Exh. EMA-9T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-190334

DOCKET NO. UG-190335

DOCKET NO. UE-190222

(CONSOLIDATED)

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

IN DOCKET NO. UG-190355

(ADDRESSING NATURAL GAS REVENUE REQUIREMENT)

I. INTRODUCTION

Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is Elizabeth M. Andrews and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs Department as Senior Manager of Revenue Requirements.

Q. Have you previously provided testimony in this consolidated case?

A. Yes. My direct testimony and exhibits[1] in this proceeding generally covered accounting and financial data in support of the Company's need for the proposed electric and natural gas rate relief requested in the Company's filing. In that testimony, first I summarized the Company's revenue increase requests for the proposed Two-Year Rate Plan for the period April 1, 2020 through March 31, 2022.[2] I also discussed the Company's proposed treatment for recovering, on an accelerated basis, the depreciation expense associated with its 15% ownership of Colstrip Units 3 and 4 that was originally included as a settlement proffered to the Commission in Docket Nos. UE-180167 and UG-180168, but was set over for a later determination in this rate case.[3] Finally, in that direct testimony, I discussed changes in FASB and FERC accounting methods since Avista's last general rate case filing in Washington.[4]

I also filed testimony[5] in this proceeding in support of the Partial Multiparty Settlement

[1] See Exhs. EMA-1T through EMA-7.
[2] The Two-Year Rate Plan would not have precluded tariff filings authorized by or contemplated by the terms of the Energy Recovery Mechanism (ERM), Purchased Gas Adjustment (PGA), Public Purpose Rider Adjustment (DSM/LIRAP) or similar adjustments.
[3] The revenue requirement in this case was completed prior to the finalization of the "100% Clean" legislation, which was signed into law in early May 2019, requiring the removal of coal in Washington State by 2025.
[4] Only the FERC change associated with AFUDC impacted the Company's operating results beginning in 2018, as explained in the Company's filing with the WUTC on January 31, 2019 (Docket No. UE-190074/UG-190075).
[5] See Exh. JT-1.

Stipulation, filed jointly by all participants in these dockets (UE-190334, UG-190335, and UE-190222). The Stipulation, if approved, resolves all issues in this proceeding, with the exception of (1) the Company's decoupling proposal, which is not subject to any agreement among any of the parties[6]; (2) the natural gas revenue requirement of $8.0 million, which Public Counsel does not agree to or 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).

Lastly, I filed rebuttal testimony, specific to ERM issues in Docket UE-190222, responding to AWEC witness Mr. Mullins in regards to his proposals to modify the interest rate calculation utilized in the ERM amortization and 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.[7]

Q. What is the scope of your rebuttal testimony?

A. My rebuttal testimony will provide response in Docket UG-190335 to the testimony of Public Counsel, sponsored by Ms. Crane, in regards to their opposition of the Partial Multiparty Settlement Stipulation proposed natural gas revenue requirement of $8.0 million.

Q. Please provide a brief overview of the Partial Multiparty Settlement Stipulation agreements impacting the natural gas operations.

A. After extensive discussions, the Settling Parties[8], with the exception of Public Counsel, agreed that Avista should receive an $8.0 million natural gas revenue increase, effective

[6] See Ehrbar rebuttal testimony at Exh. PDE-3T, filed on November 21, 2019.

[7] See Andrews ERM rebuttal testimony at Exh. EMA-8T. See also Kalich ERM rebuttal testimony at Exh. CGK-3T filed on December 13, 2019.

[8] "Settling Parties" to the Partial Multiparty Settlement Stipulation filed on November 21, 2019, include Avista, Commission Staff, the Public Counsel Unit of the Washington State Office of Attorney General, the Alliance of Western Energy Consumers, the NW Energy Coalition, the Energy Project, and the Sierra Club. Public Counsel, however, does not agree to or support the natural gas revenue requirement of $8.0 million included in the Settlement.

April 1, 2020. While Avista's filing requested a natural gas revenue increase of $12.9 million for year one and $6.5 million for year two, the agreed upon revenue increase reduces this amount by approximately $4.9 million for year one, and removes the proposed increase altogether in year two.

Further, with the exception of certain items specifically called out (e.g., cost of capital), the overall natural gas revenue requirement was part of a "black box" settlement, reflecting the give-and-take on multiple issues, including electric issues.[9] Each of the Parties (with the exception of Public Counsel related specifically to the natural gas revenue requirement of $8.0 million only), ultimately agreed to concessions on matters which would not have been agreed to if each of the Parties were to proceed to evidentiary hearings.

