Exhibit No. ___(PDE-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-16_____

DOCKET NO. UG-16_____

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the State and Federal Regulation Department as Manager of Rates and Tariffs.

Q. Would you briefly describe your duties?

A. Yes. My primary areas of responsibility include electric and natural gas rate design, customer usage and revenue analysis, and tariff administration.

Q. Please briefly describe your educational background and professional experience?

A. I am a 1995 graduate of Gonzaga University with a Bachelors degree in Business Administration. In 1997 I graduated from Gonzaga University with a Masters degree in Business Administration. I started with Avista in April 1997 as a Resource Management Analyst in the Company's DSM Department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company's educational and governmental customers. In 2000, I was selected to be one of the Company's key Account Executives. In this role I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers, including delivery of the Company's site specific energy efficiency programs.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in this role included being the discovery coordinator for the Company's rate cases, the development of line extension policy tariffs, as well as addressing miscellaneous regulatory issues. In November 2009, I was promoted to my current role.

Q. What is the scope of your testimony in this proceeding?

A. My testimony in this proceeding will cover the spread of the proposed January 1, 2017 and January 1, 2018 electric and natural gas base revenue increases among the Company's electric and natural gas service schedules. I will also provide further details as to how the incremental base electric and natural gas increases were developed to ensure that the incremental revenue requirement, effective January 1, 2018, would be collected over a 6-month period.

My testimony will also provide an overview of the proposal to use a portion of the Energy Recovery Mechanism ("ERM") deferral balance to offset the January 1, 2018 six-month electric rate increase. Finally I will describe the changes to the rates within the Company's electric and natural gas service schedules, as well the proposed increase in the basic charges for residential electric rate Schedule 1 and natural gas rate Schedule 101.

Q. Would you please provide an overview of the Company's electric and natural gas rate requests?

A. Yes. As discussed by Company witness Mr. Morris, the Company is proposing an 18-month rate plan including the period January 2017 through June 2018. In recent years the Company has filed general rate cases in the first quarter of the year, and the rate adjustments resulting from the cases have generally been implemented in January, which is the middle of the winter heating season. The 18-month proposal in this filing is intended to change the "cycle" of base rate adjustments from the middle of winter to the middle of the summer months. If the base rate adjustments occur in the summer months, then customers will be aware of these adjustments prior to entering the winter heating season, and will not experience a base rate increase in the middle of winter.

Under Avista's 18-month proposal in this case, base retail rates would increase on January 1, 2017, and a second-step base rate increase would occur on January 1, 2018. Future general rate cases would be filed in the summer months, with any rate adjustments expected to occur the next summer.

With regard to the proposed January 1, 2018 second-step electric base rate increase in this filing, Avista is proposing to offset the bill impact to customers with a rebate of available ERM dollars. The ERM currently has a rebate deferral balance (due to customers) of $18.0 million. The Company proposes to credit a portion of these dollars back to customers from January 2018 through June 2018 to offset the bill increase to electric customers from the January 1, 2018 second-step base rate increase.

The net effect of the 18-month plan for electric customers is a proposed bill increase to customers on January 1, 2017, and no further base rate increase impact to the customers' bill prior to July 2018. For natural gas service, customers would see a second-step rate increase on January 1, 2018 of approximately 1%.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. Yes. I am sponsoring Exhibit Nos.___(PDE-2), ___(PDE-3), and ___(PDE-4) related to the proposed electric increase, and Exhibit Nos.___(PDE-5), ___(PDE-6), and ___(PDE-7) related to the proposed natural gas increase. These exhibits were prepared by me or under my supervision. A table of contents for my testimony is as follows:

II. PROPOSED ELECTRIC REVENUE CHANGES

Summary of Electric Rate Schedules and Tariffs

Q. Would you please explain what is contained in Exhibit No.___(PDE-2)?

A. Yes. Exhibit No.___(PDE-2) contains a copy of the Company's present electric tariffs/service schedules.

Q. Could you please describe what is contained in Exhibit No.___(PDE-3)?

A. Yes. Exhibit No.___(PDE-3) contains the proposed electric tariff sheets for January 1, 2017 and January 1, 2018 which incorporate the proposed changes included in this filing.

Q. Please describe what is contained in Exhibit No.___(PDE-4).

A. Exhibit No.___(PDE-4) contains information regarding the proposed spread of the January 1, 2017 and January 1, 2018 electric revenue increases among the service schedules and the proposed changes to the rates within the schedules. Page 1 shows the proposed revenue and percentage increase by rate schedule for the January 1, 2017 and January 1, 2018 rate changes. As I will discuss later in my testimony, in order to develop rates that would allow the Company to recover the six-month revenue requirement, the Company annualized the 2018 revenue increase. Therefore, in my exhibits, any reference to a 2018 revenue figure or percentage increase is on an "annualized" basis.

Page 2 shows how the Company annualized the 2018 six-month electric revenue requirement of $10,301,000, for purposes of developing base rates.[1] Page 3 shows the rates of return and the relative rates of return for each of the schedules before and after application of the proposed January 1, 2017 general increase. Pages 4 and 5 show the present rates under each of the rate schedules, the proposed changes to the rates within the schedules, and the proposed rates after application of the January 1, 2017 and January 1, 2018 rate changes. These pages will be referred to later in my testimony.

