

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-110876

DOCKET UG-110877

JOINT DIRECT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)
THOMAS E. SCHOOLEY (STAFF)
DONALD W. SCHOENBECK (ICNU/NWIGU)
LEA DAESCHEL (PUBLIC COUNSEL)
CHARLES M. EBERDT (ENERGY PROJECT)

IN SUPPORT OF
THE SETTLEMENT STIPULATION

I. INTRODUCTION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Q. Please state your names, titles, and the party you represent in this matter.

- A. Our names, titles, and representation are as follows:
- Kelly O. Norwood, Vice-President of State and Federal Regulation, Avista
 - Thomas E. Schooley, Interim Assisting Director, WUTC Staff
 - Donald W. Schoenbeck, Regulatory & Cogeneration Services, Inc., representing Industrial Customers of Northwest Utilities (ICNU) and Northwest Industrial Gas Users (NWIGU)
 - Lea Daeschel, Regulatory Analyst, Public Counsel Section of the Washington Office of Attorney General
 - Charles M. Eberdt, Director, The Energy Project

Q. Are you sponsoring joint testimony in support of the Settlement Stipulation filed with this Commission on September 30, 2011?

A. Yes. This joint testimony of the Settling Parties (identified above) recommends approval of the Settlement Stipulation by the Commission. The Settlement Stipulation represents a compromise among differing points of view. Concessions were made by the Settling Parties to reach a reasonable balancing of interests. Only the Northwest Energy Coalition did not join in the Settlement, but they do not oppose it or its implementation on January 1, 2012. As will be explained in the following testimony, the Settlement Stipulation received significant scrutiny and is supported by sound analysis and sufficient evidence. Its approval is in the public interest. The Settlement Stipulation has been marked as Exhibit ____.

Q. What is the scope of your testimony?

A. This Joint Testimony addresses Avista's general rate case filings in these dockets and the scope of the Settlement and its principal aspects. It also includes a

1 statement of the Settling Parties' views about why the Settlement satisfies their interests
2 and the public interest, as well as any legal points that bear on the proposed Settlement.

3 **Q. Would you briefly summarize the Settlement Stipulation?**

4 A. Yes. As part of the Settlement Stipulation, Avista's annual electric
5 revenues would increase by \$20.0 million, representing an \$18.3 million reduction from
6 the Company's original request of \$38.3 million. Avista also agreed to an annual natural
7 gas revenue increase of \$3.75 million; a \$2.45 million reduction from Avista's original
8 request of \$6.2 million. New rates would become effective January 1, 2012.

9 The overall increase in base electric rates would be 4.6 percent under the
10 Settlement, down 4.5 percent from Avista's original request to increase base electric rates
11 by 9.1 percent. Natural gas rates would increase overall by 2.4 percent with the
12 Settlement, down 1.6 percent from Avista's original request to increase base natural gas
13 rates by 4.0 percent.

14 The Settlement Stipulation calls for an overall rate of return of 7.62 percent for
15 purposes of booking "Allowance For Funds Used During Construction" (AFUDC) and as
16 necessary for compliance filings. The Settling Parties have explicitly not agreed on the
17 specific capital structure ratios or the cost of capital components.

18 The Settlement Stipulation also describes certain items reflected in the revenue
19 requirement agreed to by the Settling Parties, including removal of the electric energy
20 efficiency load adjustment, reduction of proposed electric vegetation management expenses
21 to test period levels, reduction to overall administrative and general expenses by an agreed-
22 upon amount for both electric and natural gas, and changes in accounting treatment for two
23 transmission-related revenue and expense items.

1 Also, as part of the Settlement Stipulation, the Settling Parties agreed to adjust the
2 LIRAP portion of the tariff riders (Schedules 91 and 191) to provide an increase in annual
3 funding of \$370,000 to direct low-income energy bill (rate) assistance. In addition,
4 \$180,000 of existing annual funding currently allocated to Conservation Education would
5 be reallocated on an annual basis to direct low-income energy bill (rate) assistance. The
6 result of the increase in new funding and reallocation of existing funding is an overall
7 increase of \$550,000 in direct energy bill (rate) assistance.

8 Later in our testimony, we discuss in more detail the elements of the Settlement
9 Stipulation, specifically, the items reflected in the revenue requirement, deferred
10 accounting for maintenance costs of Colstrip and Coyote Springs 2, and rate spread/rate
11 design.

12 **Q. Who are the signatories to the Settlement Stipulation?**

13 A. The Settlement Stipulation, filed September 30, 2011, was signed by Avista,
14 the WUTC Staff, the Industrial Customers of Northwest Utilities, the Northwest Industrial
15 Gas Users, the Public Counsel Section of the Washington Office of Attorney General, and
16 the Energy Project. The only remaining party is the NW Energy Coalition (the
17 “Coalition”), who wishes to pursue the issue of electric decoupling in Docket UE-110876
18 through further litigation, but do not otherwise oppose the remaining terms of this
19 Settlement Stipulation. The Coalition’s position is set forth in its October 3, 2011
20 “Response to Request for Prehearing Conference” at page 2:

21 Fourth, NWECC’s testimony on these issues will be provided by Mr.
22 Ralph Cavanagh of the Natural Resources Defense Council and will
23 explain that a full decoupling mechanism can be adopted for electricity
24 rates in this matter without altering the particular terms of the partial
25 settlement the other parties to these proceedings have proposed. NWECC’s

1 testimony and the resolution of the decoupling issue it will propose also
2 should not delay the January 1, 2012, date to which the other parties have
3 agreed as an effective date for the new rates described in the partial
4 settlement. In fact, NWECC's testimony proposing a full decoupling
5 mechanism for electricity rates will incorporate and rely on the terms of
6 the proposed settlement. Thus, even if the decoupling issue itself is not
7 fully resolved by January 1, 2012, allowing the proposed new rates to take
8 effect will not affect resolution of the decoupling issue.
9

10 **Q. What is the proposed effective date of the Settlement?**

11 A. The Settling Parties have requested implementation of the Settlement
12 Stipulation on January 1, 2012. This proposed effective date is an "integral" part of the
13 Settlement and was one of the trade-offs among the concessions made on a variety of
14 issues by the Settling Parties.

15 **Q. What was agreed to regarding to the next general rate case that Avista**
16 **will file?**

17 A. The Company will not file a general rate case in the Washington jurisdiction
18 before April 1, 2012.

19 **II. QUALIFICATIONS OF WITNESSES**

20 **Q. Mr. Norwood, please provide information pertaining to your**
21 **educational background and professional experience.**

22 A. My name is Kelly O. Norwood. I am employed by Avista Utilities as the
23 Vice-President of State & Federal Regulation. I am a graduate of Eastern Washington
24 University with a Bachelor of Arts Degree in Business Administration, majoring in
25 Accounting. I joined the Company in June of 1981. Over the past 30 years, I have spent
26 approximately 19 years in the Rates Department with involvement in cost of service, rate
27 design, revenue requirements and other aspects of ratemaking. I spent approximately 11

1 years in the Energy Resources Department (power supply and natural gas supply) in a
2 variety of roles, with involvement in resource planning, system operations, resource
3 analysis, negotiation of power contracts, and risk management. I was appointed Vice-
4 President of State & Federal Regulation in March 2002.

5 **Q. Mr. Schooley, please provide information pertaining to your**
6 **educational background and professional experience.**

7 A. My name is Thomas E. Schooley. I am employed by the Washington
8 Utilities and Transportation Commission (“UTC”, or “Commission”) as Acting Assistant
9 Director.

10 I have been employed by the Washington Utilities and Transportation Commission
11 (“the Commission”) since 1991. I received a Bachelor of Science degree from Central
12 Washington University in 1986. I met the requirements for a double major in Accounting
13 and Business Administration-Finance. I also have a Bachelor of Science degree in geology
14 from the University of Michigan. I passed the Certified Public Accountant exam in May
15 1989. Since joining the Commission, I have attended several regulatory accounting
16 courses, including the summer session of the Institute of Public Utilities.

