

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

|   |   |                                   |
|---|---|-----------------------------------|
| WASHINGTON UTILITIES AND<br>TRANSPORTATION COMMISSION | ) | DOCKETS UE-200900, UG-200901,     |
|   | ) | UE-200894 ( <i>Consolidated</i> ) |
| Complainant,  | ) |                                   |
|   | ) |                                   |
| v.  | ) |                                   |
|   | ) |                                   |
| AVISTA CORPORATION d/b/a                              | ) |                                   |
| AVISTA UTILITIES                                      | ) |                                   |
| Respondent.   | ) |                                   |
|   | ) |                                   |
|   | ) |                                   |
| _____   | ) |                                   |
| In the Matter of the Petition of                      | ) |                                   |
|   | ) |                                   |
| AVISTA CORPORATION d/b/a                              | ) |                                   |
| AVISTA UTILITIES,                                     | ) |                                   |
|   | ) |                                   |
| For an Accounting Order Authorizing                   | ) |                                   |
| Accounting and Ratemaking Treatment of                | ) |                                   |
| Costs Associated with the Company's                   | ) |                                   |
| Wildfire Resiliency Plan.                             | ) |                                   |
|   | ) |                                   |
| _____   | ) |                                   |

**CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS  
ON BEHALF OF  
ALLIANCE OF WESTERN ENERGY CONSUMERS**

**May 28, 2021**

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**I. INTRODUCTION**

16 **Q. ARE YOU THE SAME WITNESS WHO FILED RESPONSE TESTIMONY IN**  
17 **THIS MATTER?**

18 A. Yes. On April 21, 2021, I submitted Response Testimony in this matter on behalf of the  
19 Alliance of Western Energy Consumers (“AWEC”) regarding the revenue requirement of  
20 Avista Corporation d/b/a Avista Utilities (“Avista”).

21 **Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?**

22 A. I respond to the Response Testimony filed by Staff and Public Counsel regarding the tax  
23 accounting changes and the associated regulatory liability approved in Docket Nos. UE-  
200895 and UG-200896. I also discuss rate design for electric Schedule 25 in response to  
the proposal of Inland Empire Paper Company for a special contract, with has now been  
incorporated into a Partial Multiparty Settlement Stipulation (“Stipulation”) filed in these  
dockets on May 27, 2021. AWEC supports the Stipulation for reasons that will be  
discussed in testimony supporting the Stipulation, to be filed on or before June 25, 2021.

**II. TAX ACCOUNTING CHANGE**

16 **Q. WHAT WAS YOUR RECOMMENDATION FOR THE TAX ACCOUNTING**  
17 **CHANGE REGULATORY LIABILITY IN RESPONSE TESTIMONY?**

18 A. In connection with tax accounting changes for meters and IDD#5 shared services  
19 expenditures, Avista has, as of December 31, 2020, recognized regulatory liability  
20 balances of \$58,136,820 for electric services and \$28,200,361 for natural gas services. In  
21 Response Testimony, I disagreed with Avista’s recommendation of spreading the  
22 amortization of this regulatory liability in a manner that offsets the revenue requirement  
23 increase in this case over a one-year period, followed by a 10-year amortization for the

1 remaining balances. I noted that such an approach will result in embedding a significant  
2 rate increase once the first-year amortization expires. Accordingly, I recommended a  
3 fixed amortization over a five-year period.<sup>1/</sup>

4 **Q. WHAT DID STAFF RECOMMEND?**

5 A. Staff witness Ehrdal proposes amortizing the regulatory liability through separate rate  
6 schedules - Schedule 76 for electric and Schedule 176 for natural gas.<sup>2/</sup> Staff proposes  
7 allocating the sur-credit revenues in proportion to the rate base of the respective rate  
8 classes.<sup>3/</sup> Staff endorses its allocation proposal based on the position that rate base was  
9 how the deferred taxes associated with the regulatory liability were collected from  
10 customers. Finally, Staff proposes bifurcating the amortization between Excess Deferred  
11 Federal Income Tax (“EDFIT”) and Accumulated Deferred Federal Income Tax  
12 (“ADFIT”) amounts. With respect to the EDFIT amounts associated with the regulatory  
13 liability, Staff recommends a one-year amortization. With respect to the ADFIT  
14 balances, Staff recommends amortizing the regulatory liability balance over the life of the  
15 underlying plant.

16 **Q. DO YOU SUPPORT STAFF’S RECOMMENDATION FOR A SEPARATE**  
17 **TARIFF?**

18 A. Yes. Including the sur-credit revenues in a separate tariff provides a method to track the  
19 total amounts refunded to customers in order to determine whether the balance had been  
20 over- or under-collected.

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<sup>1/</sup> Mullins, Exh. BGM-1T at 70.

<sup>2/</sup> Erdahl, Exh. BAE-1T at 12:20-21

<sup>3/</sup> See Erdahl, Exh. BAE-8.