Q. Would you please describe the Company's present rate schedules and the types of electric service offered under each?

A. Yes. The Company presently provides electric service under Residential Service Schedule 1, General Service Schedules 11 and 12, Large General Service Schedules 21 and 22, Extra Large General Service Schedule 25, and Pumping Service Schedules 31 and 32. Additionally, the Company provides Street Lighting Service under Schedules 41-46, and Area Lighting Service under Schedules 47-48. Schedules 12, 22, 32, and 48 exist for residential and farm service customers who qualify for the Residential Exchange Program operated by the Bonneville Power Administration. The rates for these schedules are identical to the rates for Schedules 11, 21, 31, and 47, respectively, except for the Residential Exchange rate credit.

Table No. 1 below shows the type and number of customers served in Washington (as of September 2015) under each service schedule:

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[1] The annualized revenue requirement of $20,885,000 produce rates which are designed to provide revenue of $10,301,000 in the January 2018 through June 2018 time period.

Table No. 1 – Electric Customers by Service Schedule

Rate Schedule	No. of Customers
Residential Schedules 1	206,826
General Service Schedules 11/12	30,771
Large General Service Schedules 21/22	2,014
Extra Large General Service Schedule 25	21
Pumping Service Schedules 31/32	2,431

Proposed Electric Rate Spread

Q. For January 1, 2017, what is the proposed electric revenue increase, and how is the Company proposing to spread the increase by rate schedule?

A. For January 1, 2017, the proposed electric increase is $38,568,000 or 7.8% over present base tariff rates in effect.[2] The proposed general increase over present billing rates, including all other rate adjustments (such as DSM and Residential Exchange), is 7.6%. The proposed percentage increase by rate schedule is as follows:

Table No. 2 – Proposed % Electric Increase by Schedule (January 1, 2017)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	8.4%	8.2%
General Service Schedules 11/12	7.0%	6.8%
Large General Service Schedules 21/22	7.5%	7.4%
Extra Large General Service Schedule 25	6.8%	6.7%
Pumping Service Schedules 31/32	8.7%	8.5%
Street & Area Lights Schedules 41-48	10.3%	9.9%
Overall	**7.8%**	**7.6%**

This information is shown with more detail on Page 1 of Exhibit No.___(PDE-4).

[2] The Company proposes to update its power supply costs sixty (60) days prior to new rates going into effect on January 1, 2017, as well as for January 1, 2018.

Q. What information did the Company use to develop the proposed spread of the overall 2017 increase to the various rate schedules?

A. The Company used the results of the electric cost of service study (sponsored by Company witness Ms. Knox) as a guide to spread the general increase. The spread of the proposed increase generally results in the rates of return for the various electric service schedules moving approximately 17.5% closer to the overall rate of return (unity).[3] While we believe it is reasonable and appropriate to use the cost of service study results as the basis for rate spread, we have tempered the amount of movement toward unity proposed in this case due primarily to the impact such movement would have between the rate schedules. The Company may propose additional movement toward unity in future proceedings.

Table No. 3 below shows the relative rates of return before and after application of the proposed general increase:

Table No. 3 - Present & Proposed Relative Rates of Return (Electric)

Rate Schedule	Present Relative ROR	Proposed Relative ROR
Residential Schedule 1	0.55	0.63
General Service Schedules 11/12	1.98	1.81
Large General Service Schedules 21/22	1.49	1.40
Extra Large General Service Schedule 25	1.03	1.03
Pumping Service Schedules 31/32	0.83	0.86
Street & Area Lights Schedules	0.88	0.90
Overall	**1.00**	**1.00**

Q. For <u>January 1, 2018</u>, what is the proposed electric revenue increase, and how is the Company proposing to spread the increases by rate schedule?

A. The six-month revenue increase effective January 1, 2018 is $10,301,000.

[3] The Company is proposing an approximate 17.5% movement towards unity, with a range of 16.5% for Street and Area Lighting Schedules 41-48 to 17.51% for Residential Schedule 1.

After annualizing the six-month revenue requirement up to $20,884,986, for reasons discussed below, the Company used a pro-rata allocation of the Company's 2017 electric rate spread percentages for purposes of spreading the proposed 2018 electric revenue increase to its electric service schedules.

The Company is proposing that from January 1, 2018 through June 30, 2018, the base rate increase would be offset with a portion of the ERM deferral balance. The proposed general increase over billing rates, including all other rate adjustments (such as DSM and Residential Exchange), as well as including the effects of the proposed ERM rebate, is 0.0%. Below is a table showing the effect of the Company's 2018 proposed electric base rate increase as well as the net change in billing rates after incorporating the ERM rebate, by rate schedule:

Table No. 4 – Proposed % Electric Increase by Schedule (January 1, 2018)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedule 1	4.2%	0.0%
General Service Schedules 11/12	3.5%	0.0%
Large General Service Schedules 21/22	3.8%	0.0%
Extra Large General Service Schedule 25	3.5%	0.0%
Pumping Service Schedules 31/32	4.3%	0.0%
Street & Area Lights Schedules 41-48	5.0%	0.0%
Overall	**3.9%**	**0.0%**

Q. What is the Company's proposal as it relates to mitigating the electric base rate increase for the January 1, 2018 through June 30, 2018 time period?