17 I testified in Docket UE-960195 involving the merger between Washington Natural
18 Gas Company and Puget Sound Power & Light Company. I was the lead Staff analyst in
19 several applications for accounting treatment, including Puget Sound Energy, Inc.
20 (“Puget”) Dockets UE-971619 and UE-991918. I testified in the Avista general rate case,
21 Docket UE-991606, and Avista’s energy recovery mechanism, Dockets UE-000972, UE-
22 010395, UE-011595, and UE-030751. I also assisted in the development of Staff

1 testimony in Puget’s “PRAM 2” case, Docket UE-920630, and I presented the Staff
2 recommendation on environmental remediation in Puget Docket UE-911476.

3 I analyzed PacificCorp’s proposed accounting treatment of Clean Air Act
4 allowances in Docket UE-940947, and participated in meetings of PacificCorp’s inter-
5 jurisdictional task force on allocations. I testified in Puget’s power cost only rate case,
6 Docket UE-031725, and in PacificCorp’s general rate cases, Dockets UE-032065, UE-
7 050684, UE-061546, et al.

8 I have prepared detailed statistical studies for use by Commissioners and other
9 Commission employees, and have interpreted utility company reports to determine
10 compliance with Commission regulations.

11

12 **Q. Mr. Schoenbeck, please provide information pertaining to your**
13 **educational background and professional experience.**

14 A. My name is Donald W. Schoenbeck. I am a consultant in the field of public
15 utility regulation and I am a member of Regulatory & Cogeneration Services, Inc. (“RCS”).
16 I have a Bachelor of Science Degree in Electrical Engineering from the University of
17 Kansas, a Master of Science Degree in Engineering Management from the University of
18 Missouri and I have completed all the course work toward a Master of Science Degree in
19 Nuclear Engineering.

20 From June of 1972 until June of 1980, I was employed by Union Electric Company
21 in the Transmission and Distribution, Rates, and Corporate Planning functions. In the
22 Transmission and Distribution function, I had various areas of responsibility, including
23 load management, budget proposals and special studies. While in the Rates function, I

1 worked on rate design studies, filings, and exhibits for several regulatory jurisdictions. In
2 Corporate Planning, I was responsible for the development and maintenance of computer
3 models used to simulate the Company's financial and economic operations.

4 In June of 1980, I joined the national consulting firm of Drazen-Brubaker &
5 Associates, Inc. Since that time, I have participated in the analysis of various utilities for
6 power cost forecasts, avoided cost pricing, contract negotiations for gas and electric
7 services, siting and licensing proceedings, and rate case purposes including revenue
8 requirement determination, class cost-of-service, and rate design.

9 In April 1988, I formed RCS. RCS provides consulting services in the field of
10 public utility regulation to many clients, including large industrial and institutional
11 customers. We also assist in the negotiation of contracts for utility services for large users.
12 In general, we are engaged in regulatory consulting, rate work, feasibility, economic and
13 cost-of-service studies, design of rates for utility service, and contract negotiations.

14 I will be testifying on behalf of both NWIGU and ICNU in this proceeding.

15 **Q. Ms. Daeschel, please provide information pertaining to your**
16 **educational background and professional experience.**

17 A. My name is Lea Daeschel and my business address is 800 Fifth Avenue,
18 Suite 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the
19 Public Counsel Section of the Washington Attorney General's Office.

20 I received a B.A. in International Studies from the University of Oregon in 2006. In
21 2008, I received a Masters in Public Administration from Portland State University. Since
22 joining Public Counsel in August 2008, I have worked on a wide range of energy issues,
23 including review and evaluation of utility conservation programs, decoupling mechanisms,

1 service quality, low-income rate assistance programs, renewable energy credits, integrated
2 resource planning, and other analyses of electric and natural gas general rate case and tariff
3 filings before the Commission. In addition, I have presented before this Commission at
4 Open Meetings on various issues, and testified as part of the settlement panel in Avista's
5 2010 general rate case, Docket Nos. UE-100467 and UG-100468.

6 **Q. Mr. Eberdt, please provide information pertaining to your educational**
7 **background and professional experience.**

8 A. My name is Charles M. Eberdt. I am the Director for The Energy Project,
9 which represents low-income customers and Community Action Agencies in energy
10 matters before the Commission and other state agencies. I have an M.A.T. from Harvard
11 University. Since 1993, I have been working with all agencies that provide energy
12 assistance and energy efficiency services to low-income households in Washington. Prior
13 to that I supervised training on energy efficient construction for building code officials and
14 builders for the Washington State Energy Office and provided other public education on
15 energy efficiency. I am a Board member of the National Center for Appropriate
16 Technology and A World Institute for a Sustainable Humanity (A.W.I.S.H.). I have
17 participated in several proceedings before this Commission over the last 18 years.

18 **III. SETTLEMENT PROCESS**

19 **Q. Would you please describe the process that led to the filing of the**
20 **Settlement Stipulation?**

21 A. Yes. Representatives of all parties participated in Settlement Conferences
22 held on September 22 and 23, 2011, which were held for the purpose of narrowing the
23 contested issues in this proceeding.

1 Extensive discussions occurred on many components of the Company’s filing, such
2 as the cost of capital, rate base and various expense items. The parties engaged in the
3 “give-and-take” that characterizes settlement discussions and attempted to arrive at a
4 reasonable balance of differing interests. Each of the Settling Parties ultimately agreed to
5 concessions on matters which would not have been agreed to if each of the Settling Parties
6 were to proceed to evidentiary hearings.

7 Significant discovery occurred in the four months leading to the Settlement
8 Conference. The Company responded to over 870 data requests and provided the responses
9 to all parties.

10 **IV. REVENUE REQUIREMENT**

11 **Q. Please explain the derivation of the Electric and Natural Gas Revenue**
12 **Requirements outlined in the Settlement Stipulation.**

13 A. After extensive discussions, the Settling Parties agreed that Avista will
14 reduce its revenue increase request to reflect a \$20.0 million electric revenue increase.
15 While Avista’s filing requested an electric revenue increase of \$38.3 million, the agreed
16 upon revenue requirement reduces this amount by approximately \$18.3 million. Similarly,
17 while the Company requested a natural gas revenue increase of \$6.2 million, the agreed-
18 upon revenue requirement reduces this amount by \$2.45 million, resulting in a
19 recommended natural gas revenue increase of \$3.75 million.

20 **Q. How do the “Specific Items Reflected in Revenue Requirement”**
21 **described in paragraph 6 of the Settlement Agreement relate to the overall revenue**
22 **requirement?**

1 A. While certain adjustments were specifically addressed in the Settlement,
2 they are being accepted only as part of a comprehensive Settlement Stipulation that
3 resolves all issues associated with the Company’s original filing. As such, they should be
4 viewed in the broader context of the total Settlement Stipulation.

5 **Q. Please explain the Settling Parties’ agreement in regards to the Rate of**
6 **Return.**

7 A. For settlement purposes, and until the Commission establishes another figure
8 for Rate of Return, the Settling Parties have agreed that Avista will use a Rate of Return of
9 7.62% for purposes of booking “Allowance For Funds Used During Construction”
10 (AFUDC)¹ and as necessary for compliance filings. The Settling Parties have explicitly
11 not agreed on the specific capital structure ratios or the cost of capital components.

12 **Q. Please describe the matters discussed in paragraph 6 of the Settlement,**
13 **identified as “Specific Items Reflected in Revenue Requirement.”**

14 A. The specific items reflected in the revenue requirement are as follows:

15 a.) Removal of Electric Energy Efficiency Load Adjustment (EELA): In its
16 original filing, the Company proposed an Energy Efficiency Load Adjustment (EELA)
17 which restated weather-normalized test year loads of the Company's retail electric
18 customers to reflect the Company’s measurement of the impact of programmatic electric
19 energy efficiency efforts. The Settling Parties did not agree to the EELA, and it was
20 removed from the revenue requirement, and the billing determinants were adjusted to
21 remove the EELA, in this Settlement Stipulation.

