

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WUTC v. Avista Corporation, d/b/a Avista Utilities

DOCKET NOS. UE-070804, UG-070805

DIRECT TESTIMONY OF J. RICHARD HORNBY (JRH-1T)

ON BEHALF OF

PUBLIC COUNSEL

OCTOBER 17, 2007

NON-CONFIDENTIAL

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TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION/SUMMARY	1
II. FUNDING OF LIMITED INCOME PROGRAMS	4
A. Low Income Rate Assistance Program (LIRAP)	5
B. Limited-Income Energy Efficiency Programs	10
III. POWER COST ONLY RATE CASE (PCORC) MECHANISM	11
IV. PROPOSED CHANGE IN ACCOUNTING TREATMENT FOR DSM PROGRAM COSTS AND REMOVAL OF FINANCIAL DISINCENTIVE	19
A. Capitalizing DSM program costs	19
B. Recovery of Lost Margin	26
V. ADVANCED METER READING (AMR) PROGRAM	28

TABLES

Table 1:	Population and Poverty Data: Spokane City and County	8
Table 2:	Avista Residential Customer Count	9

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WITNESS'S EXHIBIT LIST

Exhibits No. ____ (JRH-2)	Qualifications of James Richard Hornby
Exhibit No. ____ (JRH-3)	Avista Retail Revenues and LIRAP Funds
Exhibit No. ____ (JRH-4)	Avista Utilities Revenues and Funding of LIRAP and Limited Income DSM in WA 2001 through 2006 Actual and 2008 Projected
Exhibit No. ____ (JRH-5)	Avista Response to Public Counsel Data Request No. 22
Exhibit No. ____ (JRH-6)	Avista Response to Staff Data Request No. 53
Exhibit No. ____ (JRH-7)	Avista Response to Public Counsel Data Request No. 28
Exhibit No. ____ (JRH-8)	Avista Response to Public Counsel Data Request No. 39
Exhibit No. ____ (JRH-9)	Avista Response to Public Counsel Data Request No. 38
Exhibit No. ____ (JRH-10)	Avista Response to Public Counsel Data Request No. 36
Exhibit No. ____ (JRH-11)	Avista Response to Public Counsel Data Request No. 187
Exhibit No. ____ (JRH-12)	Avista Response to Public Counsel Data Request No. 156 (Attachment A and B only)
Exhibit No. ____ (JRH-13)	Response to Public Counsel Data Request No. 34
Exhibit No. ____ (JRH-14)	Avista Response to Public Counsel Data Request No. 56
Exhibit No. ____ (JRH-15)	Avista Response to Public Counsel Data Request No. 161
Exhibit No. ____ (JRH-16)	Avista Response to Public Counsel Data Request No. 160
Exhibit No. ____ (JRH-17)	Avista Response to Public Counsel Data Request No. 55
Exhibit No. ____ (JRH-18)	Avista Response to Public Counsel Data Request No. 159
Exhibit No. ____ (JRH-19)	Avista Response to Public Counsel Data Request No. 162
Exhibit No. ____ (JRH-20)	Avista Electric & Natural Gas Rate Changes 2000-2006

I. INTRODUCTION / SUMMARY

Q: Please state your name, employer, and present position.

A: My name is J. Richard Hornby. I am a Senior Consultant at Synapse Energy Economics, Inc., 22 Pearl Street, Cambridge, MA 02139.

Q: On whose behalf are you testifying in this case?

A: I am testifying on behalf of the Public Counsel Section of the Washington Attorney General's Office (Public Counsel) as well as on behalf of The Energy Project.

Q: Please describe Synapse Energy Economics.

A: Synapse Energy Economics (Synapse) is a research and consulting firm specializing in energy and environmental issues, including: electric generation, transmission and distribution system reliability, market power, electricity market prices, stranded costs, efficiency, renewable energy, environmental quality, and nuclear power.

Q: Please summarize your work experience and educational background.

A: I am a consultant specializing in planning, market structure, ratemaking, and gas supply/fuel procurement in the electric and gas industries. Over the past twenty years, I have presented expert testimony and provided litigation support on these issues in approximately 100 proceedings in over thirty jurisdictions in the United States and Canada. Over this period, my clients have included staff of public utility commissions, state energy offices, consumer advocate offices and marketers.

Prior to joining Synapse in 2006, I was a Principal with CRA International and, prior to that, Tabors Caramanis & Associates. From 1986 to 1998, I worked with the Tellus Institute (formerly Energy Systems Research Group), initially as Manager of the

1 Natural Gas Program and subsequently as Director of their Energy Group. Prior to 1986,
2 I was Assistant Deputy Minister of Energy for the Province of Nova Scotia.

3 I have a Master of Science in Energy Technology and Policy from the
4 Massachusetts Institute of Technology and a Bachelor of Industrial Engineering from the
5 Technical University of Nova Scotia, now merged with Dalhousie University. I have
6 attached my current resume to this testimony as Exhibit No. ____ (JRH-2),

7 **Q: What is the purpose of your testimony?**

8 A: Avista Utilities (Avista or the Company) is requesting increases in its rates as well as
9 several changes in its revenue recovery mechanisms. Public Counsel and The Energy
10 Project retained Synapse to review various aspects of Avista's requests.

11 **Q: What data sources did you rely upon to prepare your testimony?**

12 A: I relied primarily on the Direct Testimony, exhibits, and workpapers of the Avista
13 witnesses as well as their responses to data requests. In addition, I reviewed Orders
14 issued by the Washington Utilities and Transportation Commission (WUTC) in various
15 other proceedings. I have also reviewed the partial settlement stipulation.

16 **Q: Please summarize your major conclusions.**

17 A: My major conclusions are as follows:

- 18 • Avista's funding of programs for limited income customers has not kept pace with
19 the increases in its retail rates.
- 20 • Avista's proposed power cost only rate case (PCORC) mechanism is not
21 reasonable.

- 1 • Avista's proposals to change its accounting treatment of demand side
2 management (DSM) program costs and to recover fixed costs lost to DSM are not
3 reasonable.
- 4 • The purpose of Avista's inclusion of information about its proposed Advanced
5 Meter Reading (AMR) program without a request for cost-recovery is unclear.
6 Avista's statements appear to solicit, at least implicitly, some form of pre-
7 approval of its program without the Commission's full consideration. Avista
8 must ultimately demonstrate that its proposed investments in AMR are prudent as
9 well as used and useful. It has not done so here. Prior to any cost recovery,
10 Avista will need to address the serious financial and policy concerns implicated
11 by such a program.

12 **Q: Please summarize your recommendations.**

13 A: I recommend that the Commission include the following conditions in its order in this
14 proceeding:

- 15 • Approve and adopt the partial settlement stipulation to adjust Schedules 91 and
16 191 in order to increase annual funding for LIRAP up to the following levels:
17 electric, \$2,496,000, and natural gas, \$1,262,000. This represents a total of
18 \$3,758,000 per year and is intended to approximately match the overall
19 percentage increase in retail rates approved in this case.
- 20 • Approve and adopt the partial settlement stipulation to increase funding for
21 Avista's limited-income DSM programs to \$1,132,000.