A. The Company is proposing to use funds from the ERM deferral balance to offset the January 1, 2018 base rate increase from January 1, 2018 through June 30, 2018. The Company has filed tariff Schedule 93, "Power Cost Surcharge – Washington", which contains rebate rates designed to offset the base revenue increase. The rebate rates set forth on Schedule 93 match the proposed increase in volumetric base rates effective on January 1, 2018 so that customers within the rate blocks of each schedule, and not just rate schedules in total, will have their base rate increase entirely offset.

Q. Does the Company presently have enough money in the ERM deferral account to offset the January 1, 2018 rate increase?

A. Yes. As of January 31, 2016, the ERM has a rebate deferral balance (due to customers) of $18.0 million. That is approximately $7.7 million more than the $10.3 million January 1, 2018 base rate increase. In addition, based on present snow pack (hydro) conditions, as well as continued low wholesale natural gas and electricity prices, the Company is presently forecasting no deferral accounting entries (surcharge or rebate) for 2016.

Q. Because the base rate increase effective January 1, 2018 is a six-month revenue requirement rather than an annual revenue requirement, how did the Company develop the electric base rates for 2018?

A. The Company needed to design rates that would recover the $10,301,000 rate increase in the first six months of 2018. As shown on Page 2 of Exhibit No.___(PDE-4), the Company annualized the six-month revenue increase of $10,301,000 by dividing it by the percentage of the test year normalized usage that occurred from January through June of the test year. As shown on Page 2 of Exhibit No.___(PDE-4), approximately 49.3% of customer's usage in the test year occurred in the January through June time period. The result of dividing the $10,301,000 six-month base rate increase by 49.3% results in an annualized revenue requirement of $20,884,986. Designing rates using the annualized amount of $20,884,986 will result in the Company recovering $10,301,000 in the January – June 2018 time period. Table No. 5 below provides the annualized revenue requirement for 2018 and the amount, by rate schedule, for the January 2018 through June 2018 time period.

Table No. 5

Rate Schedule	Annualized 2018 Revenue Increase	January - June 2018 Revenue Increase
Residential Schedule 1	$9,600,859	$4,735,385
General Service Schedules 11/12	$2,679,025	$1,321,362
Large General Service Schedules 21/22	$5,257,211	$2,592,988
Extra Large General Service Schedule 25	$2,375,548	$1,171,680
Pumping Service Schedules 31/32	$586,268	$289,162
Street & Area Lights Schedules 41-48	$386,076	$190,422
Overall	**$20,884,986**	**$10,301,000**

Proposed Rate Design

Q. Where in your Exhibit do you show a comparison of the present and proposed rates within each of the Company's electric service schedules?

A. Pages 4 (for 2017) and 5 (for 2018) of Exhibit No.___(PDE-4) show a comparison of the present and proposed rates within each of the schedules, which I will describe below.

Q. Is the Company proposing any changes to the existing rate structures within its rate schedules?

A. No, it is not.

Q. Turning to Residential Service Schedule 1, could you please describe the present rate structure under this schedule?

A. Yes. Residential Schedule 1 has a present customer or basic charge of $8.50 per month and three energy rate blocks: 0-800 kWhs, 801-1,500 kWhs and over 1,500 kWhs. The present base tariff rate for the first 800 kWhs per month is 7.390 cents per kWh, 8.598

cents per kWh for the next 700 kWhs, and 10.080 cents for all kWhs over 1,500.

Q. How does the Company propose to spread the proposed January 1, 2017 revenue increase of $17,730,000 to Schedule 1?

A. The Company is proposing to increase the basic charge from $8.50 to $9.50 per month, and is proposing to increase the energy rate for all three blocks by approximately 8.0 percent.

Q. Why is the Company proposing to increase the monthly customer charge from $8.50 to $9.50 per month?

A. A significant portion of the Company's costs are fixed and do not vary with customer usage. These costs include, among other costs, distribution plant and operating costs to provide reliable service to customers. Total customer allocated costs for Schedule 1, as shown in Knox Exhibit No. __(TLK-3), page 4, line 26, is $15.35 per customer per month. As reflected in this filing, the fixed costs of operating and maintaining our electric system are increasing. The Company believes it is important that rates better reflect these increasing costs to serve customers.

Q. How does the Company propose to spread the proposed January 2018 – June 2018 general revenue increase of $4,735,385 to Schedule 1?

A. The Company is proposing to leave the basic charge unchanged at $9.50 per month and increase the energy rate for all three blocks by approximately 4.7 percent.

Q. For 2017, what is the proposed increase for a residential electric customer with average consumption?

A. The proposed increase for a residential customer using an average of 957 kWhs per month is $6.83 per month, or a 8.2% increase in their electric bill. The present bill for 957 kWhs is $82.79 compared to the proposed level of $89.62, including all rate adjustments.

Q. For <u>2018</u>, what is the proposed increase for a residential electric customer with average consumption?

A. As it relates specifically to the effects of the base rate increase on January 1, 2018, there would be no billing change as the proposed base rate increase would be offset with the ERM rebate.[4]

Q. Turning to General Service Schedules 11/12, would you please describe the present rate structure and rates under that schedule?