¹ Consideration of any ROE adjustment related to decoupling would be at issue with any decoupling proposal.

1 b.) Vegetation Management Expenses: This adjustment reflects a decrease to
2 the Company's filed pro forma electric vegetation management expense to reflect test
3 period electric distribution and transmission vegetation management expenses of \$3.908
4 million. The Company is currently required, effective for calendar year 2011 per
5 Commission Order 07 in Docket UE-100467, to spend a minimum of \$4.025 million
6 annually for electric distribution and transmission vegetation management expenses.
7 Avista reports its vegetation management expenses to the Commission annually within the
8 Company's Commission Basis Report, and maintains a one-way balancing account to track
9 any funds under-spent (below the \$4.025 million for 2011). In the event there are unspent
10 funds for vegetation management in any given year, those unspent funds will be accounted
11 for and spent in the subsequent year or credited back to customers. This adjustment also
12 decreases the required minimum annual spend level of \$4.025 million to \$3.908 million,
13 effective January 1, 2012.

14 c.) Administrative and General Expenses: The Settling Parties have agreed to
15 an overall proforma adjustment to the proposed test period Administrative and General
16 Expenses of \$1.235 million (electric) and \$138,000 (natural gas). The costs addressed by
17 this adjustment include and/or are related to:

- 18 a) Allocation of executive labor costs to non-utility operations related to
19 actual executive time spent on such
- 20 b) Level of executive incentive compensation, and costs associated with
21 administration of the supplemental executive retirement plan ("SERP")
- 22 c) Costs of non-utility related company airplane flights
- 23 d) Costs associated with the accounting audit, training, and reporting
24 required by the Commission's Final Order in UE-100467 and UG-
25 100468
- 26 e) Extrapolation of certain A&G error rates identified through Avista's
27 internal accounting audit
- 28 f) Incorrectly-booked A&G expenses identified during discovery in this

- 1 case
- 2 g) Various costs associated with lobbying and legislative activities
- 3 h) Costs associated with promotional advertising, marketing, and corporate
- 4 imaging
- 5 i) Various meal, entertainment, and meeting expenses
- 6 j) “Wattson” campaign costs booked to general rate accounts
- 7 k) Various expenses with dual shareholder/ratepayer benefits
- 8 l) Certain expenses associated with Board of Directors’ meetings
- 9 m) Charitable donations

10

11 The Company and the other Settling Parties reserve the right to address the appropriateness

12 of expenses set forth above in any future proceeding, except where recovery is prohibited

13 by law.

14

d.) BPA Parallel Operation Agreement: This adjustment increases transmission

15 revenues to reflect a settlement agreement between the Company and the Bonneville Power

16 Administration (BPA). In 2010, the Company reached agreement with the BPA regarding

17 BPA’s use of the Avista transmission system in prior years to support the integration of

18 wind in southeastern Washington. The agreement included a one-time settlement amount

19 of \$1,177,000 (system), which was recorded in 2010 operating revenues. In its direct filed

20 case the Company removed this revenue from its pro forma transmission revenues. This

21 adjustment (in the Settlement Stipulation) increases transmission revenues by \$256,000² to

22 reflect the first year (2012) of a three-year amortization of the Washington portion

23 (\$767,000) for ratemaking purposes of the revenue received through this agreement with

24 BPA.

25

e.) Transmission Line Ratings Confirmation Plan: This adjustment amortizes

26 the Transmission Line Ratings Confirmation Plan (“TLRC Plan”) expenses over a three-

² See Appendix 1 of the Settlement Agreement, which reflects this amount spread monthly over a one-year period.

1 year period beginning January 1, 2012. The Avista TLRC Plan is a three-year program
2 designed to address compliance with certain North American Electric Reliability
3 Corporation (“NERC”) standards. The overall cost of the three-year plan (beginning in late
4 2011) is expected to be approximately \$2,945,000 System (the Washington portion is
5 approximately \$1,919,000). The total Washington portion of the plan will be deferred,
6 with deferred costs being amortized over a three-year period beginning January 1, 2012, or
7 approximately \$640,000 annually³, with no carrying charge on the unamortized balance.
8 Washington’s portion of the TLRC Plan will be allocated to the Washington jurisdiction
9 based on the Production/Transmission allocation percentages in place at the time the
10 deferrals are made. Account 182.3 – Other Regulatory Assets would be debited, and
11 Account 407.4 – Regulatory Credits would be credited as the deferrals are recorded.
12 Amortization would be recorded by debiting Account 407.3 – Regulatory Debits, and
13 crediting Account 182.3 – Other Regulatory Assets. Parties have the right to a full review
14 of the actual amounts sought for deferral and amortization including prudence review.

15 f.) Jackson Prairie (JP) Storage: In the Settlement Stipulation approved by the
16 Commission in Dockets UE-100467 and UG-100468, the Parties agreed that the revenue
17 requirement associated with Avista’s rate of return applied to the actual balance of the
18 additional JP working gas inventory applicable to Washington gas operations shall be
19 calculated as a deferred cost beginning May 1, 2011, to be recovered in the Company’s
20 future PGA filings starting with Avista’s fall 2011 PGA filing, until recovered in base rates
21 in a subsequent general rate case. In addition, the additional operations and maintenance
22 costs would be recorded in the Company's PGA deferrals for later recovery in rates until

³The actual amortization expensed annually may vary slightly based on the actual TLRC Plan expenses.

1 those costs are included in base retail rates. The Settling Parties have agreed in this
2 Settlement Stipulation that the additional JP working gas inventory, as well as additional
3 operations and maintenance costs, would be included in base rates and would no longer be
4 recovered in future PGA filings, except for those deferred costs incurred prior to January 1,
5 2012 and have agreed that the 13 percent allocation made for system balancing for JP,
6 reflecting the May 1, 2011 capacity addition, is appropriate.

7 **Q. Please describe the additional items per the Settlement Stipulation**
8 **agreed to by the Settling Parties.**

9 A. As described in the Settlement Stipulation, the following items were also
10 agreed-upon in addition to the revenue requirement items discussed above:

11 a.) Smart Grid: The reflection of any costs associated with smart grid
12 investments in the proposed revenue requirement should not be construed as providing a
13 prudence determination as to those investments, nor should it indicate any pre-approval of
14 future investments and/or costs. All parties reserve the right to challenge any future smart
15 grid-related expenditures. (See paragraph 7 of Settlement Stipulation)

16 b.) ERM Authorized Amounts. Appendix 1 of the Settlement Stipulation sets
17 forth the agreed-upon level of power supply related expenses and revenues, retail load and
18 retail revenue credit that will be used in the monthly Energy Recovery Mechanism
19 (“ERM”) calculations. It includes updated natural gas costs and short-term contracts,
20 which were taken into account when arriving at the agreed-upon electric revenue
21 requirement. (See paragraph 8 of Settlement Stipulation)

22 c.) Natural Gas Decoupling Baseline and Application: Pursuant to the
23 Commission’s order initially adopting the Avista decoupling pilot, In Re Petition of Avista

1 Corp., Order 04, Docket UG-060518, paragraph 49, the baseline for the natural gas
2 decoupling mechanism has been updated so as to use the test year employed in this rate
3 case proceeding. The update of the baseline is reflected in Appendix 2 to the Settlement
4 Agreement. The Settling Parties agree that Schedule 159 shall continue in effect for
5 Avista's natural gas customers with the update of the baseline reflected in Appendix 2.
6 (See paragraph 9 of Settlement Stipulation)

7 d.) Next General Rate Case: The Company will not file a general rate case in
8 the Washington jurisdiction before April 1, 2012. (See paragraph 15 of Settlement
9 Stipulation) In addition:

- 10 • Avista agrees to begin separately accounting for all internal and external costs
11 related to preparation, filing, and litigation of Washington general rate cases. The
12 Company will present the overall amount of test year rate case expenses, including
13 but not limited to internal labor costs, administrative and production costs, and
14 costs of outside services, beginning with the 2012 test period.
- 15 • Pursuant to the Commission's Final Order in Docket UE-100467 and UG-100468,
16 Avista shall perform an annual internal audit for accounting practices in each of the
17 three years following the issuance of that Final Order, and shall prepare a report
18 regarding the results of such audit. The Company shall provide to the parties the
19 results of its annual audit(s), as well as all internal and external costs associated
20 with performing the audit(s) and preparing the report(s).