- 1 • Reject Avista's proposed PCORC mechanism.
- 2 • Approve the partial settlement stipulation which withdraws Avista's proposals to
- 3 change its accounting treatment of DSM program costs and recover fixed costs
- 4 lost to DSM.
- 5 • State that nothing in the order in any way constitutes a pre-approval of Avista's
- 6 AMR program, and that Avista will bear the financial impact if a future
- 7 proceeding determines that a portion of this investment is not prudent, or used and
- 8 useful.

9 **Q: Did you also examine power supply issues in this case?**

10 A: Yes. I reviewed power supply issues raised in Avista's filing. Public Counsel is in
11 agreement with the positions of Staff and the Industrial Customers of Northwest Utilities
12 (ICNU) on these issues. Along with Staff and ICNU, Public Counsel supports the partial
13 settlement stipulation, which sufficiently resolves our concerns related to power supply
14 issues.

15 **II. FUNDING OF LIMITED INCOME PROGRAMS**

16 **Q: What limited income programs does Avista fund from revenues it collects from**
17 **ratepayers?**

18 A: Avista funds two types of assistance to limited income customers: Low Income Rate
19 Assistance Program (LIRAP) and energy-efficiency measures for limited-income
20 customers. Avista collects the revenues to fund these programs under its public purpose
21 tariff riders, Schedules 91 (electricity) and 191 (natural gas).

A. Low Income Rate Assistance Program (LIRAP)

Q: When was the LIRAP established?

A: LIRAP was established in 2001 in Docket Nos. UE-010436 and UG-010437. The WUTC authorized Avista to collect revenues to fund that budget by broadening the scope of its public purpose tariff riders. The program was created with a May through April fiscal year, and the initial surcharges under the riders were expected to collect approximately \$3 million annually.¹ The program was designed to serve limited-income customers, i.e. those near or below the Federal Poverty Level (FPL). At that time, Avista estimated that 20 percent of households in its service territory were at or below the FPL.²

Q: Please describe the funding of LIRAP since 2001.

A: The annual budget for LIRAP remained at approximately \$3 million for the first four program years, May 2001 through April 2005. The annual budget increased to approximately \$3.3 million in 2005/2006 and to \$3.9 million in the 2006/2007 fiscal year.³ The increases in those two years were due to the temporary infusion of an additional \$1.2 million as part of the settlement of Avista's 2005 general rate case (\$0.3 million in the 2005 program year and \$0.9 million in the 2006 program year). That infusion was not a permanent increase, however, and is now gone. Therefore, my understanding is that the budget for the 2007/2008 program year has declined to the \$3 million level of prior years.

¹ Avista Response to Public Counsel Data Request No. 163, Attachment A, p. 1.

² *Id.*, p. 2.

³ Annual LIRAP reports for program years 2001/2002 through 2006/2007, filed in Docket Nos. UE-010436 & UG-010437.

1 **Q: Has Avista proposed any change in the funding level for LIRAP in this proceeding?**

2 A: No.

3 **Q: Has funding for LIRAP through the tariff riders kept pace with the increases in**
4 **Avista's total revenues through 2006?**

5 A: No. The annual funding of LIRAP through the tariff rider mechanism has consistently
6 generated approximately \$3 million annually since the program's inception in 2001.
7 Avista's overall retail revenues, in contrast, have increased about 42 percent from 2001 to
8 2006. This experience is illustrated in Exhibit No. ____ (JRH-3), based on data from
9 Avista Response to Public Counsel Data Request No. 164 Supplemental, Attachment A,
10 page 1, presented in Exhibit No. ____ (JRH-4).

11 As noted above, in the 2005 and 2006 program years, LIRAP received a
12 temporary infusion of \$1.2 million as a result of the 2005 general rate case settlement.
13 With the expiration of that funding the LIRAP budget will decline substantially relative
14 to Avista's total revenues.

15 **Q: Did the 2005 rate case settlement provide for consideration of future funding levels**
16 **for LIRAP once the two-year temporary increases expired?**

17 //

18 ///

19 ////

1 A: Yes. Section 15 (a) of that settlement states:

2 ...[a]t the end of the two year period, several factors will be considered
3 regarding future funding levels, such as an assessment of the general level
4 of the tariff rider (including DSM), need for and use of LIRAP funds,
5 continuation of and funding levels for the low-income tax credit, and
6 acceptance by the Commission.⁴
7

8 **Q: Aside from the decline in the funding of LIRAP as a percentage of retail revenues, is**
9 **there any other evidence to support an increase in the program's annual funding?**

10 A: Yes. According to the Staff memo supporting approval of LIRAP in 2001, 20 percent of
11 households in Avista's service territory were below the Federal Poverty Level (FPL) at
12 that time.⁵ If that statistic is still approximately correct, then there are currently between
13 40,000 and 67,000 households in Avista's service territory below the FPL. (The
14 summary of Avista's requested electric and gas rate increases in this proceeding indicate
15 that it has 196,000 residential electric customers and 139,000 residential gas customers).
16 In contrast, in 2006 with a budget of \$3.8 million, LIRAP served approximately 6,200
17 customers who were at or below the FPL, as indicated in Table 4 of the LIRAP Sixth
18 Annual Report.⁶

19 In addition, a review of population and poverty data in Spokane County, which
20 represents a significant portion of Avista's Washington customers, reveals that
21 population levels are increasing, including the proportion of individuals living below the

⁴ *WUTC v. Avista*, Docket Nos. UE-050482 & UG-050483, Order No. 05, Approving and Adopting Settlement Agreement With Conditions, Settlement Agreement, pp. 6-7. (hereafter, "2005 Final Order" or "2005 Settlement.")

⁵ Avista Response to Public Counsel Data Request No. 163 Attachment A.

⁶ Sixth Annual LIRAP Report, Compliance Filing, Docket Nos. UT-010436 & UG-010437, Table 4, p. 7. LIRAP provides assistance to customers with incomes at or below 125 percent of the FPL, and served over 7,800 customers during the 2006-2007 Program Year. *Id.*

FPL. Tables 1 and 2 below provide U.S. Census Data for the City of Spokane and Spokane County, as well as trends in Avista's residential customer counts. From 2000 to 2006, the estimated number of individuals living below the FPL grew by 12 percent in Spokane, and by 16 percent in Spokane County. This trend, as well as the fact that Avista has experienced customer growth since LIRAP's inception in 2001, provides additional support for increasing the level of funding of LIRAP.

