11.

50 Company Witness Dempsey within his direct testimony in Docket UE-190222, at Exh. TCD-1T, describes the Mercury & Air Toxics Standards ("MATS") emission exceedance that led to outages that occurred at the Colstrip Generating Station, specifically Units #3 and #4.

51 EMA-8T at 4:13-18. .

38 Mr. Mullins, however, recommends adjusting the carrying charge on the ERM Deferral Balance to the Company's actual cost of debt with no adjustment for income taxes.[52] This treatment is not consistent with the mechanics of the ERM approved by the Commission in Docket UE-011595. This approved method of determining the carrying charge for the ERM mechanism is calculated using the Company's actual cost of debt, updated semi-annually, and applied to the Energy Cost Deferral balance less associated accumulated deferred income taxes. Accordingly, interest is being treated in the manner directed by the Commission. The carrying charge on the ERM Deferral Balance has been calculated as the Commission directed consistently since July 1, 2002 and has been reviewed and approved during the annual ERM prudency filings ever since.

39 That aside, Mr. Mullins is simply wrong in arguing that there are no accumulated deferred income taxes associated with interest expense."[53] Ms. Andrews explains why:

> [In] the context of a deferred cost mechanism, the tax costs/benefits incurred or received at the time the interest expense or income is recorded (and taxed) are set aside in the form of accumulated deferred income taxes recorded on the total deferred balance to be recovered or returned to customers in a future period (which includes carrying charges). During the period when customers are paying surcharges or receiving rebates, the costs or benefits of taxes the Company paid in the prior period are then passed on through the reversal of the accumulated deferred taxes to offset the taxes the Company pays on the customer surcharges or rebates. The deferred taxes are consistently applied regardless of whether the Company is deferring costs or amortizing prior costs.[54]

Accordingly, Mr. Mullins' adjustment for interest using the debt cost, but with no adjustment for taxes, is not appropriate.

B. The Authorized Level of Power Supply Expense is Not at Issue.

40 Mr. Mullins recommends the Commission recalculate the authorized level of power supply, consistent with his recommendation in the "2015 Remand Case" UE-150204, due to what he

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52 Exh. BGM-12T at 9:7-8.
53 Exh. BGM-12T at 8:1-3.
54 EMA-8T at 7:2-10.

believes should be a $12.3 Million annual reduction to Avista's power costs.[55] That issue has been taken up in the Remand case.

41 That level of costs is not at issue in this docket. The current level of authorized power supply expense was approved in Docket UE-170485. For the calendar year 2018 ERM deferrals, the authorized power supply expense and power supply base was a combination of what was previously approved in Dockets UE-150204 and UE-170485 — and that has not changed and is not at issue in these proceedings. Based on those approvals, the power supply base used to establish the 2018 ERM deferrals, was accurately reflected by the Company during 2018. As explained by Witness Andrews:

> The combined ERM power supply base approved by the Commission in both the 2015 and 2017 cases, compared to the actual power supply expense in 2018, resulted in the Company accurately recording the ERM power supply deferred balance. If "the final rates approved in the 2015 rate case did not reflect a $12.3 Million annual reduction to Avista's power costs" as argued by Mr. Mullins, that would be a reflection on revenues authorized in the 2015 case – which is an issue to be determined in the "2015 Remand" proceeding; not the authorized "ERM power supply base" itself, nor the 2018 ERM deferred balance recorded by the Company.[56]

42 She went on to explain that it is highly inappropriate to adjust authorized power supply expense, or the ERM power supply base, determined by this Commission in Docket UE-170485, in this Annual ERM Review. As discussed by Company Witness Kalich (see Exh. CGK-3T), the Company is currently engaged in a workshop process, as ordered by the Commission in Docket UE-170485, intended to review the inputs into the overall power supply modeling. The purpose of these power supply workshops is to reach consensus amongst the parties as to how to set authorized power supply expense, and therefore any ERM power supply base, in a future proceeding. A

[55] Exh. BGM 12-T at 9:22 - 10:7.
[56] EMA-8T at 9:20-26.

change to the authorized level, as proposed by Mr. Mullins, is therefore outside of the scope of this annual review proceeding.[57]

43 At its core, both AWEC and Public Counsel mistakenly argue over the level of authorized power supply costs, rather than the actual power supply costs incurred during 2018. We are reviewing 2018 actual power supply costs in this proceeding; authorized power supply costs are outside the scope.[58]