A. Yes. The present rate structure under the schedule includes a monthly customer charge of $18.00, an energy rate of 11.293 cents per kWh for all usage up to 3,650 kWhs per month, and an energy rate of 8.298 cents per kWh for usage over 3,650 kWhs per month. There is also a demand charge of $6.00 per kW for all demand in excess of 20 kW per month. There is no charge for the first 20 kW of demand.

Q. How is the Company proposing to apply the proposed <u>January 1, 2017</u> general revenue increase of $4,947,000 to the rates under Schedules 11/12?

A. The Company is proposing that the customer charge be increased by $2.00, from $18.00 to $20.00 per month. In addition, the Company is proposing that the demand charge (over 20 kW) be increased $0.50 per kW, from $6.00 to $6.50. The remaining revenue

[4] In Docket Nos. UE-150204 and UG-150205, the Commission approved a funding plan related to the Company's Low Income Rate Assistance Program ("LIRAP"). The funding plan calls for an annual increase in funding of 7% or twice the percentage increase in residential electric and natural gas base rates, whichever is greater. The Company will file 7% increases to become effective on October 1, 2016 and October 1, 2017. However, should the ultimate base rate increase for Schedule 1 be greater than 3.5% for either the January 1, 2017 or January 1, 2018 rate increases, then an incremental increase in LIRAP funding on January 1, 2017 and January 1, 2018 would be required in to satisfy the "twice the percentage increase" requirement. Therefore, customers could ultimately see a billing change on January 1, 2018 because of the LIRAP funding plan.

increase for the schedule is proposed to be recovered through a uniform percentage increase of approximately 6.5% applied to the two (block) energy rates. The increase in the first block rate is 0.731 cents per kWh, and 0.537 cents per kWh for the second block rate. Finally, the Company is proposing to increase the minimum charge for single phase service from $15.00 to $20.00 per month, and three phase service from $25.35 to $27.35 per month.

Q. Why is the Company proposing a $0.50 or 8.3% increase to the demand charge?

A. The system allocated demand cost from the cost of service study is $21.25 per kilowatt (kW) month[5]. The Company's present monthly demand charge is $6.00/kW or kVA. While the exact level of costs classified as demand-related can be debated, clearly the levels of demand charges will continue to be well below demand-related costs.

In addition, the Company's transmission and distribution system is constructed to meet the collective peak demand of its customers. Further, the Company must have adequate resources available to meet peak demand. If customers reduce their peak demand, it will reduce the need for additional investment in these facilities and resources. Customers need to receive the proper price signal to encourage a reduction in their peak demand, i.e., higher demand charges.

Q. How is the Company proposing to apply the proposed <u>January 2018 – June 2018</u> general revenue increase of $1,321,362 to the rates under Schedules 11/12?

A. The Company is proposing to keep the customer charge at $20.00 per month, and keep the demand charge (over 20 kW) at $6.50/kW. The revenue increase for the schedule is proposed to be recovered through a uniform percentage increase of approximately

[5] Knox Exhibit No. ___(TLK-3), at 3 ln. 28

4.1% applied to the two (block) energy rates.

Q. Turning to Large General Service Schedules 21/22, would you please describe the present rate structure under that schedule and how the Company is proposing to apply the <u>January 1, 2017</u> increase of $9,708,000 to the rates within the schedule?

A. Yes. Large General Service Schedules 21/22 consists of a minimum monthly charge of $500.00 for the first 50 kW or less, a demand charge of $6.00 per kW for monthly demand in excess of 50 kW, and two energy block rates: 7.089 cents per kWh for the first 250,000 kWhs per month, and 6.340 cents per kWh for all usage in excess of 250,000 kWhs.

The Company is proposing that the present minimum demand charge (for the first 50 kW or less) remain unchanged at $500.00 per month. The demand charge for kW over 50 per month would be increased by $0.50 per kW, from $6.00 to $6.50, for the reasons provided previously in my testimony. The remaining revenue increase for the schedule is proposed to be recovered through a uniform percentage increase of approximately 8.3% applied to the two energy block rates. The proposed increase for the first 250,000 kWhs used per month under the schedule is 0.588 cents per kWh, and an increase of 0.526 cents per kWh for usage over 250,000 kWhs per month.

Q. How is the Company proposing to apply the proposed <u>January 2018 – June 2018</u> general revenue increase of $2,592,988 to the rates under Schedules 21/22?

A. The Company is proposing that the minimum demand charge (for the first 50 kW or less) remain unchanged at $500.00 per month, and that the demand charge (over 50 kW) remain at $6.50/kW. The revenue increase for the schedule is proposed to be recovered through a uniform percentage increase of approximately 4.9% applied to the two (block) energy rates.

Q. Turning to Extra Large General Service Schedule 25, would you please describe the present rate structure under that schedule and how the Company is proposing to apply the <u>January 1, 2017</u> increase of $4,387,000 to the rates within the schedule?