Table 1. Population and Poverty Data: Spokane City and County

	2000	2006	% Change
Spokane (City)			
(A) % of Individuals Below FPL	15.9%	17.6%	
(B) Total Population	195,629	197,446	1%
(C=A×B) Est. Individuals Below FPL	31,105	34,750	12%
Spokane County			
(D) % of Individuals Below FPL	12.3%	13.3%	
(E) Total Population	417,939	446,706	7%
(F=D×E) Est. Individuals Below FPL	51,406	59,412	16%

Source:
U.S. Census Bureau, 2000 Census, 2006 American Community Survey
http://factfinder.census.gov/home/saff/main.html?_lang=en

Table 2. Avista Residential Customer Count

	2001	2004	2007	% Change
Residential Electric Customers	181,000		196,000	8%
Residential Gas Customers		129,000	139,000	8%

Sources:

2001 Electric Residential: UE-011595, rate case summary, Oct. 30, 2001 customer count

2004 Gas Residential: UG-041515, rate case summary, May 31, 2004 customer count

2007 UE-070804 & UG-070805, rate case summary, March 31, 2007 customer count

Gas customer counts include residential and small commercial

Q: Do you recommend that the WUTC approve an increase in LIRAP funding?

A: Yes. I recommend that the WUTC approve the proposed increase in LIRAP funding included in the partial settlement stipulation, from current levels of about \$3 million to \$3,758,000, collected annually through the tariff riders. I believe an increase of this magnitude is reasonable, particularly in light of the increases in Avista's rates since LIRAP's inception in 2001, and the estimated increase in residential customers and individuals living below the FPL as discussed above.

Between 2000 and 2006, Avista electric customers have experienced four rate increases that have raised bills significantly. Avista natural gas customers have endured eight separate rate increases in the same time period.⁷ While LIRAP benefited from a temporary infusion of \$600,000 per year for a two-year period under the 2005 rate case settlement, that infusion has ended. The increase in LIRAP funding reflected in the partial settlement is intended to approximately match the overall percentage increase in retail rates ultimately approved in this case.

⁷ Exhibit No.__(JRH-20).

B. Limited-Income Energy Efficiency Programs

Q: Please describe the funding of the limited-income energy efficiency program since 2001.

A: Avista's annual budget for this program has remained at approximately \$0.93 million for calendar years 2002 through 2005 and then declined to \$0.87 million in 2006.⁸

This program is funded primarily from an allocation of the DSM program funds collected under Schedules 91 and 191. In addition, in the years 2003 through 2005, Avista allocated \$264,880 per year to this program from funds it received from the Bonneville Power Administration (BPA) under the Conservation and Renewable Discount (C&RD). In 2006, Avista did not allocate any of its C&RD funds to limited income efficiency programs. As part of the settlement of its 2005 general rate case, Avista agreed to allocate an additional \$200,000 per year to the program over and above the \$900,000 per year it presently provided for DSM funding. At that time, the parties expected the new budget would be approximately \$1.1 million, the \$0.9 million Avista had been funding with collections and BPA monies plus the new \$0.2 million.⁹

Q: Has Avista proposed any change in the funding level for its limited-income efficiency program in this proceeding?

A: No.

⁸ Avista's Supplemental Response to Public Counsel Data Request No 167.

⁹ 2005 Settlement, Section 15(A), p. 6. Avista indicated that their 2006 annual budget for low-income DSM programs was \$866,700. Avista's Supplemental Response to Public Counsel Data Request 167.

1 **Q: Do you recommend that the WUTC approve an increase in funding of energy**
2 **efficiency programs for limited-income customers to offset the loss of BPA funding?**

3 A: Yes. I recommend that the WUTC approve the increase in funding of energy efficiency
4 programs for limited-income customers proposed in the partial settlement stipulation.
5 Under the partial settlement, Avista agrees to allocate \$1,132,000 in 2008 for limited
6 income DSM programs. This will help offset the loss of BPA funding resulting from the
7 suspension of the Residential Exchange benefit.¹⁰

8 **III. POWER COST ONLY RATE CASE (PCORC) MECHANISM**

9 **Q: Please summarize Avista's request for a PCORC.**

10 A: Avista is requesting establishment of a PCORC similar in design to the current PCORC
11 of Puget Sound Energy (PSE). Mr. Kelly Norwood presents this request in his Direct
12 Testimony. According to Mr. Norwood, a PCORC would enable Avista to request
13 adjustments in its base rates to reflect major investments in generation and transmission
14 (G&T) capacity without going through a full general rate case proceeding.¹¹

15 **Q: Is this the first proceeding in which Avista has requested the establishment of a**
16 **PCORC?**

17 A: No. Avista effectively requested the establishment of a PCORC in its power cost only
18 filing of August 2006 in Docket No. UE-061411. The WUTC rejected that application in
19 Order 04 in that proceeding.

¹⁰ As part of its response to the suspension of the Residential Exchange, Puget Sound Energy (PSE) filed in May of 2007 to increase Schedule 120, its electricity conservation tariff rider, to reflect the loss of BPA conservation rate credits. PSE's tariff filing was approved by the WUTC. Order 01, Docket No. UE-071015, June 6, 2007.

¹¹ Exhibit No. ____ (KON-1TC), Norwood Direct, pp. 2-9.

1 **Q: Is establishment of a PCORC for Avista justified in this proceeding?**

2 A: No. The rationale that Avista has presented for establishing a PCORC does not justify a
3 departure from traditional ratemaking principles.

4 **Q: Why would establishment of a PCORC represent a departure from traditional**
5 **ratemaking principles?**

6 A: The WUTC addressed this issue in Order 04 in Docket No. UE-061411.¹² From a policy
7 perspective, any mechanism that allows a utility to adjust its rates between general rate
8 cases to reflect changes in a single, or limited, category of costs is generally considered
9 an exception to the traditional principles of utility rate regulation. Under these traditional
10 principles, the regulator approves a utility's base rates only after a comprehensive review
11 of all categories of costs and revenues as well as an assessment of the number of
12 customers being served and their usage. Under a rate adjustment mechanism such as
13 Avista's proposed PCORC, the utility would be allowed to adjust its rates to reflect a
14 change in a single cost, relative to the test year values used in its last rate case, without
15 determining if there are offsetting changes in other costs. This can lead to a mismatch
16 between costs and revenues.

17 The one common exception to these traditional ratemaking principles is a
18 mechanism that adjusts rates to reflect changes in fuel prices between general rate cases.

19 In Washington, the versions of this mechanism that are in place for electric utilities are
20

¹² *In the Matter of the Petition of Avista Corporation, d/b/a/ Avista Utilities, For an Order Approving Avista's Update of its Base Power Supply and Transmission Costs*, Docket No. UE-061411, Order 04, Granting Motion to Dismiss. (hereafter, "2006 Order to Dismiss PCORC Filing").

1 referred to as an energy recovery mechanism (ERM) or power cost adjustment (PCA),
2 while the versions in place for gas utilities are referred to as purchased gas adjustment
3 clauses (PGAs). The changes in purchased power and fuel or natural gas expenses
4 covered by such rate mechanisms are generally considered to be material, volatile
5 (meaning they are difficult to predict and they can vary significantly), and largely outside
6 the control of the utility. Based upon the unique characteristics of those costs regulatory
7 commissions have approved, as exceptions to traditional principles, rate adjustment
8 mechanisms in an effort to produce an equitable balance between the interests of
9 ratepayers and the interests of the utility.