21 e.) Unresolved Issue of Electric Decoupling: The Northwest Energy Coalition
22 has indicated to the Settling Parties that it wishes to pursue the issue of electric decoupling
23 in Docket UE-110876 through further litigation. The Coalition does not otherwise object

1 to the implementation of the agreed-upon revenue requirement on January 1, 2012, or other
2 terms of this Settlement. Accordingly, by separate motion, the Settling Parties requested a
3 prehearing conference to address the process and schedule by which the Commission will
4 review the Settlement Agreement, the status of the full decoupling issue in this docket, and
5 related procedural issues⁴. (See paragraph 16 of Settlement Stipulation)

6 **Q. At the prehearing conference conducted on October 10, 2011, Judge**
7 **Friedlander advised the parties that Docket No. UE-110876 will likely be bifurcated**
8 **to allow for further consideration of electric decoupling. Should this occur, what is**
9 **the position of the Settling Parties with respect to the actual implementation of**
10 **electric decoupling or other similar mechanism resulting from this process?**

11 A. The Settling Parties agree that Avista will not propose to implement any
12 electric decoupling or similar mechanism adopted by the Commission in Docket No. UE-
13 110876 prior to Avista's next general rate case. Furthermore, the Settling Parties
14 recommend that, in the event that the Commission orders further consideration (beyond
15 this Docket No. UE-110876) or adoption of electric decoupling or any other similar
16 mechanism, this should not occur until the Company's next general rate case.⁵ Finally,
17 Settling Parties reserve the right to take advocate any position or to offer recommendations
18 regarding the rejection, adoption or implementation of electric decoupling or other similar
19 mechanisms in Avista's next general rate case or in any future proceeding.

⁴ Should the Commission conclude that further proceedings in Docket No. UE-110876 should be conducted for purposes of addressing any electric decoupling proposal by the Coalition, the Settling Parties reserve the right to contest such proposals or provide alternative proposals.

⁵ The Stipulation expressly states that consideration of any ROE adjustment related to decoupling would be at issue with any decoupling proposal. See fn. 3 of Settlement Stipulation.

1 **V. DEFERRED ACCOUNTING FOR MAINTENANCE COSTS OF**
2 **COLSTRIP AND COYOTE SPRINGS 2**

3 **Q. Please describe the accounting treatment agreed to by the Settling**
4 **Parties related to the maintenance costs of Avista’s Colstrip 3 & 4 and Coyote**
5 **Springs 2 generating plants, as set forth in paragraph 10 of the Stipulation.**

6 A. In order to address the variability in year-to-year maintenance costs,
7 beginning in 2011 the Company would be allowed to defer changes in maintenance costs
8 related to its Coyote Springs 2 (CS2) natural gas-fired generating plant located near
9 Boardman, Oregon, and its fifteen (15) percent ownership share of the Colstrip 3 & 4 coal-
10 fired generating plants located in southeastern Montana, and, as explained below, amortize
11 the deferred amount over a four-year period⁶.

12 **Q. Please discuss how this deferral and amortization will occur.**

13 A. The Company will compare actual, non-fuel, maintenance expenses for the
14 Coyote Springs 2 (FERC Accounts 551-554) and Colstrip 3 & 4 (FERC Accounts 510-
15 514) plants with the amount of the same expenses identified as the baseline in the
16 applicable deferral year, and defer the difference from that baseline⁷. The deferral will
17

⁶ Public Counsel takes no position on this issue but does not challenge the overall settlement on this basis.

⁷ The baseline maintenance expenses will be \$9.123 million for 2009 and \$6.419 million for 2010, based on maintenance expense for the respective years. Consistent with 2009 and 2010 baseline amounts, the baseline for future years will include FERC Maintenance Accounts 551-554 (CS2) and FERC Maintenance Accounts 510-514 (Colstrip 3 & 4), Company Organization Codes C06 (CS2) and N06 (Colstrip 3 & 4), and will exclude internal Company labor. For deferral purposes, the 2009 baseline amount will be compared to the actual 2011 maintenance expense amount. The 2010 baseline amount will be compared to the actual 2012 maintenance expense amount, and for succeeding periods until a new baseline is established in a future rate proceeding.

1 occur annually, with deferred costs being amortized over a four-year period beginning in
2 January of the year following the year the costs are deferred. There will be no carrying
3 charge on the unamortized balance. The amount of expense to be included for recovery in
4 future general rate cases would be the actual maintenance expense recorded in the test
5 period, less any amount deferred during the test period, plus the amortization of previously
6 deferred costs.

7 **Q. Please describe the accounts that would be used to record the deferrals.**

8 A. The Company would defer the maintenance expenses referenced above in
9 Account 182.3 – Other Regulatory Assets. The deferral would be allocated to the
10 Washington jurisdiction based on the Production / Transmission allocation percentages in
11 place at the time the deferrals are made, and placed in a separate Washington sub-account.
12 Account 182.3 – Other Regulatory Assets would be debited, and Account 407.4 –
13 Regulatory Credits would be credited as the deferrals are recorded. Amortization would be
14 recorded by debiting Account 407.3 – Regulatory Debits, and crediting Account 182.3 –
15 Other Regulatory Assets. Parties have the right to a full review of the actual amounts
16 sought for deferral and amortization including prudence review.

17 **VI. RATE SPREAD/RATE DESIGN**

18 **Q. Where in the Stipulation is the information related to rate spread and**
19 **rate design provided?**

20 A. Section C, paragraphs 11 and 12, of the Stipulation provide a detailed
21 description of the spread of the proposed electric and natural gas revenue increases. As it
22 relates to electric, Page 1 of Appendix 3 shows the Company's Electric Present and
23 Proposed Rate of Return by Rate Schedule, which incorporates the agreed-upon Rate

1 Spread. Page 2 of Appendix 3 of the Stipulation shows the proposed increase to the
2 Company's electric service schedules and Page 3 shows the proposed rates within each of
3 those schedules.

4 As it relates to natural gas, Page 4 of Appendix 3 shows the allocation of the
5 agreed-upon natural gas revenue requirement based on each rate schedules' percentage of
6 current margin, except where noted for Schedule 146. Page 5 shows the proposed increase
7 to the Company's natural gas service schedules and Page 6 shows the proposed rates within
8 each of those schedules.

9 **Q. Turning to the proposed electric revenue increase of \$20,000,000, could**
10 **you please describe the method to spread the proposed increase?**

11 A. Yes. The Settling Parties agreed to a 10 percent movement towards unity
12 based on the Cost of Service results from the original filing for purposes of spreading the
13 revised revenue requirement, as shown on Page 1 of Appendix 3. The Settling Parties,
14 however, did not agree on any specific Cost of Service methodology, nor approve any
15 change in methodology for use in future general rate cases.

16 **Q. What rate design was agreed to in the Settling Stipulation for electric**
17 **service, as shown on page 2 of Appendix 4?**

18 A. The components of rate design are as follows:

19 (i) The residential basic charge would remain at the current level of \$6
20 per month.

