

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant, v.

AVISTA CORPORATION d/b/a
AVISTA UTILITIES,

Respondent.

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

CROSS-ANSWERING TESTIMONY OF

AMANDA LEVIN

ON BEHALF OF

NW ENERGY COALITION

November 21, 2019

1 **I. INTRODUCTION**

2 **Q. Are you the same Amanda Levin who provided in this proceeding Prefiled**
3 **Response Testimony and supporting exhibits on October 3, 2019, on behalf of**
4 **NW Energy Coalition (“NWEK”)?**

5 **A.** Yes.

6 **Q. What is the purpose of this cross-answering testimony?**

7 **A.** I respond to statements in the testimony of Andrea C. Crane related to the
8 Company’s proposed revenue decoupling mechanism. My rebuttal will respond to
9 Public Counsel’s concerns around the decoupling mechanism, specifically the
10 identified “flaws” and issues – treatment of costs, utility incentives related to cost
11 control and conservation, and ratepayer impacts – in Witness Crane’s testimony. I
12 will also discuss briefly why Public Counsel’s suggestion to limit decoupling to
13 verified energy savings (or what would be a Lost Revenue Adjustment Mechanism)
14 is an inferior mechanism to the Company’s proposed decoupling mechanism.

15 **II. ISSUES RELATED TO THE PROPOSED DECOUPLING MECHANISM**

16 **Q. Witness Crane notes that “with a decoupling mechanism, a utility has less**
17 **incentive to be attentive to its business,” stating later “a utility has no**
18 **incentive to contain costs.”¹ Do you agree that decoupling reduces or**
19 **eliminates a utility’s incentive to control costs?**

20 **A.** No. In fact, it is more accurate to say that the result is the opposite. Decoupling
21 mechanisms do not guarantee profits or weaken incentives to control costs: they
22 solely provide greater assurance to a utility and its customers that the utility will
23 recover only authorized revenues – and no more. Profit and the utility’s actual rate

¹ Crane, Exh. ACC-1T at 47:8-9, 14.

1 of return is a function of two things: revenue collected and costs. Without
2 decoupling, profit is tied both to sales or sales growth (which determine revenue)
3 and cost control. For example, if a non-decoupled utility has poor cost control,
4 resulting in higher costs than anticipated, they could seek to increase sales beyond
5 anticipated levels to further increase actual revenue. This would thereby allow
6 them to maintain their profit margin (revenue minus costs), by increasing their
7 collected revenues (by selling more) to offset their higher operating costs.
8 Consequently, with a decoupling mechanism, controlling costs takes on even
9 greater importance, since the utility can no longer offset higher-than-expected costs
10 or otherwise increase profits by increasing sales (and associated revenue). In fact,
11 Witness Crane recognized the same thing in her own testimony: “[i]f the risk of
12 sales volatility is eliminated, then only expenses, often controllable by the utility,
13 can significantly move the bottom-line earnings results.”² Put another way, under
14 decoupling, improved cost control and operational efficiency is the only way a
15 utility can boost its profits.

16 This logic has been borne out by hard data in Avista’s own territory. The
17 third-party audit of Avista’s mechanism found no indication that decoupling had
18 any adverse effect on the utility’s cost control, operational efficiency, and service
19 quality.³ The audit noted that: “we found no indications of any lack of attention to
20 cost control and operational efficiency,” “the company maintains a careful and

² *Id.* at 47:1-3.

³ Ehrbar, Exh. PDE-2 at 201.

1 prudent approach to controlling costs,” and that staff had a “sense of personal and
2 business commitment to public service.”⁴

3 Moreover, this is not unique to Avista. In Puget Sound Energy’s audit, the
4 evaluators also found no negative impact on the utility’s incentives to control costs
5 or on operational efficiency.⁵ In fact, the utility’s annual average increase in O&M
6 costs declined when compared to the historical growth rate and were lower than the
7 utility’s forecasted O&M costs as well.⁶

8 **Q. Witness Crane also argues that the current mechanism “does not properly
9 consider the extent to which costs are fixed versus variable,” and that this
10 “can (and will)” result in the “utility. . . over-recover[ing] or under-
11 recover[ing] its authorized revenue requirement.”⁷ Do you agree with these
12 statements?**

13 **A.** No. Witness Crane takes issue with the “revenue-per-customer” (RPC) approach
14 used in the proposed decoupling mechanism, misunderstanding the theory and
15 rationale behind this structure. She states that “if costs are truly fixed, then by
16 definition they are not impacted by changes in the number of customers.”⁸ Thus,
17 when the RPC approach adjusts total authorized revenue upward to account for
18 customer growth between rate cases, the utility would “over-recover” its fixed
19 costs; conversely, if the RPC approach adjusts total authorized revenue downward

4 *Id.* at 200.