10 **Q: Are you aware of any corresponding widespread trend towards the establishment of**
11 **rate adjustment mechanisms for changes in generation and transmission capacity**
12 **costs?**

13 A: No.

14 **Q: Are the cost changes that Avista proposes to reflect through its PCORC sufficiently**
15 **similar to those it recovers through its ERM to warrant a PCORC?**

16 A: No. The changes in generation and transmission (G&T) capital costs that Avista
17 proposes to recover through its PCORC may, in some future years, be material.
18 However, those cost changes are neither largely beyond the control of Avista
19 management nor are they volatile. Investments in G&T tend to be periodic and large.
20 However, those attributes are not the same as being *volatile*. Expenses that are volatile
21 are those that are subject to frequent, large and unpredictable fluctuations.

1 It is also important to note that Avista has the ability to include an Allowance for
2 Funds Used During Construction (AFUDC) on its capital projects as a component of its
3 revenue requirements when it files a general rate cases. Under an AFUDC, as the utility
4 makes ongoing outlays for construction of major projects (typically those that take more
5 than one year to construct), it enters those outlays into a holding account. In addition, it
6 also books to a holding account the carrying charges on the balance of construction costs
7 in holding accounts. Those booked carrying charges are the AFUDC. The balance in
8 those accounts, both investment outlays and the AFUDC amount, are eligible for
9 consideration as rate base additions in the next base rate case after the construction
10 project enters commercial service. (Typically, once a project has entered commercial
11 service, further AFUDC typically may not be accrued, and the utility must start
12 depreciating the asset. This provision addresses the fact that the utility controls when it
13 files rate cases and is intended to discourage artificial inflation of rate base.) Thus, even if
14 the utility is not able to put a generation or transmission asset into rates until its next base
15 rate case, it is not harmed financially.

16 The fact that Avista must choose whether to file a rate case once an asset is in
17 service has traditionally been regarded as reasonably necessary in order to maintain a
18 proper balance between protecting ratepayers and providing the utility with an
19 opportunity to earn a reasonable return. Thus, Avista's ability to recover an AFUDC in
20 its rates helps the Company recover its investments in generation and transmission in an
21 appropriate manner.

1 **Q: Is Avista expecting to acquire a significant quantity of new generation capacity each**
2 **year over the next several years?**

3 A: No. Avista has stated that it is not facing any substantial generation resource additions
4 until 2011, when it contemplates acquiring about 280 MW of gas-fired combined cycle
5 gas turbine (CCGT) capacity.¹³ After that, it does not forecast another major capacity
6 acquisition until 2014.¹⁴ In addition, Avista has the opportunity to acquire 275 MW of
7 CCGT capacity effective 2010 at an attractive price under a power purchase contract with
8 the Lancaster Generating Plant. This opportunity is described in its recently released
9 2007 Integrated Resource Plan (IRP).¹⁵

10 **Q: In Order 04 in Docket No. UE-061411, the WUTC specified the type of evidence that**
11 **Avista should present to support a request to establish a PCORC. Has Avista**
12 **presented all of that evidence in this proceeding?**

13 A: No. Order 04 in Docket No. UE-061411 states in part:

14 ... [i]f Avista wishes to pursue its proposal, it must ask authority for the periodic
15 rate adjustment mechanism in a general rate case; presenting evidence and
16 argument clearly defining the proposal, identifying appropriate conditions on its
17 operation, showing how it benefits both ratepayers and stockholders, addressing
18 the costs and benefits of the process based on performance in a test year and
19 analyzing the effect of an ERM/PTC process on the allowed rate of return.¹⁶

20
21 In this proceeding Avista has not provided evidence:

- 22 • showing how the proposed PCORC benefits both ratepayers and stockholders;

¹³ Exhibit No. ____, (JRH-6), Avista Response to Staff Data Request No. 53.

¹⁴ *Id.*

¹⁵ Avista 2007 *Electric Integrated Resource Plan*, August 31, 2007.

¹⁶ 2006 Order to Dismiss PCORC Filing, ¶ 22.

- 1 • addressing the costs and benefits of the process based on performance in a test
- 2 year; and
- 3 • analyzing the effect of an ERM/PTC process on the allowed rate of return.

4 Avista maintains that, without a PCORC, it will need to file a general rate case
5 every year for the next several years.¹⁷ It states that, with a PCORC, it will only need to
6 file a general rate case every other year for the next several years. Avista bases its
7 statements on its forecast of increases in non-power supply costs and increases in power
8 supply costs. However, according to its responses to data requests, Avista:

- 9 • Has not prepared any projections comparing its future average retail rates without,
10 and with, a PCORC.¹⁸
- 11 • Has not provided quantitative analyses demonstrating any of the following:
 - 12 a. The level and frequency of rate adjustments with, and without, a PCORC.
 - 13 b. The incremental increase in accuracy and timeliness of price signals with a
14 PCORC relative to no PCORC.
 - 15 c. The incremental improvement in customer ability to understand the factors
16 causing rate increases with a PCORC relative to no PCORC.
 - 17 d. The probability that Avista would file a PCORC for a rate adjustment of
18 over 5 percent knowing that its remaining costs, not covered by the
19 PCORC, had declined since its last general rate case.

¹⁷ Avista Response to Public Counsel Data Request No. 177.

¹⁸ Exhibit No. ____ (JRH-5). Avista Response to Public Counsel Data Request No. 22.

1 e. The incremental reduction in the administrative burden associated with
2 establishing retail rates with a PCORC relative to no PCORC.¹⁹

3 **Q: Has Avista presented evidence demonstrating that the circumstances that it is facing**
4 **are comparable to those that were facing Puget Sound Energy (PSE) when the**
5 **Commission approved that utility's PCORC?**

6 A: No. In late 2001, PSE submitted filings requesting both a general increase in electric and
7 gas rates, and an interim increase in its electric rates. The requests were consolidated in
8 Docket Nos. UE-011570 and UG-011571.

9 As part of its filing, PSE requested the establishment of a power cost adjustment
10 (PCA). PSE also asked for authority to file a PCORC. Based upon my understanding of
11 that case, PSE was facing the need to acquire new generation resources very frequently at
12 the time.²⁰ First, its load was growing rapidly and thus it was routinely acquiring
13 additional, new resources and hence incurring additional costs. Second, its resource mix
14 consisted of a significant quantity of purchased power and thus it was routinely replacing
15 existing resources with new resources at new prices, in the form of expiring purchased
16 power agreements (PPAs). The parties to the proceeding reached a settlement that
17 included establishment of a PCA and a PCORC. The WUTC approved the PCA and

¹⁹ Exhibit No. ____ (JRH-7), Avista Response to Public Counsel Data Request No. 28.

²⁰ *WUTC v. PSE*, Docket Nos. UE-011570 & UG-011571, Twelfth Supplemental Order: Rejecting Tariff Filing; Approving And Adopting Settlement Stipulation Subject To Modifications, Clarifications, And Conditions; Authorizing And Requiring Compliance Filing, June 20, 2002, Appendix A, Settlement Stipulation, Exhibit A: Power Cost Adjustment Mechanism.

1 PCORC in its Twelfth Supplemental Order, noting explicitly that the PCORC was an
2 exception to the rule governing general rate increase filings.²¹

3 Avista has not demonstrated that it faces resource acquisition issues comparable
4 to those that PSE was facing in 2001. Indeed, as noted above, it faces no substantial
5 generation resource additions until the 2011-2014 time frame.