A. Yes. Extra Large General Service Schedule 25 consists of a minimum monthly charge of $21,000.00 for the first 3,000 kVa or less, a demand charge of $6.00 per kVa for monthly demand in excess of 3,000 kVa, and three energy block rates: 5.505 cents per kWh for the first 500,000 kWhs per month, 4.953 cents per kWh for the next 5.5 million kWhs and 4.235 cents per kWh for all usage in excess of 6 million kWhs.

The Company is proposing that the present minimum demand charge under the schedule remain at $21,000. The demand charge for kVa over 3,000 per month is proposed to be increased by $0.50 per kVa, from $6.00 to $6.50. The remaining revenue increase for the schedule is proposed to be recovered through a uniform percentage increase of approximately 7.1% applied to the three energy block rates. The proposed energy rate increase for the first 500,000 kWhs used per month is 0.391 cents per kWh, 0.352 cents per kWh for the next 5.5 million, and 0.301 cents per kWh for all usage over 6 million kWhs per month.

Q. How is the Company proposing to apply the proposed <u>January 2018 – June 2018</u> general revenue increase of $1,171,680 to the rates under Schedule 25?

A. The Company is proposing that the present minimum demand charge under the schedule remain at $21,000, and that the demand charge for kVa over 3,000 per month remain at $6.50/kVa. The revenue increase for the schedule is proposed to be recovered through a uniform percentage increase of approximately 4.2% applied to the three energy block rates.

Q. Turning to Pumping Schedules 31/32, would you please describe the present rate structure under that schedule?

A. Yes. Pumping Schedules 31/32 consist of monthly basic charge of $18.00 per month, and three energy block rates: 9.546 cents per kWh for the first 85 kWh per kW of demand, 9.546 cents per kWh for the next 80 kWh per kW of demand (but not more than 3,000 kWhs), and 6.818 cents per kWh for all additional usage.

Q. What changes are you proposing to the rates under Pumping Schedules 31/32 to recover the January 1, 2017 general revenue increase of $1,083,000?

A. The Company is proposing that the customer charge be increased by $2.00, from $18.00 to $20.00 per month, with the remaining revenue increase spread on a uniform percentage increase of 8.6% to the three energy rate blocks under the schedule. The proposed increase in the first and second block rate is 0.816 cents per kWh, and the increase in the third block rate is 0.583 cents per kWh.

Q. How is the Company proposing to apply the proposed January 2018 – June 2018 general revenue increase of $289,162 to the rates under Schedules 31/32?

A. The Company is proposing that the customer charge remain at $20.00 per month, with the revenue increase spread on a uniform percentage increase of 4.5% to the three energy rate blocks under the schedule.

Q. Turning to Street and Area Light schedules 41-48, would you please describe the present rate structure under that schedule?

A. Yes. Street and Area Light Schedules consist of monthly flat rates, based on the type of light, the wattage of the light, and the type of structure the light is attached to.

Q. How is the Company proposing to spread the January 1, 2017 revenue increase of $713,000 applicable to Street and Area Light schedules to the rates contained in those schedules (Schedules 41-48)?

A. The Company proposes to increase present street and area light (base) rates on a uniform percentage basis. The proposed increase for all lighting rates is 10.3%. The (base tariff) rates are shown in the tariffs for those schedules, contained in Exhibit No.___(PDE-3).

Q. How is the Company proposing to spread the January 2018 – June 2018 general revenue increase of $190,422 applicable to Street and Area Light schedules to the rates contained in those schedules (Schedules 41-48)?

A. The Company proposes to increase present street and area light (base) rates on a uniform percentage basis. The proposed increase for all lighting rates is 5.0%. The (base tariff) rates are shown in the tariffs for those schedules, contained in Exhibit No.___(PDE-3).

Q. Is the Company proposing any other changes to its Street and Area Light schedules?

A. Yes. For Schedule 42 (Company-owned street lights) and Schedule 47 (Area Lighting), the Company is proposing that High Pressure Sodium Vapor ("HPS") lights no longer be made available for new installations. As discussed by Company witness Ms. Rosentrater, the Company is currently converting its Company-owned street and area lights from HPS to LED technology over a five-year period. With a change in the Company's standards to only support LED street and area light technology, Avista is proposing to remove HPS as an option for new customer installations.[6]

[6] There may be circumstances where an existing customer (an existing street/area light) requires a HPS light and cannot support an LED light. In those circumstances the customer would continue to receive HPS service under Schedule 42 or 47.

III. PROPOSED NATURAL GAS REVENUE CHANGES

Summary of Natural Gas Rate Schedules and Tariffs

Q. Would you please explain what is contained in Exhibit No.___(PDE-5)?

A. Yes. Exhibit No.___(PDE-5) contains a copy of the Company's present natural gas tariffs presently on file with the Commission.

Q. Please describe what is contained in Exhibit No.___(PDE-6)?

A. Exhibit No.___(PDE-6) contains the proposed natural gas tariff sheets for January 1, 2017 and January 1, 2018 which incorporate the proposed changes included in this filing.

Q. Please explain what is contained in Exhibit No.___(PDE-7)?

A. Exhibit No.___(PDE-7) contains information regarding the proposed spread of the natural gas revenue increase among the service schedules and the proposed changes to the rates within the schedules. Page 1 shows the proposed revenue and percentage increase by rate schedule for the January 1, 2017 and January 1, 2018 rate changes. As I will discuss later in my testimony, in order to develop rates that would allow the Company to recover the six-month revenue requirement, the Company annualized the 2018 revenue increase. Therefore, in my exhibits, any reference to a 2018 revenue or percentage figure is on an "annualized" basis.

