

Exhibit No. ____ -T (RCM-1T)
Docket Nos. UE-070804 et al.
Witness: Roland C. Martin

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

vs.

AVISTA CORPORATION,

Respondent.

In the Matter of the Petition of

AVISTA CORPORATION d/b/a
AVISTA UTILITIES,

For an Accounting Order Regarding the
Appropriate Treatment of the Net Costs
Associated with the Purchase of Debt.

DOCKET NO. UE-070804

DOCKET NO. UG-070805

DOCKET NO. UE-070311

TESTIMONY OF

Roland C. Martin

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Power Cost Only Rate Case (PCORC)

October 17, 2007

1 **I. INTRODUCTION.**

2

3 **Q. Please state your name and business address.**

4 **A.** I am Roland C. Martin. My business address is the Richard Hemstad Building,
5 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504.

7

8 **Q. By whom are you employed and in what capacity?**

9 **A.** I am employed by the Washington Utilities and Transportation Commission as a
10 Regulatory Analyst.

11

12 **Q. How long have you been employed by the Commission?**

13 **A.** I have been employed by the Commission for approximately 25 years.

14

15 **Q. Would you please state your educational and professional background?**

16 **A.** I graduated from the University of the Philippines in April 1975, receiving a
17 Bachelor of Arts in Business Administration with a major in marketing
18 management. I also received the degree of Bachelor of Science in Commerce,
19 with a major in accounting, from University of Pangasinan in March 1980. On an
20 ongoing basis, I attend classes on regulation and ratemaking.

21 During my employment at the Commission, I have performed various
22 phases of accounting and financial analysis of regulated utility and transportation

1 companies both independently and jointly with other analysts, either as lead or as
2 member of a team. Over my career at the Commission, I have testified in several
3 general rate case proceedings, and have presented Staff recommendations on
4 accounting and revenue requirement issues in Commission open meetings. I have
5 reviewed numerous other regulatory filings, including mergers and acquisitions,
6 petitions for declaratory orders, and waivers of Commission rules, accounting
7 petitions, transfers of property, periodic cost adjustments, tariff rider and tracker
8 mechanisms, and periodic compliance reports.

9

10 **II. SCOPE OF TESTIMONY.**

11

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. I present Staff's recommendation to deny the request of Avista Corporation d/b/a
14 Avista Utilities ("Avista" or "the Company") for approval of a Power Cost Only
15 Rate Case (PCORC) process. In this regard, I respond to the testimony Exhibit
16 No. ____ -T (KON-1T) of Company witness, Mr. Kelly Norwood, who describes
17 the structure and explains the reasons for the Company proposal.

18

1 **III. SUMMARY.**

2

3 **Q. Please provide a summary of your testimony.**

4 A. Staff recommends that the Commission deny Avista's request for approval of a
5 PCORC in this proceeding for the reasons described in my testimony, or that a
6 collaborative group of stakeholders jointly consider exploration and development
7 of a PCORC-type process that may be suitable for Avista. The group may present
8 for Commission approval a mechanism for Avista, if one is developed, or submit
9 a report on the results of the collaborative effort. This approach is premised on
10 the expectation that the group will learn and benefit from the outcome of the
11 review of Puget Sound Energy, Inc.'s (PSE) PCORC, which is currently in
12 progress. Staff believes that this is a sensible approach considering Avista's
13 proposed process is patterned after PSE's PCORC.

14

15 **IV. DISCUSSION.**

16

17 **Q. Please discuss the PCORC request by Avista.**

18 A. As explained by Mr. Norwood in his direct testimony, Avista in this proceeding
19 requests authorization of a process that will permit rate changes between general
20 rate cases, resulting from updates of the base power supply and transmission costs
21 included in the Company's Energy Recovery Mechanism ("ERM"). This
22 requested power cost recovery mechanism, which is also proposed to account for

1 the impacts of major generation and transmission capital expenditures in addition
2 to the costs currently tracked by the ERM, is patterned after Puget Sound Energy,
3 Inc.'s ("PSE") Power Cost Only Rate Case ("PCORC") mechanism. Avista is
4 pursuing this proposal after the Commission denied its 2006 petition in Docket
5 No. UE-061411—filed in 2006 by Avista to update its base power supply and
6 transmission costs, due to non-compliance with Commission rules requiring a
7 general rate case. *In the Matter of the Petition of Avista Corporation, d/b/a Avista*
8 *Utilities, For and Order Approving Avista's Update of Its Base Power Supply and*
9 *Transmission Costs*, Docket No. UE-061411, Order 04.