1 **Q. DO YOU SUPPORT STAFF'S RECOMMENDATION TO ALLOCATE THE**  
2 **SUR-CREDIT REVENUES IN PROPORTION TO RATE BASE?**

3 A. Yes. Under Staff's approach, large customers receive a smaller allocation of the sur-  
4 credit compared to a volumetric allocation performed on an equal cents per kilowatt-hour  
5 or equal cents per therm basis. Staff's approach is reasonable, however, because it  
6 partially recognizes the way that the underlying ADFIT and EDFIT was being allocated  
7 to the respective customer classes.

8 **Q. IS STAFF'S APPROACH CONSISTENT WITH HOW DEFERRED TAXES ARE**  
9 **COLLECTED FROM EACH CUSTOMER CLASS?**

10 A. No. While AWEC supports Staff's approach in this case, it is necessary to note here that,  
11 in the context of Avista's cost of service study, deferred income taxes are not actually  
12 allocated in proportion to rate base. While ADFIT and EDFIT are allocated in proportion  
13 to rate base, the deferred tax expense included in the income statement, which gives rise  
14 to ADFIT and EDFIT, is allocated in proportion to net operating income. Thus, rate  
15 classes with a higher allocated net operating income pay a higher proportion of deferred  
16 taxes. In future cases, it may be worthwhile to further consider how deferred tax  
17 expenses are being allocated amongst the customer classes, although for purposes of this  
18 case AWEC does not oppose Staff's approach to use rate base for allocating the tax  
19 accounting change regulatory liability.

20 **Q. DO YOU SUPPORT THE AMORTIZATION STRUCTURE PROPOSED BY**  
21 **STAFF?**

22 A. No. I continue to recommend a simpler approach of a flat, five-year amortization for  
23 both ADFIT and EDFIT.

1 **Q. WHY IS IT NOT PREFERABLE TO ALLOCATE THE REGULATORY**  
2 **LIABILITY BALANCES ASSOCIATED WITH EDFIT OVER ONE YEAR?**

3 A. The EDFIT portion of the regulatory liability is material, consisting of \$10,300,000 for  
4 electric services and \$4,800,000 for natural gas services. Allocating these amounts over a  
5 single year is not preferred because it will result in offsetting increases to rates following  
6 the expiration of the one-year amortization period. From my perspective, it is preferable  
7 to amortize the entire regulatory liability balance over the same period so that the  
8 amortization amount remains fixed. With a fixed amortization amount, ratepayers avoid  
9 unnecessary rate increases that will otherwise occur if the amortization amount changes.  
10 Such an approach promotes rate stability.

11 **Q. WHY DO YOU ALSO RECOMMEND A 5-YEAR AMORTIZATION FOR THE**  
12 **ADFIT BALANCES?**

13 A. Amortizing the ADFIT liability balances over the remaining life of the assets in Staff's  
14 proposal is contrary to the purpose of making the tax accounting changes and the decision  
15 to move to flow-through accounting for these items. The Commission approved the  
16 accounting change and flow-through accounting in Docket Nos. UE-200895 and UG-  
17 200896. Amortizing the freed-up ADFIT balances over the remaining life of the assets,  
18 however, mimics the treatment under normalization accounting, rather than the flow-  
19 through accounting the Commission approved. If it were the Commission's preference to  
20 maintain the lengthy amortization period required by normalization, the Commission  
21 could have rejected Avista's application and continued using normalization accounting.  
22 Since flow-through accounting was approved, however, I recommend that it be used in a  
23 way that benefits ratepayers and promotes rate stability. A five-year amortization period

1 best balances those objectives. Given the revenue requirement amounts at issue in this  
2 case, a five-year amortization results in a material benefit to customers in this case but  
3 also spreads the benefit over a long enough time to avoid rate instability.

4 **Q. WHAT DID PUBLIC COUNSEL PROPOSE WITH RESPECT TO THE TAX**  
5 **ACCOUNTING CHANGE REGULATORY LIABILITY?**

6 A. Public Counsel witness Crane proposes the Commission adopt an amortization that will  
7 eliminate the first year electric or gas increase in this case.<sup>4/</sup> Further, Public Counsel  
8 witness Watkins recommends that the allocation of the tax accounting change regulatory  
9 liability be designed in a way that exactly offsets any base rate increases for each  
10 customer class authorized for both electric and natural gas services.<sup>5/</sup> Public Counsel also  
11 agrees with Avista's proposed rate design that spreads any rate increase equally to all  
12 customer classes.<sup>6/</sup>

13 **Q. DO YOU AGREE WITH PUBLIC COUNSEL'S RECOMMENDATIONS?**

14 A. Not entirely. It is preferable to adopt an amortization approach for the tax liability that is  
15 agnostic to the revenue requirement change that the Commission approves in this case.  
16 The revenue requirement increase and the amortization of the regulatory liability are two  
17 separate issues, and need to be considered as such. To the extent that a fixed  
18 amortization is more or less than any rate increase that may be approved in this case, it is  
19 preferable to pay the difference in rates now because doing so will avoid a potential  
20 future rate increase when the higher first-year amortization would otherwise expire.