Page 2 shows how the Company annualized the 2018 six-month natural gas rate increase of $941,000, for purposes of developing base rates.[7] Page 3 shows the rates of return and the relative rates of return for each of the schedules before and after the proposed January 1, 2017 increase. Pages 4 and 5 shows the present rates under each of the rate schedules, the

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[7] The annualized revenue requirement of $1,677,000 produce rates which are designed to provide base rate revenue of $941,000 in the January – June 2018 time period.

proposed changes to the rates within the schedules, and the proposed rates after application of the January 1, 2017 and January 1, 2018 rate changes. These pages will be referred to later in my testimony.

Q. Would you please review the Company's present rate schedules and the types of natural gas service offered under each?

A. Yes. The Company's present Schedules 101, 111 and 121 offer firm sales service. Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. Schedule 111 is generally for customers who consistently use over 200 therms/month, and Schedule 121 is generally for customers who use over 10,000 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales service to customers whose annual requirements exceed 250,000 therms. Schedule 146 provides transportation/distribution service for customer-owned natural gas for customers whose annual requirements exceed 250,000 therms. Schedule 148 is a banded-rate transportation tariff that allows for a negotiated service rate with large customers that have an economic alternative to taking natural gas distribution service from the Company.

Q. Would you please explain which customers are eligible for service under Schedules 112, 122 and 132?

A. Yes. Schedules 112, 122 and 132 are in place to provide service to customers, who, at one time, were provided natural gas service under Transportation Service Schedule 146. The rates under these schedules are the same as those under Schedules 111, 121 and 131 respectively, except for the application of Temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a temporary rate adjustment used to amortize the deferred natural gas costs approved by the Commission in the prior PGA. Because of their size, transportation service customers are analyzed individually to determine their appropriate share of deferred natural gas costs. The Company continues to analyze those customers to make sure that if those customers switch back to sales service, those customers would not receive natural gas costs deferrals which are not due them.

Q. How many Washington customers does the Company serve under each of its natural gas rate schedules?

A. As of September 2015, the Company provided service to the following number of Washington customers under each of its schedules:

Table No. 6 – Natural Gas Customers by Service Schedule

Rate Schedule	No. of Customers
General Service Schedule 101	150,640
Large General Service Schedules 111/112	2,617
Ex. Lg. General Service Schedules 121/122	27
Interruptible Sales Service Schedules 131/132	2
Transportation Service Schedule 146/148	43

Proposed Rate Spread

Q. For January 1, 2017, what is the proposed natural gas revenue increase, and how is the Company proposing to spread the increases by rate schedule?

A. For 2017, the proposed base revenue increase is $4,397,000, or 5.0%, in base margin[8] revenue. On a billed revenue basis, the increase is 2.8%. Provided below is a table showing the effect of the Company's proposed natural gas increase by rate schedule:

[8] Base margin revenue refers to the base revenue associated with the Company's ownership and operation of its natural gas distribution operations. It is the revenue related to delivering natural gas to customers, and does not include the cost of natural gas, upstream third-party owned transportation, or the effect of other tariffs.

Table No. 7 - Proposed % Natural Gas Increase by Schedule (January 1, 2017)

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedule 101	6.2%	3.6%
Large General Service Schedules 111/112	0.0%	0.0%
Ex. Lg. General Service Schedules 121/122	0.0%	0.0%
Interrupt. Sales Service Schedules 131/132	2.8%	1.0%
Transportation Service Schedule 146	7.9%	7.8%
Overall	**5.0%**	**2.8%**

Q. Is the proposed billing percentage increase for Transportation Schedule 146 comparable to the increase for the other service schedules?

A. No. The proposed billing percentage increase for Transportation Schedule 146 is not comparable to the proposed increases for the other (sales) service schedules, as Schedule 146 revenue does not include an amount for the cost of natural gas or upstream pipeline transportation (unlike the other service schedules). Transportation customers acquire their own natural gas and pipeline transportation. Including an estimate of 35.0 cents per therm for the cost of natural gas and upstream pipeline transportation, the proposed increase to Schedule 146 rates represents an average increase of approximately 1.7% (2017) and 0.7% (2018) in those customers' total natural gas bill.

Q. What information did the Company use to develop the proposed spread of the overall 2017 increase to the various rate schedules?

A. The Company used the results of the cost of service study (sponsored by Company witness Mr. Miller) as a guide to spread the natural gas general increase. The spread of the proposed increase generally results in the rates of return for the various service schedules moving approximately one-quarter closer to the overall rate of return (unity). The relative rates of return before and after application of the proposed 2017 increase by schedule are as follows:

Table No. 8 – Present and Proposed Relative Rates of Return

Rate Schedule	Present Relative ROR	Proposed Relative ROR
General Service Schedule 101	0.84	0.88
Large General Service Schedules 111/112	1.80	1.60
Ex. Lg. General Service Schedules 121/122	1.70	1.51
Interruptible Sales Service Schedules 131/132	1.37	1.28
Transportation Service Schedule 146	0.82	0.86
Overall	**1.00**	**1.00**

Q. For January 1, 2018, what is the proposed natural gas revenue increase, and how is the Company proposing to spread the increases by rate schedule?