5 *See WUTC v. PSE*, WUTC Docket No. UE-170033/170034, Direct Testimony and Exhibits of Jon A. Piliaris, Exh. JAP-29 at 103 (Jan. 13, 2017) (Puget Sound Energy, Three Years of Decoupling).

6 *Id.* at 21.

7 Crane, Exh. ACC-1T at 53:5-6, 54:7-8.

8 *Id.* at 58:3-4.

1 to account for reductions in customer counts, the utility would “under-recover” its
2 fixed costs.

3 The objective of a decoupling mechanism is to enable the utility to recover
4 its fixed costs regardless of how much energy it sells. Nothing more, nothing less.
5 These are the costs, after all, that the Commission has said they should have the
6 opportunity to recover. One approach, as Public Counsel appears to support, is
7 simply to assure recovery of the utility’s fixed costs as authorized in the rate case.
8 This may be appropriate for certain types of costs, such as some fixed production
9 or plant costs.

10 However, in between rate cases, without the ability to adjust allowed
11 revenues, there would be inevitable downward pressure on utility earnings as a
12 result of increased costs to run the business, like inflation and system growth.⁹ If
13 this is not addressed, the utility would seek to alleviate this pressure on earnings by
14 increasing energy sales – which, of course, is exactly what decoupling is designed
15 to counter. Using the number of customers served is the simplest method and a
16 reasonable proxy for increases in fixed distribution system costs *between rate*
17 *cases*.¹⁰ Adjusting total authorized revenue to account for the system costs of
18 serving customers – which may be less than or greater than the levels anticipated in
19 the rate case and used set authorized revenue figures – is wholly appropriate and

⁹ See Janine Migden-Ostrander and Richard Sedano, *Decoupling Design: Customizing Revenue Regulation to Your State’s Priorities* at 18, Nov. 7, 2016, available at <http://www.raonline.org/knowledge-center/decoupling-design-customizing-revenue-regulation-state-priorities>.

¹⁰ See *id.* at 19.

1 does not over- or under-count the “fixed costs” borne by the utility. As opposed to
2 Witness Crane’s contention that fixed costs must remain constant, a utility’s fixed
3 costs can appropriately vary over time, between rate cases. Fixed merely refers to
4 the fact that these costs are not impacted by a customer’s usage or consumption
5 over the short-term (e.g., metering, billing, customer service).¹¹ Over time, as
6 changes in customer counts and other factors change the costs of providing and
7 maintaining reliable service, a utility’s total fixed costs can vary. Using an RPC
8 approach to account for these known pressures on fixed costs between rate cases is
9 a reasonable and appropriate way to prevent earnings attrition with a decoupling
10 mechanism.

11 It is important to note here that Avista has identified the concerns around
12 potential “over-recovery” under RPC approaches and proposed modifications to
13 address this. As noted in my response testimony, “Avista’s proposed adjustment to
14 revenue-per-customer for new customers will ensure that the utility is not allowed
15 to over-collect fixed costs related to new customers in its decoupling mechanism
16 between rate cases.”¹² I believe that the modified RPC approach taken in the
17 Company’s proposal fairly accounts for and limits authorized fixed cost recovery
18 for new customers between rate cases to the likely fixed costs actually imposed by
19 the addition of new customers.

¹¹ See Lawrence Berkeley National Lab, *Recovery of Utility Fixed Costs: Utility, Consumer, Environmental and Economist Perspectives* at 51-52. Report No. LBNL-1005742. <https://emp.lbl.gov/publications/recovery-utility-fixed-costs-utility>.

¹² Levin, Exh. AML-1T at 11:15-17.

1 **Q. Witness Crane also suggests that the Commission limit decoupling**
2 **adjustments to verified energy savings resulting from energy efficiency**
3 **programs.¹³ Do you agree with this recommendation?**

4 **A.** No, for a number of reasons, I believe that a full decoupling mechanism will be a
5 more successful approach for Avista than Public Counsel’s recommendation. First,
6 a decoupling mechanism that is limited to verified energy savings is more
7 appropriately referred to as a lost revenue adjustment mechanism (LRAM), and I
8 use this terminology for Public Counsel’s approach in the below discussion.