All Parties, <u>including Public Counsel</u>, specifically agreed to a capital structure for electric <u>and natural gas operations</u>, consisting of 51.5 percent debt and 48.5 percent common equity. The authorized return on common equity will be set at 9.4 percent, with a cost of debt of 5.15 percent. The resulting authorized rate of return would be 7.21%.[10]

The Partial Multiparty Settlement Stipulation also addresses other items agreed to by <u>all Parties</u>, 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) funding, review and development of special contracts, as well as agreement regarding the amortization of certain deferrals, as further described in the Partial Multiparty Settlement Stipulation. To be clear, the

[9] On or before January 14, 2020 the Company, on behalf of all parties, will <u>file</u> a "Joint Issues Matrix," as is required in litigated rate cases. This will identify the components of Avista' requested rate relief.

[10] The 7.21 percent also represents the agreed-upon "Allowance For Funds Used During Construction" (AFUDC) for electric and natural gas operations.

only portion of the Partial Multiparty Settlement Stipulation opposed by Public Counsel, as described by Ms. Crane, relates to the natural gas revenue requirement of $8.0 million. All other components of the Partial Multiparty Settlement Stipulation were agreed to by Public Counsel, and are not at issue here.

II. PUBLIC COUNSEL'S OPPOSITION TO THE AGREED-UPON NATURAL GAS REVENUE REQUIREMENT

Q. Please describe Public Counsel's rationale for its opposition to the natural gas revenue requirement agreed to by the Parties?

A. Representing Public Counsel, Ms. Crane's opposition boils down to two simple arguments. First, Public Counsel states "[q]uite simply, the increase is too high and does not result in fair, just, and reasonable rates."[11] Second, although Public Counsel acknowledges the Partial Multiparty Settlement Stipulation revenue requirement is the result of a "black box" and it is not possible to determine specific components of the agreement, they contend that many of the adjustments in the Company's <u>initial</u> filing "were not based on known and measurable changes to the test year"[12] and therefore they continue to support their Response Testimony adjustments, however updated for the agreed upon cost of capital. Public Counsel recommends the Commission authorize a revenue requirement of $5.081 million.[13]

Q. What basis does Public Counsel rely on to determine that the revenue requirement is "too high and does not result in fair just and reasonable rates"[14]?

---

[11] Exh. ACC-14T, p. 4, ll. 17-18.
[12] Exh. ACC-14T, p. 5, ll. 8-12.
[13] Exh. ACC-14T, p. 4, ll. 8-11.
[14] Exh. ACC-14T, p. 4, ll. 18 – p. 5, ll. 1.

A. Public Counsel's sole argument relies on base rate increases customers have experienced from 2009 to 2016, which resulted in an average annual increase over this period of 3.02%. Public Counsel goes on to state that the "natural gas base revenue increase of $8.0 million results in a base increase of 8.5 percent to customers that have been burdened by significant increases over the last few years."[15]

Q. Has the Company had a base rate increase "over the last few years"?

A. No. As noted by Public Counsel, natural gas base rates remained unchanged from January 11, 2016 through April 30, 2018. On May 1, 2018 base rates were <u>reduced</u> by $2.1 million, or 2.4%, and they remain at these levels today. In effect, it will have been 4.25 years since customers have experienced a base rate increase at the time new rates go into effect, if the Partial Multiparty Settlement Stipulation is approved.

Q. Are prior rate changes a reasonable basis for disallowing the agreed to Partial Multiparty Settlement Stipulation revenue requirement amount in this case?

A. No. Each general rate case is the result of a fresh record and should be judged based on the merits of that record alone. This general rate case should not be prejudiced by rate changes from prior dockets which were decided based on the facts and circumstances of the unique record in those distinct dockets.

Q. Is the Company's request largely a "make whole" case based on rate relief due to investment in capital, inasmuch as the Company has not filed a general rate case since 2017?

A. Yes. The Company's last base rate change occurred on May 1, 2018, which will

[15] Exh. ACC-14T, p. 5, ll. 8-12.

amount to nearly two years' time from when the Company's new rates will go into effect. As discussed in the pre-filed testimony of Company witness Mr. Vermillion, in the Commission's Order 07 in Dockets UE-170485 and UG-170486, it allowed capital investment through calendar-year 2016 with limited discrete projects for 2017. 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 capital investment in 2018, the capital investment in 2019, and a portion of 2020 capital investment. In the Company's view, this significant amount of lag from unrecovered capital investment is the primary driver in both the electric and natural gas increased revenue requirement reflected in the Partial Multiparty Settlement Stipulation.