A. The six-month revenue increase effective January 1, 2018 is $941,000. After annualizing the six-month revenue requirement to $1,677,000, for reasons discussed below, the Company used a pro-rata allocation of the Company's 2017 natural gas rate spread percentages for purposes of spreading the proposed 2018 natural gas revenue increase to its natural gas service schedules. Below is a table showing the effect of the Company's 2018 proposed natural gas increase by rate schedule:

Table No. 9 – Proposed % Natural Gas Increase by Schedule – January 1, 2018

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedule 101	2.2%	1.3%
Large General Service Schedules 111/112	0.0%	0.0%
Ex. Lg. General Service Schedules 121/122	0.0%	0.0%
Interrupt. Sales Service Schedules 131/132	1.1%	0.4%
Transportation Service Schedule 146	2.8%	2.8%
Overall	**1.8%**	**1.0%**

Q. Because the base rate increase effective January 1, 2018 is a six-month

revenue requirement rather than an annual revenue requirement, how did the Company develop the natural gas base rates for 2018?

A. The Company needed to design rates that would recover the $941,000 rate increase in the first six months of 2018. As shown on Page 2 of Exhibit No.___(PDE-7), the Company annualized the six-month revenue increase of $941,000 by dividing it by the percentage of normalized test year usage that occurred from January through June of the test year. As shown on Page 2 of Exhibit No.___(PDE-7), approximately 56.1% of customer's usage in the test year occurred in the January through June time period. The result of dividing the $941,000 six-month base rate increase by 56.1% results in an annualized revenue requirement of $1,676,644. Designing rates using the annualized amount of $1,676,644 will result in the Company recovering $941,000 in the January – June 2018 time period. Table No. 10 below provides the annualized revenue requirement for 2018 and the amount, by rate schedule, for the January 2018 through June 2018 time period.

<u>Table No. 10</u>

Rate Schedule	Annualized 2018 Revenue Increase	January - June 2018 Revenue Increase
General Service Schedule 101	$1,588,942	$891,777
Large General Service Schedules 111/112	$0	$0
Ex. Lg. General Service Schedules 121/122	$0	$0
Interruptible Sales Service Schedules 131/132	$2,288	$1,284
Transportation Service Schedule 146	$85,415	$47,938
Overall	**$1,676,644**	**$941,000**

Proposed Rate Design

Q. Would you please explain the present rate design within each of the Company's present natural gas service schedules?

A. Yes. General Service Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. The schedule contains two energy rate blocks (0-70 therms, and over 70 therms), and a monthly customer/basic charge.

Large General Service Schedules 111/112 has a three-tier declining-block rate structure and is generally for customers who consistently use over 200 therms/month. The schedule consists of a monthly minimum charge plus a usage charge for the first 200 therms or less, and block rates for 201-1,000 therms/month and over 1,000 therms/month.

Extra Large General Service Schedules 121/122 has a five-tier declining-block rate structure with a monthly minimum charge plus a usage charge for the first 500 therms or less, and block rates for the next 500 therms, the next 9,000 therms, the next 15,000 therms, and usage over 25,000 therms/month. There is also an annual minimum requirement of 60,000 therms under the schedule and a minimum load factor requirement of approximately 58%.

Interruptible Sales Service Schedules 131/132 has a four-tier declining-block rate structure for the first 10,000 therms, the next 15,000 therms, the next 25,000 therms, and usage over 50,000 therms per month. The schedule also has an annual minimum deficiency charge based on a usage requirement of 250,000 therms per year.

Transportation Service Schedule 146 contains a monthly customer charge and a five-tier declining-block rate structure for the first 20,000 therms, the next 30,000 therms, the next 250,000 therms, the next 200,000 therms, and usage over 500,000 therms per month. The schedule also has an annual minimum deficiency charge based on a usage requirement of

250,000 therms per year.

Q. Is the Company proposing any changes to the present rate structures contained in its natural gas service schedules?

A. No, it is not.

Q. Where in your Exhibits do you show the present and proposed rates for the Company's natural gas service schedules?

A. Pages 4 and 5 of Exhibit No.___(PDE-7) shows the present and proposed rates under each of the rate schedules, including all present rate adjustments (adders) for the 2017 and 2018 rate changes. Column (e) on those pages show the proposed changes to the rates contained in each of the schedules.

Q. How does the Company propose to spread Schedule 101's proposed <u>January 1, 2017</u> general revenue increase of $4,167,000 to the rates within that schedule?

A. The Company proposes to increase the monthly basic/customer charge from $9.00 to $9.50 per month. As shown in column (e), page 4 of Exhibit No.___(PDE-7), Avista has proposed to increase the per therm rate for the two volumetric blocks on a uniform percentage basis. The first block (0-70 therms) would increase from $0.38685 to $0.41156, and the second block (over 70 therms) would increase from $0.50279 per therm to $0.53491 per therm.