21 (ii) Except for Extra Large General Service Schedule 25, the increases to
22 other customer, energy and demand charges would be as proposed in
23 the Company's original filing.

1 (iii) For the rate design of Schedule 25, the basic charge would increase
2 from \$12,500 to \$14,000, for the first 3,000 kVa or less, and there
3 would be a uniform percentage increase applied to the first two
4 energy block rates, and the increase to the third block rate will be
5 equal to 0.5 times the percentage increase applied to the first two
6 blocks. In addition, the demand charge would increase from \$4.00
7 to \$4.25, for kVa over 3,000 per month, and the Primary Voltage
8 Discount for 115 kV would increase from \$1.30 to \$1.35 per kVA
9 per month.

10 **Q. Based on the proposed rates set forth in the Stipulation, what would be**
11 **the monthly bill increase for a residential electric customer with average**
12 **consumption?**

13 A. The proposed increase for a residential customer using an average of 977
14 kwhs per month is \$3.02 per month, or approximately a 3.9 percent increase in their
15 electric bill.

16 **Q. Turning to the proposed natural gas revenue increase of \$3,750,000,**
17 **could you please describe the method to spread the proposed increase?**

1 A. Yes. For purposes of spreading the revised revenue requirement as shown
2 on Page 4 of Appendix 3, the Settling Parties agreed to apply an equal percentage of
3 margin increase to all gas service schedules, except Schedule 146 (Transportation Service).
4 Schedule 146 will receive two-thirds of an equal margin increase, with the residual one-
5 third allocated proportionately (based on margin) to the other schedules.

6 **Q. What rate design was agreed to in the Stipulation for natural gas**
7 **service, as shown on page 4 of Appendix 4?**

8 A. The components of rate design are as follows:

9 (i) The residential basic charge would remain at the current level of \$6
10 per month.

11 (ii) Schedule 146 would have an increase in the Basic Charge from \$225
12 to \$250 per month, and a uniform percentage increase to all blocks.

13 (iii) The rate design changes for the other schedules would be as
14 proposed in the Company's original filing.

15 **Q. Based on the proposed rates set forth in the Stipulation, what would be**
16 **the monthly bill increase for a residential natural gas customer with average**
17 **consumption?**

18 A. The proposed increase for a residential customer using an average of 67
19 therms per month is \$1.76 per month, or approximately a 2.8 percent increase in their
20 natural gas bill.

21 **VII. LOW INCOME RATE ASSISTANCE PROGRAM**

22 **Q. Please describe the Low Income Rate Assistance Program (LIRAP)**
23 **portion of the Settlement Stipulation.**

1 A. As described in paragraph 13 of the Stipulation the Settling Parties agreed to
2 adjust the LIRAP portion of the tariff riders (Schedules 91 and 191) to provide an increase
3 in annual funding of \$370,000 to direct low-income energy bill (rate) assistance. In
4 addition, \$180,000 of existing annual funding currently allocated to Conservation
5 Education would be reallocated on an annual basis to direct low-income energy bill (rate)
6 assistance. The result of the increase in new funding and reallocation of existing funding is
7 an overall increase of \$550,000 in direct energy bill (rate) assistance. With this increase,
8 the annual funding level for electric low income customers would be approximately \$3.6
9 million, and for natural gas low income customers would be approximately \$1.8 million.
10 Appendix 4 of the Settlement Stipulation identifies the tariff rider adjustments to Schedules
11 91 and 191 (in ¢/kWh and ¢/therm) to reflect increased levels of funding for LIRAP.

12 **VIII. PUBLIC INTEREST**

13 **Statement of Avista**

14 **Q. Please explain why Avista believes the Settlement Stipulation is in the**
15 **public interest.**

16 A. The Settlement strikes a reasonable balance between the interests of Avista
17 and its customers on revenue requirement, rate spread and rate design issues, as well as
18 the Low Income Rate Assistance Program issues included in the Settlement. This
19 Settlement Stipulation, if approved, would provide a measure of certainty around future
20 cost recovery of certain costs impacting the Company. The Settlement Stipulation was a
21 compromise among differing interests and represents give-and-take. As such, the
22 Settlement constitutes a conservative portrayal of Avista's need for rate relief surrounding
23 the costs included in the Settlement.

1 The Settling Parties have agreed that the Company has demonstrated need for a
2 revenue increase for both its electric and natural gas customers. The Settlement
3 Stipulation provides for recovery of additional costs. The Settlement Stipulation was
4 entered into following extensive discovery, audit and review of the Company's filing and
5 books and records.

6 With the levels of capital spending required over the next several years, it is
7 important that the Company remain financially healthy in order to attract capital investment
8 and financing under reasonable terms. The Company's initiatives to manage its operating
9 costs and capital expenditures are an important part of improving financial strength, but are
10 not sufficient without the Commission's approval of the agreed cost recovery provided
11 under the Settlement Stipulation.

12 **Statement of Commission Staff**

13 **Q. Please explain why the Settlement Stipulation is in the public interest.**

14 A. The Settlement Stipulation is in the public interest based on Staff's
15 comprehensive review of Avista's tariff filings. Staff reviewed the Company's per books
16 numbers, test-year results of operations, cost of service models, the proposed rate
17 spread/rate design, capital structure and rate of return. Staff issued a total of 314 data
18 requests and also reviewed the responses to discovery requests submitted by other parties.

19 The Settlement Stipulation results in reductions of nearly 50% to both the electric
20 and gas revenue requirements originally requested by Avista in its filed case.

21 The Settlement Stipulation removes Avista's request for the Electric Energy
22 Efficient Load Adjustment (EELA), which was a controversial issue for Staff, and it

1 stipulates a rate of return (ROR) of 7.62 percent for use as needed to comply with required
2 filings, such as in the allowance for funds used during construction (AFUDC).

3 The Settlement Stipulation resets the Company's Vegetation Management Expense
4 to a recent actual base level and continues to assure Avista will maintain its vegetation
5 management programs at that level.

6 Two power-cost related items, the transmission Revenue from Bonneville Power
7 Administration and expenses related to the Transmission Line Ratings Confirmation Plan,
8 are normalized over three years, giving ratepayers the benefits of these items over a
9 reasonable time frame.

10 Appendix 1 of the Settlement Stipulation sets the authorized expense level for the
11 Energy Recovery Mechanism (ERM) using the latest known gas prices. The Settlement
12 Stipulation also acknowledges the removal of expenses in numerous categories of
13 administrative and general expenses.

14 The Settlement Stipulation calls for the Commission to allow Avista to defer
15 expenses for maintenance costs of the Colstrip and Coyote Springs 2 power plants based on
16 pre-determined baseline maintenance expenses for 2009 and 2010. These costs are
17 primarily costs imposed by contract by the third-party operators of these plants. The
18 amounts deferred are for maintenance only, no carrying charges accrue, and Avista will
19 amortize the deferred amounts over a four-year period, thereby creating an acceptable
20 "smoothing effect" for these costs.

21 The proposed rate design and rate spread reflects a move toward rate parity, and,
22 while the Settlement Stipulation does not increase the basic charge for either residential
23 electric or residential natural gas service, Staff can address that issue in future cases.

1 Finally, the Settlement contains a stay-out provision where the Company agrees not to file
2 another rate case until April 1, 2012, which is very close to the end of the suspension
3 period.

4 Finally, Staff wishes to inform the Commission that Staff reviewed Avista's service
5 quality by examining the following factors: system average interruption frequency and
6 duration indices (SAIFI and SAIDI) and customer complaints. Staff did not identify any
7 service quality issues of concern.

8 In sum, the Settlement Stipulation, taken as a whole and with consideration of the
9 issues Staff intended to present if the case were to be fully litigated, provides a fair and
10 reasonable outcome that is in the public interest and will result in rates that are fair, just,
11 reasonable and sufficient.