9 Second, as discussed in my response testimony, there are a number of
10 measures that are impacted by the “throughput incentive” that decoupling attempts
11 to eliminate. While energy efficiency was the only or, at minimum, major
12 rationale when decoupling was first adopted by states in the 1980s, 1990s, and
13 early 2000s – this is no longer the case. In the last few years, a number of
14 customer-sided technologies have become more affordable and widespread. Like
15 energy efficiency investments, a utility also has a disincentive under a traditional
16 “cost-of-service” approach to promote or help customers invest in these newer,
17 “behind-the-meter” clean technologies such as distributed generation (DG).
18 Limiting lost fixed cost recovery solely to energy efficiency savings from utility-
19 sponsored programs ignores this expanding set of demand-side technologies that
20 customers want but that a utility has a disincentive to promote; one growing benefit
21 of decoupling – rather than more narrow LRAMs – is that it captures and accounts
22 for this more recent, broader set of technology options.

1 Likewise, decoupling – as opposed to either a limited mechanism like a
2 LRAM or no mechanism at all – can driver greater consumer benefits in the age of
3 electrification. Electrification puts upward pressure on sales – and if
4 electrification-driven sales result in actual revenue exceeding allowed revenue,
5 customers would see a refund through a decoupling mechanism, whereas under no
6 mechanism or a LRAM the utility would keep this excess revenue. As noted in my
7 response testimony, electrification with decoupling still provides utilities with the
8 incentive to pursue aggressive electrification of our homes and vehicles but ensures
9 that customers will not overpay as we electrify our systems.¹⁴ Furthermore, by
10 breaking the link between profit and sales, utilities will be more encouraged to
11 pursue the most efficient forms of transportation and building electrification (e.g.,
12 heat pumps, rather than less efficient forms of electric heating).

13 Lastly, evidence finds that decoupling mechanisms are associated with
14 higher energy efficiency savings and spending, both compared to utilities with no
15 regulatory mechanisms in place and to those with LRAMs. An American Council
16 for an Energy-Efficient Economy (ACEEE) review of performance incentives
17 found that decoupling had a significant impact on energy efficiency savings:
18 decoupled utilities achieved an average of 1.4% annual energy savings, compared
19 to non-decoupled, non-LRAM utilities’ average of 0.5% savings.¹⁵ Unlike
20 decoupling, LRAM was not associated with higher or lower energy savings, with

¹⁴ Levin, Exh. AML-1T at 4-6.

¹⁵ Maggie Molina & Marty Kushler, *Policies Matter: Creating a Foundation for an Energy-Efficient Utility of the Future* at 16 (June 2015) available at <http://aceee.org/sites/default/files/policies-matter.pdf>.

1 LRAM utilities achieving savings of 0.6%.¹⁶ These trends held true when
2 accounting for energy efficiency standards (EERS). States with both EERS and
3 decoupling reported average savings of 1.4%, states with only EERS (no LRAM or
4 decoupling) reported an average of 0.9% savings.¹⁷ States with an EERS and
5 LRAM reported the same level of savings – 0.9%.¹⁸

6 **III. CONCLUSION**

7 **Q. Do you still recommend that the Commission approve the continuation of**
8 **Avista’s decoupling mechanism?**

9 **A.** Yes. I support the continuation and extension of the Company’s decoupling
10 mechanism. Despite Public Counsel’s testimony – which while critical of
11 decoupling, did not itself recommend terminating decoupling for Avista¹⁹ – I
12 believe that the evidence points to decoupling being a success for the utility, its
13 conservation programs, and customers.

14 **Q. Do you still support NWECA’s recommendations discussed in your response**
15 **testimony?**

16 **A.** Yes. In addition to approving the continuation of the decoupling mechanism as
17 proposed by Avista, I recommend that the Commission approve three other, related
18 adjustments:

19 1. The Commission should require Avista use a 20-year moving average for
20 weather in the next rate case. Avista could also maintain a 30-, 15-, and 10-year

16 *See id.* at 16.

17 *See id.* at 16.

18 *See id.* at 16.

19 *See Crane, Exh. ACC-1T at 48:11.*

1 moving average to understand the impacts and implications of these different
2 averages;

3 2. The Commission should require Avista to increase its spending on low-
4 income conservation programs; and

5 3. The Commission should adjust the Company's proposed conservation
6 "add" of 5% for each its electricity and gas efficiency targets into a combined
7 10% conservation adder. The company would still be required to achieve a
8 minimum of 5% of savings on the electric side (consistent with Avista's current
9 electric conservation adder), but could meet the other 5% through either electric or
10 gas conservation programs, depending on what is most cost-effective.

11 **Q. Does this conclude your testimony?**

12 **A.** Yes.

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