Q. How does the Company propose to spread Schedule 101's proposed <u>January 2018 – June 2018</u> general revenue increase of $891,777 to the rates within that schedule?

A. The Company proposes to keep the monthly basic/customer charge at $9.50 per month. As shown in column (e), page 5 of Exhibit No.___(PDE-7), Avista has proposed to increase the per therm rate for the two volumetric blocks on a uniform percentage basis. The first block (0-70 therms) would increase from $0.41156 to $0.42359, and the second block (over 70 therms) would increase from $0.53491 per therm to $0.55055 per therm.

Q. For 2017, what would be the increase in a residential customer's bill with average usage based on the proposed increase for Schedule 101?

A. For 2017, the increase for a residential customer using an average of 66 therms of natural gas per month would be $2.13 per month, or 3.5%. A bill for 66 therms per month would increase from the present level of $61.37 to a proposed level of $63.50.

Q. For 2018, what would be the annualized increase in a residential customer's bill with average usage based on the proposed increase for Schedule 101?

A. For 2018, the increase for a residential customer using an average of 66 therms of natural gas per month would be $0.79 per month, or 1.2%. A bill for 66 therms per month would increase from the present level of $63.50 to a proposed level of $64.29.

Q. Please explain the proposed changes in the rates for Large and Extra Large General Service Schedules 111/112.

A. The present rates for Schedules 101, 111/112, and 121/122 provide a clear distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedule 101, customers who use between 200 and 10,000 therms per month should be placed on Schedules 111/112, and only those customers who generally use over 10,000 therms per month should be placed on Schedules 121/122. Not only do the rates provide guidance for customer schedule placement, they provide a reasonable classification of customers for analyzing the costs of providing service. The Company's proposed rates for Schedules 111/112 and 121/122 will maintain the rate structure within the schedules and continue to provide guidance for appropriate schedule placement for customers and a reasonable classification for cost analysis.

The proposed 2017 minimum charge of $107.85 per month for Schedules 111/112 (for 200 therms or less) maintains the present relationship between the Schedule 101 and 111/112, and will minimize customer shifting between rate schedules.[9] However, the Company did not request an overall base revenue increase for Schedule 111. Therefore, to offset the increase in revenue resulting from the increase in the monthly minimum charge, the remaining two rate blocks under the schedule were reduced by 1.7%, resulting in no base revenue change for the schedule.

The proposed 2018 increase to the minimum charge for Schedule 111 (for 200 therms or less) is $2.87 per month, to $110.72. Like what was done for 2017, the remaining two rate blocks under the schedule were reduced by 0.8%, resulting in no base revenue change for the schedule.

Q. Please explain the proposed changes in the rates for Large and Extra Large General Service Schedules 121/122.

A. For Schedules 121/122, in order to maintain the present relationship between the schedules, the 2017 minimum monthly charge is proposed to be $268.32 per month. The minimum charge is derived by adding the proposed Schedule 101 basic charge of $9.50 to the product of 500 therms multiplied by the proposed Schedule 101 base rates. As was the case for Schedule 111, the Company did not request an overall base revenue increase for Schedule

[9] The calculation of the minimum charge for Schedule 111 is equal to the total bill for 200 therms priced at Schedule 101 base rates.

121. Therefore, to offset the increase in revenue resulting from the increase in the monthly minimum charge, the remaining four rate blocks under the schedule were reduced by 0.4%, resulting in no base revenue change for the schedule.

For 2018, the proposed minimum monthly charge is $275.89 per month. As was the case for 2017, the Company did not request an overall base revenue increase for Schedule 121. Therefore, to offset the increase in revenue resulting from the increase in the monthly minimum charge, the remaining four rate blocks under the schedule were reduced by 0.2%, resulting in no base revenue change for the schedule.

Q. How is the Company proposing to spread the proposed <u>January 1, 2017</u> increase of $6,000 to the rates under Interruptible Schedule 131/132?

A. The Company proposes to increase the first three block rates under the schedule by a uniform percentage increase of approximately 3.1%. The Company is not proposing to change the fourth block on Schedules 131/132 in order to provide for a more meaningful spread between the blocks.

Q. How is the Company proposing to spread the proposed <u>January 2018 – June 2018</u> general revenue increase $1,284 to the rates under Interruptible Schedule 131/132?

A. The Company proposes to increase the first three block rates under the schedule by a uniform percentage increase of approximately 1.2%, and leave the fourth block unchanged.

Q. Please explain the <u>January 1, 2017</u> proposed changes in the rates for Transportation Schedule 146.

A. For 2017, the Company is proposing to adjust the basic charge by $25 per month, which is an increase from $525 to $550 per month. For the remaining revenue requirement, the Company is proposing to spread the increase on a uniform percentage basis of approximately 8.2% to each of the present five block rates under the schedule.

Q. Please explain the January 2018 – June 2018 proposed changes in the rates for Transportation Schedule 146.

A. The Company is proposing, for 2018, to keep the basic charge at $550 per month. The revenue increase would be spread on a uniform percentage basis of approximately 3.0% to each of the present five block rates under the schedule.

Q. Is the Company proposing any other changes to its natural gas service schedules?

A. No, it is not.

Q. Does this conclude your pre-filed, direct testimony?

A. Yes it does.