12 **Statement of ICNU**

13 **Q. Why does ICNU support the proposed Settlement Stipulation?**

14 A. The amount of costs related to power supply is always critical to ICNU, as
15 these costs represent the vast majority of the rate charges paid by our members. ICNU
16 views the proposed increase in base electric rates as reflecting a substantial reduction from
17 the Company's filed power supply costs, which results from many adjustments, including
18 updating gas costs and other items. In addition, the Settlement Stipulation provides price
19 certainty at a time when budgets are being prepared for the coming year. These factors
20 were crucial for ICNU, and therefore, ICNU supports the settlement.

21 **Q. Why does ICNU support the Settlement Stipulation rate spread**
22 **proposal?**

1 A. The Settlement Stipulation electric rate spread proposal represents an
2 acceptable outcome given the cost-of-service evidence that would have undoubtedly been
3 filed by all settling parties. As a result, ICNU believes the Settlement Stipulation rate
4 spread is in the public interest.

5 **Q. Why does ICNU support the Schedule 25 rate design proposed in the**
6 **Settlement Stipulation?**

7 A. The Company's cost study shows the Schedule 25 demand charges are
8 below a cost based level. The Settlement Stipulation rate design recovers a larger
9 percentage of the rate schedule increase in the demand charges as compared to the energy
10 charges to move the charges closer to a cost-based level. Consequently, the Settlement
11 Stipulation Schedule 25 rate design is in the public interest.

12 **Q. Does ICNU support the January 1, 2012 effective date for new rates?**

13 A. Yes, as part of an overall package set forth in the settlement agreement.
14 ICNU supports the proposed effective date for new rates, given that Avista has agreed not
15 to file a new general rate case prior to April 1, 2012.

16 **Q. Does ICNU recommend that the Commission approve the Settlement**
17 **Stipulation?**

18 A. Yes. For the reasons noted above, the Settlement Stipulation is in the public
19 interest, and ICNU recommends approval of it in its entirety by the Commission.

20 **Q. Does ICNU support the Northwest Energy Coalition's efforts to have**
21 **further proceedings in this docket to pursue an electric decoupling mechanism?**

1 A. No, it is not appropriate to consider decoupling since it is otherwise not at
2 issue in this proceeding. Avista is very likely to file another general rate case in 2012
3 which will allow NWECA to raise decoupling if it so chooses.

4 **Statement of NWIGU**

5 **Q. Please explain why NWIGU believes the Settlement Stipulation is in the**
6 **public interest.**

7 A. NWIGU believes the Settlement Stipulation is in the public interest and
8 recommends the Commission approve the settlement because the best interests of Avista's
9 natural gas customers are served by the underlying fair compromise on certain revenue
10 requirement, rate spread and design issues. While the signing parties may each hold
11 different positions on the individual components of Avista's natural gas revenue
12 requirement addressed in the Settlement Stipulation, NWIGU supports the settlement as
13 the agreement reached on capital costs has brought down the overall gas revenue
14 requirement increase by \$2.5 million and the Jackson Prairie capacity addition was
15 appropriately recognized. Incorporating all of the agreed upon adjustments, the overall gas
16 revenue increase is now just \$3.75 million. NWIGU supports this Settlement Stipulation
17 as the overall result is a fair compromise between Avista and its customers.

18 NWIGU also finds this Settlement Stipulation to be in the public interest as the
19 spread of the gas rate increase is done in a manner that is consistent with the results of both
20 the Company's cost of service analysis and the preliminary cost of service analysis
21 performed by NWIGU in this proceeding. Under the Settlement Stipulation, it is important
22 from NWIGU's perspective that Schedule 146 is moved towards its relative cost of service.
23 Moving rates closer to cost is appropriate, and is a significant reason NWIGU supports the

1 Settlement Stipulation. In addition for Schedule 146 rate design, the Settlement Stipulation
2 calls for increasing the customer charge from \$225.00 to \$250.00 per month and applying
3 the same percentage increase to all the volumetric rate blocks. NWIGU support this cost-
4 based Schedule 146 rate design.

5 For the reasons set forth above, NWIGU believes the Settlement Stipulation is in
6 the public interest and should be approved by the Commission.

7 **Statement of Public Counsel**

8 **Q. Please explain why the Stipulation satisfies the interests of Public**
9 **Counsel.**

10 A. Taken as a whole, Public Counsel believes the Stipulation produces a fair
11 and reasonable outcome for Avista’s electric and natural gas customers. In its Application
12 filed on May 16, 2011, Avista requested an increase in electric base rates of \$38.3 million
13 or 9.1 percent and an increase in natural gas rates of \$6.2 million or 4 percent. In contrast,
14 the Stipulation calls for a much lower increase of \$20 million in electric base rates or 4.6
15 percent on average, and a \$3.75 million increase for natural gas rates or 2.4 percent on
16 average.⁸ In addition, the Stipulation addresses Public Counsel’s concerns with Avista’s
17 accounting and record keeping errors that were identified in Order 07 in Docket Nos. UE-
18 1004657 and UG-100468 and includes provisions that address the results of the required
19 audits and reports. The Stipulation also removes various inappropriate costs included in
20 Avista’s filing. Finally, the Stipulation removes the Company's proposed Energy
21 Efficiency Load Adjustment (EELA) and includes no increase to the residential fixed

⁸ Settlement Stipulation, ¶ 2.
Joint Testimony
Docket UE-110786 and UG-110877

1 customer charges for either electric or natural gas service.

2 **Q. Please describe Public Counsel’s concerns with the impact of any rate**
3 **increase in the current economic environment.**

4 A. Public Counsel recognizes that Avista’s service territory continues to
5 experience high rates of poverty and unemployment, and thus any increase to electric and
6 natural gas rates creates a hardship for Avista’s customers. We also understand that current
7 economic conditions have substantially increased the number of first-time low-income rate
8 assistance program (LIRAP) applicants. The terms of the Stipulation lower the overall
9 increase, maintain the current monthly basic charge, and increase LIRAP bill assistance,
10 which will help mitigate this hardship. However, we hope that Avista will aggressively
11 manage its costs going forward to make any future rate increases less frequent and
12 minimal.

13 **Q. Please describe the compliance requirements established in Order 07 in**
14 **Docket Nos. UE-100467 and UG-100468.**

15 A. As part of the Settlement Stipulation approved in Order 07, Avista
16 committed to a number of requirements designed to improve the Company’s accounting
17 practices regarding allocation of utility versus non-utility expenses as well as concerns with
18 the Company’s demand-side management program and optional renewable power rate
19 program (Buck-a-Block). These include: (1) an internal audit of certain accounting
20 practices regarding allocations; (2) employee training for Avista employees to comply with
21 required accounting and allocation practices; (3) a review of policies and procedures
22 regarding cost allocations; (4) a review of Buck-a-Block accounting procedures; (5) an
23 independent external review of DSM data management strategy; (6) a review of rebate

1 processing procedures for DSM programs; and, (7) an Evaluation, Measurement and
2 Verification (EM&V) of Avista's residential windows program and limited income
3 weatherization program.⁹ These requirements were completed by the Company prior to
4 filing this general rate case and are addressed in the Company's direct testimony.

5 **Q. How does the Stipulation incorporate the results of the compliance**
6 **requirements listed above relating to various aspects of Avista's accounting practices**
7 **(items 1, 2, and 3)?**

8 A. The Stipulation includes an adjustment to Administrative and General
9 Expense (A&G) of \$1.235 million (electric) and \$138,000 (natural gas) to remove certain
10 A&G expenses in a range of areas, as enumerated in the Stipulation and described further
11 below. In addition, this adjustment removes costs associated with incorrectly booked A&G
12 expenses identified in Avista's internal accounting audit.¹⁰ The errors that were of most
13 concern to Public Counsel within the audit are those where non-utility expenses were
14 booked to utility accounts, because these expenses clearly should not be included in rates.
15 Public Counsel is pleased that the overall A&G adjustment addresses costs that include
16 and/or are related to an extrapolation of certain A&G errors identified through Avista's
17 internal accounting audit. It is also important to Public Counsel that the A&G adjustment
18 addressed costs included and/or related to the accounting audit, training, and reporting
19 required by the Commission's Final Order in UE-100467 and UG-100468.