6 **Q: Is it reasonable for Avista to propose a PCORC that is modeled upon the existing**
7 **PSE PCORC?**

8 A: No. Concerns have been raised regarding the design and operation of PSE's current
9 PCORC. In response to those concerns the WUTC, in Order 07 in Docket No. UE-
10 070565 issued August 2, 2007, approved a collaborative stakeholder review to consider
11 whether the PSE PCORC should continue and, if so, whether its scope and timing should
12 be changed.²²

13 **Q: Do you recommend that Avista's request be rejected?**

14 A: Yes. Avista proposed a PCORC similar in design to the PSE PCORC, whose future
15 operation and design are now under review. Avista has not demonstrated that
16 establishment of a PCORC would provide material, balanced benefits to Avista's
17 shareholders and ratepayers. In the absence of any such evidence, approval of the
18 PCORC requested by Avista would represent an unjustified weakening of rate regulation
19 in Washington and a move away from rates that are fair, just and reasonable.

²¹ *WUTC v. PSE*, Docket Nos. UE-011570 & UG-011571, Twelfth Supplemental Order, ¶ 25, citing Staff witness Merton Lott.

²² *WUTC v. PSE*, Docket No. UE-070565, Order 07, Final Order Approving and Adopting Settlement, ¶ 22.

IV. PROPOSED CHANGE IN ACCOUNTING TREATMENT FOR DSM PROGRAM COSTS AND REMOVAL OF FINANCIAL DISINCENTIVE

Q: Please summarize the changes Avista is requesting with respect to DSM program costs.

A: Avista proposed two changes related to its DSM program costs. First, the Company proposed to “capitalize” these costs and recover them over a set long-term period of approximately 10 years, in a manner similar to generation resource investments. Second, it proposed to recover the “lost margin” resulting from its electric DSM programs. Mr. Bruce Folsom presents these two proposals in his Direct Testimony.²³

A. Capitalizing DSM program costs

Q: Please summarize the rationale that Avista has presented for capitalizing its DSM program expenses.

A: Avista presents two main reasons for its proposal to “capitalize” its DSM program costs. First, the Company contends that this approach will make investments in DSM a more attractive investment, since it will be able to earn a return on those investments as it does with generation resources.²⁴ Second, it asserts this approach will produce a better match of customer costs and benefits over time, and thus improve intergenerational equity.²⁵ It also identifies a third alleged benefit, in that the proposed change would enable Avista to

²³ Exhibit No. ____ (BWF-1T), Folsom Direct, pp. 8-13.

²⁴ *Id.*, pp. 8-11.

²⁵ *Id.*, p. 9.

1 recover its accumulated under-recovery with no increase in the charges in Schedule 91
2 (the electric tariff rider) until 2011.²⁶

3 **Q: Do those three reasons provide sufficient justification for the WUTC to allow Avista**
4 **to capitalize its DSM program expenses?**

5 A: No. Those three reasons are not sufficient to offset the downsides of this proposal. As
6 discussed further below, Avista's proposal does not provide a complete picture of the
7 new context in which it will be operating, nor does it address the impacts of capitalizing
8 DSM program costs on cost-effectiveness. In addition, the intergenerational equity and
9 deferred balance issues do not justify this proposal.

10 **Q: Please comment on Avista's position that capitalizing DSM program costs will make**
11 **DSM measures a more attractive investment than the current method of expensing**
12 **those costs.**

13 A: Avista's position does not provide a complete picture of the context in which it is now,
14 and will be, operating, and whether such a change in accounting treatment will cause any
15 change in its pursuit of energy efficiency.

16 With the passage of Initiative 937 and increasing emphasis on controlling
17 greenhouse gas emissions, Avista is facing a new context for meeting its obligation to
18 provide reliable service at reasonable rates. In this new setting, DSM should be the most
19 attractive investment for Avista, regardless of the accounting treatment applied to DSM
20 program costs. This, in fact, appears to be the case. The preferred resource strategy
21

²⁶ *Id.*, p. 12.

1 through 2015 that Avista identifies in its recently released 2007 IRP consists of acquiring
2 savings via efficiency every year, acquiring some additional renewable capacity, and
3 acquiring up to 350 MW of CCGT capacity.²⁷ The IRP contains no discussion of the
4 relative merits of either capitalizing or expensing DSM. Moreover, it is quite possible
5 that Avista will acquire 275 MW of CCGT capacity via a power purchase contract, i.e.
6 “expensing,” rather than by purchasing the plant, i.e., capitalizing.²⁸

7 There are a number of reasons why DSM is appealing relative to investments in
8 conventional generation. Investments in conventional generation are not particularly
9 attractive. Building conventional generation requires very large capital expenditures and
10 carries significant financial risks. These include: risks that market conditions required to
11 permit and build new generation will change substantially over the 5 to 10 years; risks of
12 construction delays; cost overruns; operating problems; and, exposure to future regulation
13 of greenhouse gases. Thus, acquisition of supply resources introduces additional risk into
14 the company's risk profile, which tends to increase the equity ratio necessary to raise
15 capital, decreasing shareholders' leverage and increasing their risk.

16 In contrast, cost-effective demand side resource choices generally face much
17 lower levels of exposure to the risks listed above because they are modular, incremental,
18 and open to continuous quality improvement. Moreover, cost-effective DSM choices are
19 by definition the least cost choice. Therefore, choosing cost-effective DSM over
20 generation and transmission whenever possible is not only beneficial to customers but is

²⁷ Avista 2007 Electric Integrated Resource Plan, August 31, 2007, Table 2, p. vi.

²⁸ *Id.*, p. ix.

1 also in the best interest of shareholders, regardless of whether a return is earned on those
2 expenditures.²⁹

3 **Q: Please comment on the impacts of capitalizing DSM program costs on the cost-**
4 **effectiveness of DSM measures.**

5 A: If Avista is allowed to capitalize its DSM program costs, customers will pay more for
6 every kwh of energy saved than they would if DSM costs were expensed. The higher
7 payment results from spreading the recovery of these costs over a longer period, e.g. 10
8 years versus one year. During the longer recovery period Avista would earn a return of,
9 and a return on, these costs. For example, at a carrying charge of 9.11 percent, the
10 weighted average cost of capital approved in the Company's 2005 general rate case, a
11 ten-year recovery period results in ratepayers paying twenty-two percent more for a given
12 investment than they would if it were expensed.

13 This increased cost of DSM due to capitalization could change certain measures
14 from being cost-effective to not being cost-effective. Such an impact would reduce the
15 number of cost-effective DSM measures eligible for acquisition.

16 **Q: Please comment on the issue of intergenerational equity.**

17 A: Intergenerational equity can be a valid concern. However, intergenerational equity is not
18 as much of a concern with respect to DSM program costs as it is with investments in
19 generation and transmission capacity. The basic premise of intergenerational equity is
20 that today's ratepayers should not be footing the bill for outlays that will benefit

²⁹ Other weaknesses in Avista's proposal to capitalize DSM were identified in Public Counsel discovery. See Exhibit No. ____ (JRH-8), Exhibit No. ____ (JRH-9), and Exhibit No. ____ (RH-10).