Q. What has been the effect on an average residential customer's bill taking into account all rate changes over the past five years?

A. First, the average billed percentage increase customers will experience if the Partial Multiparty Settlement Stipulation is approved is an increase of approximately 5.3%. 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, a decrease of $11.48 per month, or 17.3%. If the Partial Multiparty Settlement Stipulation is approved, the average residential bill will become $57.85 per month, a decrease of $8.57 per month, or 12.9% from 2015 levels. While Public Counsel relies on rate changes from more than a decade ago as the basis for its argument that this increase is "too high", clearly in recent years customers' bills have declined even after taking into account the effects of this most recent general rate case.

Q. How does Public Counsel's position compare with that of the Company's and Staff's litigation positions?

A. Table No. 1 below compares Public Counsel, Staff and Avista's litigation positions, as well as the revised litigation positions for each updated for the agreed-upon cost of capital by all Parties.

Table No. 1

Litigation Revenue Requirement		
	Litigation Position	**Updated Litigation Position[1]**
Avista	$ 12,935	$ 11,208
Staff	$ 7,044	$ 7,299
Public Counsel	$ 3,761	$ 5,081

[1] Updated for agreed-upon cost of capital per Partial Multiparty Settlement Stipulation.

As noted above, these litigation positions ranged from $12.9 million (Avista) to $3.8 million (Public Counsel). After agreement by all Parties to a cost of capital of 7.21%, which included a return on equity (ROE) of 9.4% and common equity layer of 48.5%, this range drops to $11.2 million (Avista) to $5.08 million (Public Counsel), reflecting Avista's first "give-and-take" concession, to agree to a lower cost of capital. This is just one of many concessions made by Avista and the Parties.

Q. As noted in Table No. 1, Public Counsel witness Ms. Crane proposes an updated natural gas revenue requirement of $5.081 million, adjusted for the agreed-upon cost of capital by all Parties. They argued in part, that many of the adjustments were not based on "known and measureable changes to the test year". Do you agree with this?

A. No, I do not. Even Commission Staff, for its part, as noted in their responsive testimony and shown in Table No. 1 above, proposed a revenue requirement for natural gas of $7.044 million on litigation.[16] Adjusted for the agreed-upon cost of capital of 7.21% would revise Staff's litigation position to $7.3 million. Within their proposed revenue requirement was the inclusion of 2019 pro formed capital additions totaling $2.184 million on a revenue requirement basis,[17] which includes 6 pro formed and used and useful natural gas-related projects in-service benefiting customers as of July 2019.[18] For its part, 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.

Furthermore, even though the Company does not agree with Staff's proposed Pro Forma Major Capital Additions Adjustment (3.10) versus its own, if one were to accept just this one adjustment as proposed by Staff (i.e., including the $2.184 million adjustment), rather than Public Counsel's adjustment to exclude all 2019 capital projects, Public Counsel's resulting revenue requirement would total approximately $7.3 million.

This result does not take into consideration any other adjustments that were the result of "known and measureable" incremental increases or contract changes above test period levels, inclusion of which, has been consistent with past Commission approvals. Therefore, as seen in the bigger context of the give-and-take of settlement discussion, an $8 million resolution on

---

[16] See Huang Exh. JH-3, page 2, line 7.

[17] See Exh. JH-3, p. 9, column 3.10, ll. 50 "Revenue Requirement," totaling $2.184 included in adjustment "Pro Forma 2019 Major Capital Additions" adjustment (3.10). This adjustment would increase slightly to $2.193 million when adjusted for the agreed-upon cost of capital of 7.21% by the Parties.

[18] Staff witness Ms. Higby, Exh. ANH-1T, at 3, ll. 3-6, states "For natural gas service, I recommend pro forma rate base adjustments include six projects and programs for natural gas operations through July 31, 2019, with actual amounts totaling $14 million. The Company initially included nine projects, with forecasted totals through 2019 of $26.5 million." (emphasis added)

revenue requirement for natural gas is well within the realms of reasonableness.

Q. Does this conclude your testimony?

A. Yes, it does.