20

⁹ See *WUTC v. Avista Corporation d/b/a Avista Utilities*, Final Order Approving and Adopting Settlement Stipulation; Requiring Compliance Filing (Order 07), Docket Nos. UE-100467 and UG-100468 (consolidated), Appendix A, ¶¶ 15-17 and 20-24 (hereafter *2010 GRC Final Order*).

¹⁰ Settlement Stipulation, ¶ 6(c).

1 **Q. Did Public Counsel identify improper costs in utility accounts in this**
2 **case? How does the Stipulation address these?**

3 A. Yes, Public Counsel’s review uncovered costs that we believe are
4 inappropriate for recovery in rates. Paragraph 6(c) of the Stipulation identifies the
5 expenses that are addressed by the overall A&G adjustment. These include and/or are
6 related to:

- 7 • Incorrectly-booked A&G expenses identified during discovery in this case.
- 8 • The allocation of total executive labor costs to non-utility accounts to reflect
9 executive time spent on non-utility matters.¹¹
- 10 • The costs of corporate aircraft flights related to non-utility activities.
- 11 • Labor costs and expenses related to legislative/lobbying functions.
- 12 • Costs associated with various advertising, marketing, and corporate image
13 campaigns.
- 14 • The portion of costs associated with expenses that Public Counsel believes
15 benefit both shareholders and ratepayers, such as rating agency meetings
16 and fees, share valuation analyses and reports, and press releases relating
17 only to corporate earnings and/or dividend-issuances.
- 18 • Costs associated with Board of Directors’ meetings, as well as meals,
19 entertainment, and meeting expenses.

20 We believe that the overall A&G adjustment provides for an appropriate resolution

¹¹ See Direct Testimony of Elizabeth M. Andrews, Exhibit EMA-1T, p. 28:8-11 and Workpapers of Elizabeth M. Andrews, Tab PF4, p. 6 (showing allocation of executive employee salaries between utility and non-utility).

1 of these issues. In addition, the Stipulation also includes a provision that recognizes that
2 Avista must continue to perform an annual accounting audit in each of the three years
3 following the issuance of Order 07 in Docket UE-100467 and UG-100468, and provide
4 parties a report of its results.¹² This requirement will help address any future issues
5 regarding inappropriate allocation of A&G expenses, and parties continue to reserve the
6 right to recommend adjustments based on the reported results, as well as disallowance of
7 the costs of future reports, trainings, and/or audits.

8 **Q. Returning to the compliance items from the 2010 rate case, please**
9 **describe Public Counsel’s review of the Buck-a-Block compliance requirement (item**
10 **4).**

11 A. Avista agreed to perform an internal review of its Buck-A-Block voluntary
12 renewable power program, and to maintain separate accounts for Buck-A-Block in order to
13 ensure that all program costs were properly allocated to participating customers.¹³ Public
14 Counsel reviewed the compliance report and conducted discovery to examine whether
15 costs were being properly tracked and recorded. Based on this review, Public Counsel
16 believes that Avista has taken steps to address this issue.

17 **Q. Please describe how Compliance with the DSM-related compliance**
18 **items (5, 6, and 7) listed above was addressed in this case.**

19 A. Avista committed to perform a rebate processing review and an external
20 DSM data management review to address concerns with DSM rebate errors and data
21 management practices associated with Company’s DSM programs.¹⁴ Public Counsel

¹² Settlement Stipulation, ¶ 15.

¹³ 2010 GRC Final Order, Appendix A, ¶ 21.

¹⁴ 2010 GRC Final Order, Appendix A, ¶¶ 15 and 17.

1 reviewed these reports and conducted discovery on these issues. During the course of this
 2 case, the Commission approved a joint motion requesting that the prudence of the
 3 Company's electric and natural gas DSM program results and expenditures, beginning for
 4 program year 2010, be examined in Docket No. UE-100176, subsequent to Avista's June 1,
 5 2012, filing in that docket.¹⁵ We understand that any further review of the results of these
 6 reports as it relates to prudence will be examined in that docket.

7 In addition, Avista committed to having an independent, third party conduct an
 8 impact and cost-effectiveness analysis of the residential windows program (natural gas and
 9 electric).¹⁶ Based on the results of this evaluation, conducted by Ecotope, the Company is
 10 terminating the program.¹⁷ We believe this is appropriate given that the results of the
 11 evaluation indicated that actual savings and cost-effectiveness were much lower than
 12 anticipated for this program.¹⁸

13 **Q. Does Public Counsel take a position on the prudence of Avista's DSM**
 14 **expenditures for 2010?**

15 A. No. As discussed above, the prudence of Avista's electric and natural gas
 16 DSM expenditures and savings will be reviewed in Docket No. UE-100176.

17 **Q. Please describe why the provision regarding the EELA is a key**
 18 **component of the Stipulation from Public Counsel's perspective.**

¹⁵ *Washington Utilities and Transportation Commission v. Avista Corp. d/b/a Avista Utilities*, Docket Nos. UE-110876 and UG-110877, Order 05, ¶ 4.

¹⁶ See Exhibit BWF-2.

¹⁷ See Docket No. UE-100176, Demand Side Management 2010 Annual Report, Avista Corp., p.16 (March, 31, 2011).

¹⁸ Exhibit BWF-2, pp. 20 and 27. The Ecotope evaluation determined final realization rates (realized savings) for the natural gas windows program to be approximately 13% (net) and 51% (total) (Table 7). Final realization rates for the electric windows program were between 23.2% and 26.8% (Table 13).

1 A. The Stipulation includes a provision to remove the Company-proposed
2 EELA.¹⁹ This provision was particularly important to Public Counsel as we had significant
3 concerns with appropriateness of this proposed lost-margin mechanism from both a policy
4 perspective and a rate impact perspective.²⁰ Public Counsel is very pleased that the
5 settlement removes this adjustment.

6 **Q. Were there any other provisions in the Stipulation that were**
7 **particularly important to Public Counsel?**

8 A. Yes. The Company committed to separately accounting for all internal
9 costs related to the preparation, filing, and litigation of Washington general rate cases
10 beginning with the 2012 test year.²¹ The Company does not currently track rate case
11 expenses in its accounting systems, which makes it impossible for parties to review these
12 costs in rate cases. Establishing a separate accounting process for these costs will enable
13 the review of these expenses for appropriateness in the future.

14 **Q. What is Public Counsel's position with respect to Avista's existing**
15 **natural gas decoupling mechanism?**

16 A. Paragraph 9 of the Settlement Stipulation specifies that the baseline for
17 current natural gas decoupling mechanism will be updated to use the test year in the current
18 rate proceeding, as provided in Commission order. Public Counsel has agreed to this
19 provision as a matter of compliance by Avista with the Commission requirement, given

¹⁹ Settlement Stipulation, ¶ 6(a).

²⁰ In so far as Avista's proposed EELA was intended to address reduced retail revenues due to the Company's conservation programs, Public Counsel believes it is a form of decoupling. *See* Docket No. UE-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets, ¶ 12 (Nov. 4, 2010).

²¹ Settlement Stipulation, ¶ 15.

1 that mechanism currently remains in place. Public Counsel’s agreement should not be
2 construed as a waiver of its objections to the form or merits of the existing mechanism.
3 Public Counsel opposed both the adoption of the initial pilot program, and its extension.
4 Public Counsel reserves the right to make future recommendations on the form and merits
5 of the existing natural gas decoupling mechanism, in either addressing the Commission’s
6 Bench Request²² or at another appropriate time.