1 ratepayers for many years in the future. That is why investments in generation and
2 transmission (G & T) capacity are depreciated over their economic lives.

3 However, DSM program costs are different than investments in G&T in that they
4 are small investments that can be, and are, made every year. Therefore, if every
5 generation of ratepayers is paying a similar amount for DSM program costs every year,
6 year after year, the timing of the benefits generally matches the timing of the costs and it
7 is not clear that there is a substantial intergenerational inequity.

8 **Q: Please describe the deferred balances currently associated with Schedules 91 and**
9 **191.**

10 A: Avista currently has a significant negative balance, i.e., a cumulative under-recovery, of
11 its electric and gas DSM costs. As of the end of July 2007, the under-recovery was \$3.0
12 million for electric DSM, and \$1.3 million for gas DSM.³⁰ This under-recovery began
13 developing in 2005 because, at that time, Avista increased its expenditures on DSM but
14 did not file for a corresponding increase in its tariff rider surcharges. In fact, Avista has
15 not increased the DSM portion of its electric tariff rider since 2001.³¹

16 The accrual of large negative balances means that ultimately, some portion of the
17 funds collected from ratepayers through the tariff riders will be used to pay down the
18 negative balance, rather than for existing programs. As the negative balances grow
19 larger, it means that at some point, the portion of tariff rider funds allocated to the write-
20

³⁰ Avista Responses to Public Counsel Data Request No. 173 (electric DSM balance) and No. 172 (gas DSM balance).

³¹ Avista Response to Public Counsel Data Request No. 7.

1 down of the under-recovery will increase.

2 I believe a more prudent approach would be for Avista to make an annual filing to
3 adjust the tariff riders as necessary. This annual filing would provide for adjustments to
4 the rider amounts to reflect: (1) any differences in actual costs from the prior year
5 compared to budget projections, and (2) the anticipated DSM budget levels for the
6 upcoming year. For example, Puget Sound Energy (PSE) has been making such an
7 annual filing to adjust its conservation tariff riders as necessary for the past several years.

8 PSE's March 1, 2007 filing to adjust its electric conservation tariff rider states in
9 part:

10 [s]pecifically, the purpose of this filing is to revise the Electricity
11 Conservation Rider charges upward in order to reflect actual costs and
12 collections over the past year along with amounts budgeted for the
13 upcoming year on conservation programs.³²

14 An annual review of the tariff rider levels is consistent with Avista's stated goal
15 that it believes it is important to manage its four DSM tariff rider accounts independently
16 (electric and gas for Washington and Idaho).³³ The Company has also explained that "it
17 is often difficult to project the number of participants, the magnitude of projects,
18 especially in the commercial and industrial segment, as well as the timing and
19 distribution. Natural gas projects especially tend to be more unevenly distributed than
20 electric."³⁴

³² Docket No. UE-070424, Cover Letter to PSE Tariff filing, p. 1. *See also* PSE's companion gas filing, Docket No. UG-70427.

³³ Avista Response to Public Counsel Data Request No. 189.

³⁴ *Id.*

1 **Q: Will customers pay less if Avista recovers these balances under the proposed**
2 **capitalization approach as opposed to recovering them through an increase in the**
3 **surcharges under a continuation of its present accounting treatment?**

4 A: No. The relevant point to remember is that Avista will recover these balances from
5 customers under either approach – there is no free lunch. Recognizing that fact, it will be
6 less expensive for ratepayers in the long-run for Avista to continue with its current
7 accounting approach using the tariff riders but to make annual filings with the
8 Commission to adjust the rider amounts as necessary, as discussed above. Under its
9 proposed capitalization approach, Avista could recover these under-recovery balances
10 without increasing its charges in Schedule 91 until 2011. However, that approach will
11 ultimately cost customers more. As explained above, if Avista capitalizes these amounts
12 and recovers them over a longer period, ratepayers will end up paying more since they
13 will ultimately reimburse Avista for the balance and also pay for Avista's financing costs
14 over this longer period.

15 **Q: Is Avista subject to a formal annual review of its DSM program budgets, surcharge**
16 **revenues, and expenditures?**

17 A: No. Avista meets with its External Energy Efficiency (Triple E) Board twice a year.
18 However, it is not subject to a formal annual review of its DSM program budgets,
19 surcharge revenues, and expenditures. Given the size of the deferred balances it has
20 accumulated, it appears that Avista would benefit from a formal review, in the form of an
21 annual filing with the Commission to adjust the rider amounts as necessary. As part of

1 the partial stipulation, Avista has agreed to make such an annual filing with the
2 Commission.

3 **Q: What do you recommend in response to Avista's proposal to capitalize its DSM**
4 **program costs?**

5 A: I recommend that the Commission approve the partial stipulation. Under the stipulation,
6 Avista's proposal to capitalize its DSM program costs is withdrawn. In addition, the
7 stipulation provides that Avista will submit an annual filing to the WUTC for a formal
8 review of its DSM program budget and tariff rider.

9 **B. Recovery of Lost Margin**

10 **Q: Please summarize Avista's request to recover fixed costs lost due to its electric DSM**
11 **programs.**

12 A: Avista proposes a rate adjustment mechanism that would allow it to recover, between
13 general rate cases, the estimated fixed costs that it asserts it no longer recovers due to
14 reductions in electricity use by customers who participate in DSM programs. This lost
15 margin recovery proposal can be characterized as a very narrow form of decoupling, one
16 that is limited to adjusting rates to allow the utility to recover fixed costs lost due to
17 DSM. Under the partial stipulation, Avista has withdrawn the proposal.

18 **Q: In Order 04 in Docket No. UE-050684, the WUTC specified the type of evidence that**
19 **PacifiCorp should present, at a minimum, to support a request to establish an**
20 **electric decoupling mechanism. Has Avista presented all of that evidence in this**
21 **proceeding?**

1 A: No. In Order 04 in Docket No. UE-050684, the Commission identifies a minimum
2 twelve pieces of information that should be provided in support of such a request.³⁵

3 Avista has failed to present several of those elements, including:

- 4 • rate of return implications;
- 5 • design of pilot test period and evaluation of the mechanism before determining
6 whether to make it permanent;
- 7 • impact of the mechanism on low-income customers;
- 8 • identification of incremental conservation measures expected to be undertaken;
9 and,
- 10 • development of an energy conservation target to be achieved through this
11 mechanism, relative to baseline conservation programs currently in rates and the
12 Company's Integrated Resource Plan (IRP).

13 **Q: Has Avista demonstrated that this proposal balances the interests of shareholders**
14 **and ratepayers?**

15 A: No. This proposal again represents a departure from traditional ratemaking principles, as
16 it is another example of single issue ratemaking. Specifically, Avista wishes to adjust its
17 rates between general rate cases to recover its test year fixed costs per kwh lost due to
18 DSM. As such this rate adjustment mechanism suffers from the same problems as its
19 proposed PCORC.