10

11 **Q. What is PSE's PCORC?**

12 A. PSE's PCORC is a limited scope proceeding that allows for expedited review
13 between general rate cases of prudence and rate treatment of costs associated with
14 new resource acquisitions costs and the resetting of power cost rates. The
15 Commission in 2002 adopted the PCORC process as part of a comprehensive
16 settlement of PSE's general rate proceeding in Dockets UE-011570 and UG-
17 011571. The accelerated nature of the proceeding features a five-month decision
18 timeline, rather than the 11-month decision timeline for a general rate case. PSE
19 has since filed three PCORCs: namely, the 2003 PCORC, Docket No. UE-
20 031725; the 2005 PCORC, Docket No. UE-050870; and the 2007 PCORC,
21 Docket No. UE-070565. As further discussed below, the PSE PCORC process is
22 currently undergoing a stakeholder review.

1

2 **Q. What is the primary objective of a PCORC?**

3 A. The primary objective of this mechanism is to reflect in rates, in a timely manner,
4 expected power supply cost increases and costs associated with new resource
5 acquisitions. The shortened review period and decision timeline provide more
6 immediate recovery than a general rate case.

7

8 **Q. Why does Staff recommend denial of Avista's request for authorization of a**
9 **PCORC in this proceeding?**

10 A. Staff believes that a PCORC for Avista is not warranted at this point for the
11 following reasons:
12 1. Avista has no immediate need for a PCORC;
13 2. The implementation of the PCORC, in the form proposed, produces
14 inequitable results;
15 3. The proposed PCORC is a complicated mechanism that is not easily
16 understood; and
17 4. It is premature to explore and develop a mechanism in this proceeding that
18 may be suitable for Avista's needs.

19

1 **Q. Please explain why Staff believes Avista has no immediate need for a**
2 **PCORC.**

3 A. As testified by Company witness Mr. Storro, Avista is currently in a balanced-to-
4 surplus energy position through 2010 on an average annual basis and surplus
5 capacity resource position through 2010. *Exhibit No. ____ -T (RLS-1T), p. 4.* This
6 is confirmed by the findings in Avista's recently filed 2007 Electric Integrated
7 Resource Plan, which indicates that Avista's resource deficits are not expected
8 until 2011. *Avista Corp. 2007 Electric IRP, p. 2-1.* In contrast, PSE's load
9 forecasts exceed existing resources with a progressively widening gap into the
10 future, indicating that PSE faces large resource deficiencies and the need to
11 acquire significant electric resources. *Puget Sound Energy 2007 Integrated*
12 *Resource Plan, p. 5-2.*

13
14 **Q. Please explain why the implementation of the proposed PCORC produces**
15 **inequitable results.**

16 A. In addition to the net power expense accounts tracked by the ERM, Avista is also
17 proposing that major generation and transmission additions be included in the
18 determination of updated rates. Observing from the illustrative example of the
19 proposed PCORC operation that Avista provided in response to Staff Data
20 Request No. 238, these incremental rate base additions are production-factored
21 back to the test year used in the last general rate case (GRC), in contrast with the
22 PSE PCORC process which uses a new historic test year rate base. Avista's

1 failure to use a more recent test year than the one used in the last rate case ignores
2 the fact that the plant included in rate base in the last rate case continue to
3 depreciate and decrease in value. This results in overstatement of the revenue
4 requirement increase, which is inequitable to the ratepayers.

5
6 **Q. Please explain why the proposed PCORC is a complicated mechanism that is**
7 **not easily understood.**

8 A. The proposed PCORC is complicated because it involves determination of
9 PCORC rate year pro forma net power costs, even though only a few power
10 supply accounts are tracked in the ERM and are intended for updates.
11 Furthermore, the proposed increase due to generation and transmission plant
12 additions includes not only rate base impacts, but also the effects of related
13 property taxes and depreciation expenses. If the depreciation and property tax
14 rates used in the pro forma PCORC expenses are different from those applicable
15 to the production and transmission rate base in the last general rate case (GRC), it
16 becomes apparent that new rates produced from the PCORC are based on
17 mismatched costs. Finally, the simultaneous application of the concepts of “Last
18 GRC test year,” “Last GRC rate year,” “PCORC rate year,” “PCORC test year,”
19 “Last GRC production factor,” “PCORC production factor,” and “Incremental
20 production factor” do not make the expedited interim rate case simple and easily
21 understood.

22

1 **Q. Please explain why it is premature to explore and develop a mechanism in**
2 **this proceeding that may be suitable for Avista's needs.**

3 A. As discussed further below, the result of the collaborative review of PSE's
4 PCORC will likely provide benefit and guidance in attempting to develop a
5 mechanism suitable to Avista.