7 **Q. How do the terms in the Stipulation regarding electric and natural gas**
8 **rate spread satisfy the interests of Public Counsel?**

9 A. The Stipulation provision reflects a ten percent movement toward parity for
10 electric residential customers based on the Company’s cost of service study, which we
11 believe is reasonable and recognizes the need for gradualism in seeking parity among rate
12 classes.²³ In addition, there was no agreement on electric rate spread methodology which
13 preserves the rights of the parties to challenge this in the future.²⁴ Regarding gas rate
14 spread, the Settling Parties agreed to an equal percentage of margin increase to gas service
15 schedules with the exception of Schedule 146.²⁵ This represents a fair and reasonable
16 assignment of revenue responsibility for all classes.

17 **Q. How does the Stipulation address Public Counsel’s concern with the**
18 **increase to the electric and natural gas fixed customer charges?**

²² *Washington Utilities and Transportation Commission v. Avista Corp. d/b/a Avista Utilities*, Docket Nos. UE-110876 and UG-110877, Bench Request (June 28, 2011).

²³ Settlement Stipulation ¶ 11(a).

²⁴ *Id.*

²⁵ Settlement Stipulation, ¶ 12(a).

1 A. Avista proposed to increase both the electric and natural gas fixed customer
2 charges to \$9.00 from the currently authorized \$6.00 charge.²⁶ The Stipulation includes no
3 increase to the electric and natural gas fixed customer charges.²⁷ This is a key provision
4 from Public Counsel's perspective because Public Counsel believes higher fixed charges
5 have a detrimental impact on residential customers.

6 **Q. Please describe the two issues that Public Counsel does not support or**
7 **does not take a position on.**

8 A. First, Public Counsel does not support the provision in the Stipulation
9 which would allow new rates to become effective January 1, 2012.²⁸ As a general policy
10 matter, Public Counsel does not support early effective dates for rates but does not
11 challenge the overall settlement on this basis. In this case, the proposed early effective date
12 would institute new rates over three months in advance of the suspension date in the case,
13 during the winter heating seasons and just 11 months after the Company's last rate increase
14 went into effect. Second, Public Counsel does not take a position on the provision in the
15 Stipulation that addresses deferred accounting for maintenance costs of Colstrip and
16 Coyote Springs.²⁹ Public Counsel did not retain an expert witness to explore this issue
17 and therefore, due to the potentially far-reaching impact the proposed treatment, is not
18 willing to support the provision in the Stipulation, although we do not challenge the
19 settlement on this basis.

20

²⁶ See Direct Testimony of Patrick D. Ehrbar, Exhibit PDE-1T, pp. 4 and 5.

²⁷ Settlement Stipulation, ¶¶ 11(b) and 12(b).

²⁸ Settlement Stipulation, ¶ 14.

²⁹ Settlement Stipulation, ¶ 10.

1 **Statement of The Energy Project**

2 **Q. What is the Energy Project’s perspective on the proposed settlement?**

3 A. The Energy Project believes the compromises represented by this settlement are
4 in the public interest. We are always concerned about the impact of rate increases on
5 residential customers, particularly the low-income customers who are eligible for the
6 energy assistance and weatherization programs run through local agencies. We feel this
7 settlement addresses those concerns in a positive manner.

8 **Q. Why is it not sufficient simply to raise the LIRAP funding the same**
9 **percent as the rate increase?**

10 A. We have argued in the past that funding for energy assistance programs must
11 increase when rates are increased. However, increasing the program funding such that the
12 average benefit awarded to a family increases a percentage equal to the rate increase still
13 leaves this family with a higher energy burden even if they are able to get energy assistance
14 the next year. For a simple math example, if the low-income participant’s annual bill is
15 \$1200 and their benefit is \$346, when rates go up 5%, the benefit goes up \$17.30, but the
16 bill goes up \$60. The increase in what is owed is nearly three times the benefit increase
17 they will receive. If that doesn’t seem like a lot of money, remember it is a bill being
18 added to a pile of bills that already cannot be covered. There will be consequences for the
19 family who has to pay that bill.

20 **Q. Why do you say “even if [the household is] able to get energy assistance”?**

21 A. Basically, because not everyone needing assistance gets into the program. I say
22 “if” they are able to get assistance next year because the number of families sinking into
23 poverty has been increasing significantly. The Seattle Times on September 22, 2011

1 reported that the Census Bureau’s American Community Survey showed that an economic
2 “down trend that began in 2008 or earlier has continued to worsen”. Furthermore, while
3 the combination of this company’s energy assistance program, which we call LIRAP
4 (Limited Income Rate Assistance Program), and the federal funding, known as LIHEAP
5 (Low Income Home Energy Assistance Program) reaches a number of households that still
6 leaves many other households trying to obtain assistance with their energy bills. At the
7 same time, while it is unclear exactly where the federal government will finally land on the
8 LIHEAP budget, all of the scenarios result in Washington receiving fewer dollars than in
9 any of the last three years when participation increased substantially. Essentially, more
10 households will be applying for benefits from fewer available dollars.

11 **Q. In your view, then, this settlement addresses that problem?**

12 A. Yes, it does. While we believe that a level of funding is needed that would
13 allow households who get into the program to maintain the same energy burden and would
14 allow more people to be served, that number was much higher than the one finally agreed
15 to. We believe the additional funding this settlement provides will go some distance,
16 however, in helping agencies to serve more households while at the same time contributing
17 more to the benefit levels that participants receive, thereby lessening the increase they will
18 see in their energy burden .

19 **IX. CONCLUSION**

20 **Q. What is the effect of the Settlement Stipulation?**

21 A. The Settlement Stipulation represents a negotiated compromise among the
22 Settling Parties. Thus, the Settling Parties have agreed that no particular party shall be
23 deemed to have approved the facts, principles, methods, or theories employed by any

1 other in arriving at these stipulated provisions, and that the terms incorporated should not
2 be viewed as precedent setting in subsequent proceedings except as expressly provided.
3 In addition, the Settling Parties have the right to withdraw from the Settlement Stipulation
4 if the Commission adds any additional material conditions or rejects any material part of
5 the Settlement Stipulation.

6 **Q. In conclusion, why is this Settlement Stipulation “in the public**
7 **interest?”**

8 A. This Stipulation should be approved for the following reasons:

- 9
- 10 • It strikes a reasonable balance between the interests of the Company and its
11 customers, including its low-income customers. As such, it represents a
12 reasonable compromise among differing interests and points of view.
 - 13
 - 14 • The filing has been subjected to great scrutiny through the discovery
15 process: over four months have passed since the case was filed and the
16 Company has responded to approximately 870 data requests.
 - 17
 - 18 • Ample opportunity has been afforded all Parties to participate meaningfully
19 in the settlement process.
 - 20
 - 21 • In the final analysis, any settlement reflects a compromise, in the give-and-
22 take of negotiations; the Commission, however, has before it a Settlement
23 Stipulation that is supported by sound analysis and sufficient evidence. Its
24 approval is “in the public interest,” and satisfies the requirement that rates
25 be fair, just, reasonable and sufficient.
 - 26

27 **Q. Are there legal standards that must be satisfied with respect to any**
28 **settlement?**

29 A. Yes. The Commission’s charge, of course, is to regulate in the public
30 interest. The settlement, if approved, must result in rates that are fair, just, reasonable and
31 sufficient. (RCW 80.28.010) As such, the Commission must not only assure fair prices
32 and services to customers, but also “...provide the utility with rates sufficient to cover its

1 prudently incurred costs and an opportunity to recover a return on its investment.” (WUTC
2 v Avista Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 (December 21,
3 2005) at p. 10.) In the final analysis, it is the “end result” that matters, not the methods by
4 which rates are determined. (Id., at p.11) The settlement represents the Parties’ best efforts
5 at arriving at an end result that satisfies these requirements.

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

7 A. Yes it does.