

REVISED Pages 3 and 22-23 - May 25, 2012

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-12_____

DIRECT TESTIMONY OF

MARK N. LOWRY

REPRESENTING AVISTA CORPORATION

1 **Q. Please summarize your testimony.**

2 A. Avista's rate of return from its Washington electric operations have been
3 below the target set by this Commission for several years. The traditional approaches used
4 to regulate Avista in Washington are part of the problem. The Company is engaged in a
5 multi-year program of high capital spending ("capex") to modernize its infrastructure.
6 Pursuant to state policy, Avista is also undertaking a demand-side management ("DSM")
7 program that slows its revenue growth. The rate setting system under which Avista
8 currently operates in Washington cannot provide it with the timely rate relief it needs to
9 undertake these initiatives without chronic underearning. I estimate a revenue deficit of
10 about \$21 million (\$21.6 million based on Exhibit No. ____ (MNL-5)(Supp.) in 2013, the first
11 year new rates take effect, if the revenue increase granted in this case were to be limited to
12 the traditional pro forma adjustments proposed by the Company. This calculation provides
13 the basis for the Attrition Adjustment that Avista is proposing in this proceeding.

14 **Q. Are you sponsoring any exhibits to be introduced in this proceeding?**

15 A. Yes. I am sponsoring Exhibit Nos. ____ (MNL-1T) through ____ (MNL-
16 5)(Supp.), all of which were prepared under my supervision and direction. Exhibit No.
17 ____ (MNL-2) is my resume. Exhibit No. ____ (MNL-3) details the recent trends in the
18 normalized costs of Avista's Washington electric operations. Exhibit No. ____ (MNL-4)
19 shows some of the calculations used in my revenue growth projections. Exhibit No. ____
20 (MNL-5) presents and Exhibit No. ____ (MNL-5)(Supp.) present results of my attrition
21 projection projections.

22 **Q. Are other Company witnesses providing testimony regarding issues you**
23 **are addressing?**

1 attrition adjustment, which is approximately one half of the total deficit. If the Company's
2 full rate increase request is granted, but without an attrition adjustment, my calculations
3 indicate that its revenue requirement will still fall short of the Company's needs by about
4 \$21 million in 2013.

5 Q. Would you please explain your supplemental Exhibit No. ____ (MNL-
6 5)(Supp.)?

7 A. Yes. Exhibit No. ____ (MNL-5)(Supp.) reflects the effect of converting from
8 logarithmic growth factors to arithmetic growth factors for the two year escalation rates that
9 are used to trend the 2011 base year amounts to the 2013 rate year amounts. This
10 conversion was inadvertently overlooked when preparing the original Exhibit No.
11 (MNL-5). The result of the change is to increase the attrition-adjusted subtotal for the
12 revenue requirement from \$41.502 million to \$42.569 million shown on line 56, column (J).
13 The Company is not adjusting its requested rate increase as a result of this change, and has
14 used the results (showing lesser attrition) shown in the original Exhibit No. ____ (MNL-5) for
15 purposes of developing the final revenue requirement.

16 **Q. What are the implications of your calculations for the appropriate**
17 **revenue requirement in this proceeding?**

18 A. I believe that my research substantiates the Attrition Adjustment that I have
19 proposed for use by the Company in developing its revenue requirement. Avista has filed
20 frequent rate cases in recent years and has underearned in the year that new rates are
21 implemented. The traditional rate case process used in Washington is a likely cause of the
22 problem. This Commission has suggested that it would entertain a credible attrition study
23 for purposes of addressing chronic underearning. I have prepared an attrition study that

1 combines methods used to support previously approved attrition adjustments with some
2 upgrades where better data and research advances have become available since the early
3 1980s. My research demonstrates that Avista's cost will grow much more rapidly than its
4 billing determinants between 2011 and 2013. This undermines the validity of the matching
5 principle and suggests that this rate case will produce continued underearning absent the
6 proposed Attrition Adjustment.

7 **Q. Does that conclude your pre-filed direct testimony?**

8 A. Yes it does.