6

7 **Q. Mr. Norwood stated on page five of his direct testimony, Exhibit No. ____ -T**
8 **(KON-1T), that general rate cases filed on a continuous basis likely would**
9 **not provide timely recovery of costs to the Company, would not be**
10 **administratively efficient, and would not send accurate price signals to**
11 **customers. Has he conducted any specific studies that would indicate that**
12 **the lack of a PCORC would not send accurate price signals, provide timely**
13 **cost recovery, and be administratively efficient?**

14 A. No. *See Response to Staff Data Request No. 58.*

15

16 **Q. Has Avista conducted specific studies that compare the PSE PCORC with the**
17 **mechanism proposed by the Company?**

18 A. No. *See Response to Staff Data Request No. 59.*

19

20 **Q. Has Avista conducted specific studies that prove that the PCORC process will**
21 **result in smaller incremental rate adjustments?**

22 A. No. *See Response to Staff Data Request No. 60.*

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Q. Has Avista conducted specific studies that support the claim that the existence of a PCORC mechanism will provide more accurate price signals to customers?

A. No. See Response to Staff Data Request No. 62.

Q. Has Avista conducted specific studies or surveys in which customers were asked to opine on whether they believe that a PCORC mechanism would make price signals more understandable and accurate for them?

A. No. See Response to Staff Data Request No. 63.

Q. Has Avista conducted specific studies that indicate that cases under the PCORC mechanism would be easier for customers to understand?

A. No. See Response to Staff Data Request No. 64.

Q. Has Avista conducted specific studies or surveys in which customers were asked their opinions of whether they wanted a PCORC mechanism and whether such mechanism would result in a case that is easier for them to understand?

A. No. See Response to Staff Data Request No. 65.

1 **Q. Has Avista conducted specific studies that indicate how often costs that would**
2 **have been recovered through a PCORC fell after the pro-forma PCORC**
3 **period, such that a general rate case following the PCORC would pick up the**
4 **decreased costs?**

5 A. No. *See Response to Staff Data Request No. 66.*
6

7 **Q. Has Avista conducted specific studies that indicate that the mere existence of**
8 **a PCORC will lead to a stronger financial condition for a utility, which will**
9 **lead to lower financing costs in the long-term for customers?**

10 A. No. *See Response to Staff Data Request No. 67.*
11

12 **Q. Has Avista conducted specific studies that indicate that the PCORC process**
13 **would reduce the administrative burden associated with establishing retail**
14 **rates?**

15 A. No. *See Response to Staff Data Request No. 68.*
16

17 **Q. Has Avista conducted specific studies that support the five-percent overall**
18 **rate adjustment benchmark for filing a general rate case within three months**
19 **of a final PCORC order?**

20 A. No. *See Response to Staff Data Request No. 239.*
21

1 **Q. You have enumerated in your testimony numerous critical comments,**
2 **observations, and other factors supportive of Staff's contention that the**
3 **Commission should not grant Avista's request for a PCORC process in the**
4 **operational form proposed in this proceeding. What is Staff's recommended**
5 **course of action with respect to a PCORC for Avista, if any?**

6 A. Staff recommends that the Commission deny Avista's request for authorization of
7 a PCORC in this proceeding, based on reasons previously explained. In the
8 alternative, the Commission could defer its decision on Avista's request until after
9 conclusion of the PSE PCORC review and a mechanism or a process is developed
10 by a collaborative group and then presented to the Commission for adoption or
11 approval, assuming the group determines that such interim recovery mechanism is
12 warranted for Avista. Staff believes that a PCORC-like process for Avista is better
13 explored by a collaborative group of stakeholders that will reflect their collective
14 viewpoints and experience regarding the different aspects of an in-between
15 general rate case mechanism such as a PCORC. This was how PSE's PCORC
16 was developed, *i.e.*, through a collaborative endeavor.

17
18 **Q. Why does Staff believe that this is an appropriate course of action to follow?**

19 A. The settling parties in PSE's recently concluded PCORC proceeding in Docket
20 No. UE-070565 agreed to a collaborative stakeholder review of the existing
21 PCORC process to consider the scope and timing of the mechanism and whether
22 the mechanism should continue; and if it does, in what form. The Commission, in

1 approving the settling parties' agreement, found that such review is timely,
2 considering the parties and the Commission now have had adequate experience
3 with the PCORC to undertake a meaningful review of the issues identified in the
4 settlement agreement. The collaborative review is currently in progress, and after
5 it is concluded, the group will report the results to the Commission. Avista and
6 other stakeholders will greatly benefit from knowing this outcome considering
7 that potential areas of contention and concern would have been addressed and
8 possibly rectified. As stated earlier, Avista's proposal is patterned after PSE's
9 PCORC, with similar features or design. Therefore, Avista will likely encounter
10 problems and concerns similar to those identified and addressed in the PSE
11 collaborative review, if it is authorized to implement its PCORC proposal in the
12 form presently proposed. Staff believes that it is to the Commission's and the
13 parties' benefit to wait for the outcome of the PSE PCORC review. It is
14 especially sensible to defer the decision since possible outcome of the
15 collaborative review will be a proposal to discontinue the PCORC process
16 entirely.