44 This misunderstanding is underscored by Public Counsel Witness Allison's assertion that Avista's current level of authorized power supply expense (approved by this Commission) includes a deliberate bias which has resulted in an "unreasonably high" authorized power supply expense.[59] Again, the Company's authorized power supply level is not at issue in this proceeding. As explained by witness Kalich, "the purpose of the current ERM filing is to determine the prudence of costs deferred in the 2018 calendar year — and only that. The determination of an appropriate method for setting the level of *future* authorized power supply expense is being addressed through a workshop process ordered in Docket No. UE-170485.[60]/[61]

45 Mr. Allison then argues that "Avista's calculations of the 2018 pro forma gas transport optimization revenues were biased in a way that predictably contributed to actual 2018 net power costs being lower than authorized levels."[62] This is not the case.

46 Natural gas optimization revenues were part of an adjudicated proceeding (Docket. No. UE-170485) in which the Commission weighed the evidence and agreed that the total level of power supply expense (which includes natural gas transportation optimization revenues) included

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57 EMA-8T at 10:7-15.
58 CGK-10T at 2:16-19.
59 Exh. AA-1T, at 3:2-6.
60 CGK-10T at 3:8-15.
61 Notwithstanding extensive discovery performed by Commission Staff Witness Gomez in the 2018 ERM Proceeding, he did not have any issues concerning non-Colstrip related issues. As noted by Mr. Gomez in his Response Testimony DCG-18T, page 2: "Staff examined the entire filing and only has unresolved concerns surrounding the prudency of the replacement power costs associated with the 2018 Colstrip outage."
62 Exh. AA-1T at 8:10-12.

in base rates was fair, just and reasonable. Looking back now, with the benefit of hindsight, is not how proper ratemaking occurs in this or other jurisdictions.[63] As Mr. Kalich explained with reference to the disputed gas transportation optimization:

> Past performance is not a guarantee of the future, and in fact, when the longer-term spreads in the marketplace are considered, it becomes evident that one cannot simply rely on averages. Since our original filing, the spreads between AECO and Malin have continued to grow. Customers receive the benefits of this arbitrage through the ERM.
>
> Looking forward, we do not expect this substantial arbitrage opportunity to persist due to an increase in demand precipitated by new participants in the market. In fact, new pipeline capacity is currently being built which will put downward pressure on arbitrage opportunities. This will likely result in a decrease in optimization revenues in the ERM, with customer benefits most likely falling back to historically normal ranges. [64]

47 On cross-examination, Mr. Kalich again reaffirmed the recent reduction in the spreads between AECO and Malin gas transportation:

> Q. And in your testimony, you - you have testified that the spread between AECO and Malin has continued to increase, correct?
>
> A. At the time of the testimony, yes, when my original case. That isn't true today. We're seeing a reversal of that now and a reduction in the forward value of that transportation.

(TR: 247:10-17)

48 The broader point, however, remains the same: the task at hand is not to re-litigate what should be authorized level of power supply expenses (including the means by which gas optimization revenue should be calculated); instead, we are to determine whether the 2018 actual power supply expense was properly recorded and deferred. The debate over the use of historical versus projected transportation spreads is meant for another day — and docket.

49 Ending on a positive note, the power supply workshops have proven to be constructive. The parties, including AWEC, Public Counsel, and Staff, have met for six workshops. Additional

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63 CGK-10T at 4:2-10.
64 Id. at 4:19-22.

workshops are anticipated, beginning in early 2020, as the parties work with a consultant to finalize a report to the Commission. Indeed, Staff Witness Gomez, in his direct testimony observes that "Staff would like to acknowledge the hard work of the Avista team and participants in addressing what is a very technically demanding problem. We agree with his [Mr. Kalich] assessment that the parties remain committed towards achieving consensus with the goal of an improved power supply modelling methodology."[65] Mr. Allison, on behalf of Public Counsel, is also supportive of the workshop process, stating, "[t]his power cost workshop process is ongoing and appears to be headed in a useful direction."[66]

IV. CONCLUSION

50 Avista respectfully requests that the Settlement be approved as presented by the Parties and that the Decoupling Mechanism, as modified by the Company, be continued through March 31, 2025. Finally, the ERM issues in this docket should be resolved in the Company's favor.

51 RESPECTFULLY SUBMITTED this 5th day of February, 2020.

AVISTA CORPORATION

By: _____

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[65] Exh. DCG-18T at 30:10-14.
[66] Exh. AA-1T at 6:16-17.