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<sup>4/</sup> Crane, Exh. ACC-1T at 46.

<sup>5/</sup> Watkins, Exh. GAW-1T at 26:3-9.

<sup>6/</sup> Id. at 27:6-8.

1 Further, Staff's recommendation to allocate the sur-credits based on rate base  
2 already results in residential customers receiving a larger portion of the sur-credit  
3 amounts relative to the other classes. Accordingly, allocating the sur-credits on the basis  
4 of the revenue requirement increase for each rate class, as Public Counsel proposes, is not  
5 necessary. AWEC recognizes that, in light of the COVID-19 pandemic, the  
6 circumstances of this case are unique. Notwithstanding, those circumstances are better  
7 considered in the overall rate spread, rather than the allocation of the tax accounting  
8 change regulatory liability.

9 **Q. DOES AWEC OPPOSE PUBLIC COUNSEL'S RECOMMENDATION FOR AN**  
10 **EQUAL SPREAD OF THE RATE INCREASE TO CUSTOMER CLASSES IN**  
11 **THIS CASE?**

12 A. Not in the context of this rate case. While Avista's cost of service study shows  
13 residential customers paying below their cost of service, and other customer classes  
14 paying above their cost of service, the COVID-19 pandemic has affected all customers in  
15 ways that are not consistent either within or across customer classes. Given the unique  
16 circumstances in which this case is being litigated, AWEC does not oppose Public  
17 Counsel's rate spread proposal.

18 **III. ELECTRIC SCHEDULE 25 RATE DESIGN**

19 **Q. PLEASE SUMMARIZE AWEC'S RESPONSE TO TESTIMONY FILED BY**  
20 **INLAND EMPIRE PAPER COMPANY.**

21 A. Inland Empire Paper Company ("IEP") filed testimony proposing a special contract based  
22 on an economic bypass opportunity. Given IEP's proposal and its discussion of the cost  
23 of servicing IEP, AWEC recommends that the Schedule 25 rate design be modified to be  
24 consistent with the costs of serving incremental energy for Avista's largest customers.

1 **Q. WHAT RATE DESIGN DOES AVISTA PROPOSE FOR SCHEDULE 25?**

2 A. Avista proposes that Schedule 25 demand charges remain unchanged and that Schedule  
3 25 energy charges be increased by an equal percent across all three energy blocks.<sup>7/</sup>

4 **Q. WHAT DOES AWEC PROPOSE FOR SCHEDULE 25?**

5 A. If the Commission approves a rate increase, AWEC proposes both demand charges and  
6 the third energy block rates remain unchanged, and that the rates for the first two energy  
7 blocks (usage for the first 6 million kWh per month) be changed by an equal percent.

8 **Q. WHY DOES AWEC MAKE THIS PROPOSAL?**

9 A. A long held and undisputed tenant of economics is that economically efficient decisions  
10 are made when the price faced by consumers represent marginal costs. In other words,  
11 industrial energy consumers will make efficient use of energy when the incremental  
12 energy rate reflects the incremental cost of production. IEP has shown that the  
13 incremental cost of production for Avista's largest energy consumers is far below the  
14 actual cost to Avista.<sup>8/</sup> Several factors contribute to this, including the need for Avista to  
15 recover its fixed costs, and Schedule 25's large subsidy of other rate classes.<sup>9/</sup> AWEC  
16 proposes keeping the third energy block rate unchanged with a goal of reducing the gap  
17 between the cost of serving Schedule 25 customers and their ultimate revenues.

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<sup>7/</sup> Miller, Exh. JDM-1T at 10:17-22.

<sup>8/</sup> Kaufman, Exh LDK-1T.

<sup>9/</sup> Avista's cost of service study shows Schedule 25 rates are substantially above cost of service and Avista's proposed rate spread makes no move towards parity for Schedule 25. Exh. JDM-1T, Table No. 3.

1 **Q. HOW DOES AWEC'S PROPOSAL MAKE PROGRESS TOWARDS MORE**  
2 **EFFICIENT RATES?**

3 A. Under AWEC's proposal, more of Schedule 25's allocation of fixed costs and cost  
4 subsidies will be recovered through the first two energy blocks. Most of the energy  
5 consumed on Schedule 25 is in the first two blocks.<sup>10/</sup> This means that holding the third  
6 block rate flat will have little to no impact on the final rates for the first two blocks.  
7 However, it will bring the third block closer to an economically efficient rate.

8 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

9 A. Yes.

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<sup>10/</sup> See Miller Electric Workpapers, tab "WA Sch 25." This assumes that the third block load identified in the referenced workpaper is load that would transition to a special contract under the settlement.