³⁵ *WUTC v. PacifiCorp*, Docket No. UE-050684, Order 04, Order Rejecting Tariffs, As Filed; Rejecting Stipulation on Net Power Costs; Rejecting, In Part, and Accepting, In Part, Stipulation on Temperature Normalization Adjustment; Determining Cost of Capital, ¶¶ 108-110.

1 Avista has not presented evidence to justify such a departure. First, Avista has
2 not demonstrated that this change is necessary. Avista does not maintain that, if this
3 proposal is rejected, it will face undue financial hardship or rates that will not be just and
4 reasonable. Second, Avista has not demonstrated that its proposal balances the interests
5 of shareholders and ratepayers. It provides no commitment to acquire more energy
6 efficiency if this proposal is approved than it would have otherwise acquired. Further,
7 the Company is not proposing to adjust its return on equity to reflect the reduction in cost
8 recovery risk if this proposal were to be approved. Finally, it has not proposed an
9 earnings test as part of this mechanism, which is a component of its gas decoupling
10 mechanism.

11 **Q: Do you recommend that Avista's proposal to recover lost margin associated with its**
12 **electric DSM programs be accepted?**

13 A: I recommend that the Commission approve the partial stipulation under which the lost
14 margin recovery has been withdrawn.

15 **V. ADVANCED METER READING (AMR) PROGRAM**

16 **Q: Please summarize Avista's AMR Program.**

17 A: Beginning in 2008, Avista proposes to install AMR devices on all natural gas meters and
18 to upgrade all electric meters to new solid-state meters with AMR capability. This
19 proposal is presented in the Direct Testimony of Avista witness Heather Cummins.³⁶

20 **Q: Is Avista seeking recovery of that investment in this proceeding?**

³⁶ Exhibit No. ____ (HLC-1T), pp. 1-8. (Cummins Direct).

1 A: No. Avista states that it will request recovery of its AMR costs in a future proceeding
2 accompanied by an estimate of all relevant costs and benefits.

3 **Q: What is your concern with Avista's proposed program?**

4 A: My concern is that Avista's proposed program entails major capital investments that may
5 not be cost-effective. The Company's preliminary cost estimate for Phase I of this
6 program, covering 2008 and 2009, is approximately \$10.4 million. Its estimate for Phase
7 II, covering 2010 through 2014, ranges from a low of \$37 million to a high of to \$61
8 million. Thus the total capital investment is expected to range between \$47 million to
9 \$71 million.³⁷

10 However, Avista has not provided a corresponding preliminary estimate to
11 indicate that these investments are expected to be cost-effective. Given the possibility
12 that the entire investment may not be cost-effective, I do not want Avista to, in any way,
13 interpret silence in this proceeding as a form of implicit pre-approval or acceptance of its
14 program. Therefore, I believe it is important for the Commission to remind Avista of the
15 burden it will bear, in any future proceeding where it files for rate recovery. Specifically,
16 that it must demonstrate that its investments are prudent, as well as used and useful. In
17 addition, the Commission should state that nothing in this case constitutes acceptance of
18 time-of-use (TOU) pricing or any other specific demand response program, and that
19 Avista bears the burden of showing any proposed pricing scheme is fair, just, and
20 reasonable. Finally, the Commission should re-state in its order the concerns it raised and

³⁷ *Id.*, p. 8.

1 factors it will consider regarding AMR deployment that it outlined in its Interpretive and
2 Policy Statement issued in Docket No. UE-060649.³⁸

3 **Q: What is the basis for your concern regarding the reasonableness of Avista's**
4 **proposed program?**

5 A: My concern is based upon two basic points. First, Avista maintains that the primary
6 justification for this capital investment is anticipated reductions in its costs due to
7 increased operational efficiencies, in particular reductions in meter reading costs.
8 However it has not provided a preliminary estimate of those anticipated benefits or
9 addressed concerns with AMR technology. Second, Avista has indicated that it may try
10 to justify cost recovery based in part on expected savings in supply costs by customers
11 who opt for some version of TOU pricing but has not shown that TOU pricing would be
12 fair, just, and reasonable, or would be cost-effective for ratepayers.

13 **Q: Has Avista provided a preliminary estimate of the reductions in operating expenses**
14 **it expects from the proposed AMR program?**

15 A: No. Avista has presented estimates of the expected capital costs of Phase I and Phase II
16 of its program but has not provided a corresponding estimate of the anticipated reductions
17 in its operating costs. Therefore, the parties to this proceeding have not seen the
18 economic justification underlying the proposal by Avista to implement this program in
19 Washington. When asked for the internal economic analysis used to justify the program

³⁸ Interpretive and Policy Statement, Docket No. UE-060649, ¶33.

1 Avista responded that, as of September 12, 2007, the program had not received final
2 approval under Avista's annual capital budgeting process.³⁹

3 **Q: Did Avista provide the Idaho Public Utilities Commission with a preliminary**
4 **estimate of the reductions in operating expenses it expected prior to starting its**
5 **AMR program in that state?**

6 A: Yes. Before initiating a similar program in Idaho in 2005, Avista provided the Idaho
7 Public Utilities Commission with a preliminary estimate of the anticipated benefits and
8 costs of the program it was proposing for that state.⁴⁰ The anticipated benefits it
9 quantified consisted of the various operational efficiencies Avista expected to achieve,
10 which were primarily reductions in meter reading costs.

11 Avista presented levelized revenue requirements for its electric and gas operations
12 respectively, with and without AMR.⁴¹ These projections indicated that, on a standalone
13 basis, electric meter reading with AMR was not cost-effective but gas meter reading with
14 AMR was cost-effective. Specifically:

- 15 • electric meter reading with AMR would be 60 percent, or \$188,703 per year,
16 more expensive than without AMR; and,
- 17 • gas meter reading with AMR would be 60 percent less expensive, approximately
18 \$63,059 per year, than without AMR.⁴²

³⁹ Exhibit No. ____ (JRH-11), Avista Response to Public Counsel Data Request No. 187(b).

⁴⁰ Exhibit No. ____ (JRH-12), Avista Response to Public Counsel Data Request No. 156.

⁴¹ *Id.*

⁴² *Id.*

1 Avista's projections also indicated that, in total, an AMR program for electric meter
2 reading would increase Avista's electric utility revenue requirements in Idaho by 0.13
3 percent. It appears that the Idaho Commission based its decision to approve the AMR
4 program on this comparison.

5 **Q: Please comment on the possibility that Avista will try to justify a portion of this**
6 **investment on savings in supply costs by customers who opt for some form of TOU**
7 **rates.**

8 A: According to Avista's Response to Public Counsel Data Request Numbers 34 and 56,
9 Avista expects that reductions in its operational cost savings will only justify "a portion"
10 of its investment.⁴³ If so, Avista may ultimately include as part of its justification for cost
11 recovery of this investment the anticipated benefits to customers as well as to the
12 Company. For example, Avista states that "other cost savings are expected through
13 improved supply management" which it expects may result from the implementation of
14 TOU or critical peak pricing.⁴⁴

15 **Q: Has Avista indicated that TOU rates are likely to be cost-effective for most**
16 **customers?**

17 A: No. On the contrary, in Docket UE-060649, Avista submitted comments to the
18 Commission stating that TOU meters could be cost-effective for some customer classes,
19

⁴³ Exhibit No. ____ (JRH-13), and Exhibit No. ____ (JRH-14), respectively.