17
18 **Q. What are the subjects that the PSE collaborative agreed to address in the**
19 **PCORC review?**

20 A. The settling parties agreed that it is appropriate to review whether the PCORC
21 process should continue and, if it should, in what form. In addition, as specified
22 in the parties' settlement agreement that was approved by the Commission, the

1 items that participants in the PSE collaborative intend to review will include, but
2 are not limited to: the frequency of PCORC filings in any year; the number and
3 timing of updates that the Company may submit before Staff and intervenors file
4 their cases; the power cost items that may be considered in a PCORC filing; and
5 whether updates to a filing may be made, depending on ease of verification and
6 discovery. In addition, the collaborative will also investigate whether to set rates
7 using forward market prices, instead of prices generated by the Aurora Model, and
8 the definition of short-term resources in allowable PCA costs. Thus, the basic
9 question of what constitutes a PCORC is currently at issue. *WUTC v. Puget*
10 *Sound Energy, Inc.*, Docket No. UE-070565, Order 07, Appendix A.

11
12 **Q. When do the parties in the PSE PCORC collaborative expect to finish the**
13 **review?**

14 A. The parties intend to finish the review prior to the filing of PSE's next general rate
15 case, which is expected to be filed no later than April 15, 2008. Any agreements
16 reached by the parties will be presented in that rate proceeding for Commission
17 approval, and any issues upon which there is disagreement may be presented by
18 any party for Commission consideration.

1 **Q. Will the Commission's acceptance of the Staff recommendation to delay a**
2 **decision on the Company's request for a PCORC, until conclusion of PSE's**
3 **PCORC review adversely impact Avista?**

4 A. Staff believes it is unlikely that a delay will be detrimental or will have adverse
5 impacts on Avista for the following reasons:

6 1. The Energy Recovery Mechanism ("ERM") will continue to operate and
7 capture the net power cost variances as it is designed to do, regardless of
8 the absence or presence of a PCORC. The incremental increases as well
9 as decreases to the base net power costs tracked by the ERM will not be
10 affected by a PCORC, because the dead band and sharing bands will
11 continue to operate and the resulting debits or credits will be accounted for
12 as usual.

13 2. Major production capital additions such as Colstrip Units 3 and 4 capital
14 improvements and the hydro facilities upgrades for Cabinet Gorge Units 2
15 and 4 and Noxon Unit 4 have been completed or are expected to be
16 completed in 2007, with their costs either already embedded in the test
17 year results of operations or pro formed as ratemaking adjustments. *Adj.*
18 *PF7 Exhibit No. __ (EMA-2) page 9. Exhibit No. __ -T (RLS- IT), pages*
19 *11, 12. Furthermore, planned annual hydro project upgrades will not start*
20 *until 2009, with completion of all upgrades currently planned by 2012.*
21 *Exhibit No. __ -T (RLS-IT), page 11. Also, the resource acquisition*
22 *schedule presented in Avista's 2007 IRP indicates that the Company will*

1 need new resources to meet growing demand no sooner than 2010.

2 *Company Response to Staff Data Request No. 53 regarding IRP resources*

3 *acquisitions. Avista 2007 Electric Integrated Resource Plan, p.8-7.*

4 3. Post test year transmission costs are similarly pro formed in the results of
5 operations that form the basis for prospective rates in this proceeding, and
6 as Company witness Mr. Kinney testifies, Avista is in its last year of a
7 multi-year transmission upgrade project (2003 to 2007). *Adj. PF6 Exhibit*
8 *No. ____ (EMA-2) page 9, Exhibit No. ____ -T (SJK-1T), page 2.*

9 4. As to the potential need to invest in renewable resources as a result of
10 Initiative Measure 937, Avista indicated that there is no planned
11 investment on this type of resource prior to 2011. *Company Response to*
12 *Staff Data Request No. 56.*

13 5. Avista witnesses Mr. Malquist and Mr. Avera observed that the views of
14 investors and rating agencies on Avista's overall investment risk or equity
15 return are not affected by the ERM, decoupling, and the proposed
16 PCORC. *Exhibit No. ____ -T (MKM-1T) p.23; Exhibit No. ____ -T (WEA-*
17 *1T), p.44.*

18 6. Finally, nothing precludes Avista from deciding to immediately file
19 another general rate case, if the Company deems it absolutely necessary.
20

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

22 A. Yes, it does.