⁴⁴ Exhibit No. ____ (JRH-13), Avista Response to Public Counsel Data Request No. 34(a); and, Exhibit No. ____ (JRH-15), Avista Response to Public Counsel Data Request No. 161(a).

1 such as large industrial, but are not likely to be cost-effective for all customer classes:

2 *[r]ecent and past analyses of TOU by Avista show it is likely not cost-*
3 *effective for Avista to implement TOU for all customer classes. The*
4 *potential savings created by customers shifting their daytime demand into*
5 *the night does not outweigh the cost of meter installation, software*
6 *upgrades, and associated operational costs. TOU, however, could be cost-*
7 *effective for our large industrial customers. These customers consume*
8 *large quantities of power and already have sophisticated TOU-ready*
9 *meters, making them potentially ‘low-hanging fruit’ (emphasis added).⁴⁵*
10

11 **Q: Has the WUTC identified the types of factors that will need to be considered when**
12 **evaluating advanced metering proposals?**

13 A: Yes. In its Interpretive and Policy Statement issued in Docket No. UE-060649, the
14 WUTC identified a number of factors that it might consider when examining advanced
15 metering and rate design proposals. Those factors include, but are not limited to:

- 16 • Meter and installation costs.
- 17 • Administration costs including data storage, billing, and other associated
18 functions to enable time-of-use pricing.
- 19 • Communication and marketing costs.
- 20 • Administrative savings associated with meter reading or other utility functions.
- 21 • System capacity and energy benefits: Value of operational changes in utilization
22 of generation, transmission and distribution resources as a result of direct utility
23 load-control, or reasonably expected customer actions to conserve or shift the
24 timing of energy usage.

⁴⁵ Exhibit No. ____ (JRH-16), Avista Response to Public Counsel Data Request No. 160 Attachment A, p. 11.

- Equity in the distribution of any bill savings or costs among the customer classes, including the costs and benefits incurred or received by customers changing energy use patterns in response to time-of-use rate programs.
- Economic benefits that may be associated with the integration of new end-use loads such as recharging batteries in electrically powered vehicles.
- Economic benefits that may be associated with deferring investments in new delivery or generation capacity.
- Economic benefits that may be associated with additional information gathered through time-of-use metering systems (e.g., load research data).
- Environmental effects, positive or negative, of utility direct load-control programs, or customer load-shifting and conservation in response to time-of-use programs.
- Effects, if any, from advanced metering capability on existing consumer protection policies and programs relying on direct utility contact with customers.
- Protection of customer information and privacy.⁴⁶

Q: In that regard, has Avista identified all of the costs associated with implementing TOU rates.

A: No. If Avista expects to justify this investment in advanced metering technology based on the asserted benefits of TOU pricing, it would have to include in its analysis the incremental data processing and billing system costs and any other incremental costs

⁴⁶ Interpretive and Policy Statement, Docket No. UE-060649, ¶33.

1 associated with operating such rate designs. To date, Avista has not identified the
2 incremental data processing and billing system costs it would incur if it were to collect
3 and process the type of hourly load data required for TOU or critical peak pricing.⁴⁷
4 Those incremental costs could be significant.⁴⁸ A recent survey of TOU pricing and
5 demand-response programs prepared for the United States Environmental Protection
6 Agency (EPA) notes that “a program’s implementation costs can be substantial for both
7 the utility and its customers, in some cases to the point of preventing the program’s
8 adoption.”⁴⁹

9 **Q: Has Avista addressed the other factors necessary to determine the prudence of**
10 **AMR technology and TOU pricing?**

11 A: No. As noted above, the WUTC stated in its Interpretive and Policy Statement in UE-
12 060649 that it would consider, among other things: the “equity in the distribution of any
13 bill savings or costs among the customer classes;” “effects from advanced metering
14 capability on existing consumer protection policies and programs relying on direct utility
15 contact with customers;” and, “protection of customer information and privacy.” Avista
16 has addressed none of these issues.

17 In fact, Avista’s proposed AMR program will likely warrant careful consideration
18 of these issues. First, Avista indicated that it may seek TOU pricing. However, TOU
19

⁴⁷ Exhibit No. ____ (JRH-17), Avista Responses to Public Counsel Data Request No. 55(c) and (i).

⁴⁸ Exhibit No. ____ (JRH-17), Avista Response to Public Counsel Data Request No. 55, Exhibit No. ____ (JRH-18), Avista Response to Public Counsel Data Request No. 159, Exhibit No. ____ (JRH-19, Avista Response to Public Counsel Data Request No. 162.

⁴⁹ “A Survey Of Time-Of-Use (TOU) Pricing And Demand-Response (DR) Programs,” *Energy & Environmental Economics* (July 2006), p. 36, available at www.epa.gov/cleanenergy/utilitypolicy.

1 billing programs are likely to impose disproportionate costs on limited-income residential
2 customers because they are often unable to control their time of use. Also, customers
3 who are confined to their homes because of medical needs and must maintain a certain
4 level of heat or cold may be forced to pay high prices during periods of peak demand.
5 Thus, elderly and disabled customers may see higher rates.

6 Second, Avista's proposed program includes remote connect and disconnect
7 capabilities.⁵⁰ Remote disconnect technology is very likely to negatively impact limited-
8 income and payment troubled customers. The Commission's rules, for example, provide
9 that electric and natural gas utilities must allow customers to make a payment to a utility
10 representative at the time of disconnection.⁵¹ Avista is currently seeking to implement a
11 remote disconnect and reconnect program for electric customers in certain rural and
12 urban areas of Idaho. As part of this Idaho filing, Avista is seeking a waiver of certain
13 utility customer relations rules.⁵²

14 **Q: What do you recommend?**

15 **A:** I recommend that the Commission state that nothing in its order in this proceeding in any
16 way constitutes a pre-approval of Avista's AMR program, and that Avista bears the
17 financial risk that a future proceeding may determine that a portion of this investment is
18 not prudent, or used and useful. The Commission should also state that Avista will also
19 bear the burden of showing any TOU pricing system or other demand response program

⁵⁰ Exhibit No. ____, HLC-1T, p. 7. (Cummins Direct).

⁵¹ WAC 480-100-128(6)(k) and WAC 480-90-128(6)(k) regarding disconnection notification.

⁵² Idaho Public Utilities Commission, Case No. AVU-E-07-09. The Idaho PUC has issued an order seeking comment on the proposed pilot program by October 25, 2007. See Order No. 30437.

1 is fair, just, and reasonable. Finally, the Commission should remind Avista that it will
2 have to address the full range of issues identified in the Interpretive and Policy Statement
3 in order to justify any future proposal for cost recovery.

4 **Q: Does this complete your Direct Testimony?**

5 **A:** Yes.