

Exhibit No. JLB-1T
Dockets UE-160228/UG-160229
Witness: Jason L. Ball

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-160228 and
UG-160229 (*Consolidated*)**

TESTIMONY OF

JASON L. BALL

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Cost of Service
Rate Design
Rate Spread

August 17, 2016

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LIST OF EXHIBITS

Exhibit No. JLB-2	Comparison of Rate Spread Proposals
Exhibit No. JLB-3	Staff Electric Rate Design
Exhibit No. JLB-4	Staff Natural Gas Rate Design

1
2
3 **I. INTRODUCTION**

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

5 A. My name is Jason L. Ball. My business address is the Richard Hemstad Building,
6 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
7 Washington 98504.

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (Commission) as a Regulatory Analyst. Among other duties, I am responsible for
11 policy, economic, financial, and accounting analysis, and for evaluating certain
12 power supply issues of the investor-owned electric and gas utilities under the
13 jurisdiction of the Commission.

14
15 **Q. How long have you been employed by the Commission?**

16 A. I have been employed by the Commission since June 2013.

17
18 **Q. Would you please state your educational and professional background?**

19 A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-
20 major in Economics and Government. In 2013, I graduated with honors from New
21 Mexico State University with a Master of Economics degree specializing in Public
22 Utility Policy and Regulation.

23

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I testified on power supply, operations and maintenance expense, and other
3 accounting adjustments in Avista Corporation's (Avista or Company) general rate
4 case (GRC) in Docket UE-150204. I presented power supply and load forecasting
5 testimony in Avista's GRC in Docket UE-140188. I sponsored testimony in Pacific
6 Power & Light Company's (Pacific Power) GRC in Docket UE-152253 on overall
7 policy, revenue requirement, rate plans, decoupling, decommission and remediation
8 reporting, and the Idaho Asset Exchange. I also sponsored testimony in Pacific
9 Power's GRC in Docket UE-140762 on overall policy, revenue requirement,
10 inflation factors, and the Merwin Fish Collector accounting deferral. I presented an
11 economic feasibility study relating to line extensions in Docket UE-141335. I co-
12 sponsored joint testimony in Puget Sound Energy's (PSE) power cost only rate case
13 in Docket UE-141141.

14

15 **Q. What topics will you be discussing in your testimony?**

16 A. I will be presenting Staff's review of the Company's proposed cost of service study
17 (COSS). I will also present Staff's proposed rate design and rate spread based on the
18 analysis of the Company's proposed COSS.

19

20 **Q. Please summarize Staff's recommendations regarding cost of service, rate
21 spread and rate design.**

22 A. Staff recommends that the Commission institute a generic proceeding to review cost
23 of service methodologies for all IOUs in Washington. Further, Staff recommends

1 that the Commission defer all major decisions regarding any specific cost of service
2 methodology in the present case to that generic proceeding.

3 Consistent with this proposal, Staff recommends maintaining the status quo
4 with respect to rate spread and rate design. Maintaining the status quo would
5 include:

- 6 1. Spreading the proposed rate increases across all customer classes on
7 an equal percentage basis;
- 8 2. Accepting the Company's proposal regarding modest increases to
9 demand charges; and,
- 10 3. Rejecting the Company's proposal to increase basic charges.

11
12 **Q. Have you prepared any exhibits to show Staff's proposed rate design and rate**
13 **spread using Staff's proposed revenue requirement?**

14 A. Yes.

- 15 • Exhibit No. JLB-2 is a comparison of Staff and the Company's proposed rate
16 spread.
- 17 • Exhibit No. JLB-3 is a breakdown of Staff's proposed electric rate design
18 with the \$25,565,000 revenue requirement increase discussed by Staff
19 witness Ms. Joanna Huang.
- 20 • Exhibit No. JLB-4 is a breakdown of Staff's proposed natural gas rate design
21 with the \$700,000 revenue requirement increase discussed by Staff witness
22 Ms. Joanna Huang.

1 **Q. Has such a generic proceeding been proposed in a previous case or settlement?**

2 A. Yes. In the PSE cost of service collaborative, Docket UE-141368, the settling
3 parties committed—

4 to participate in a generic proceeding, initiated or allowed by the
5 Commission, to address cost of service allocation methodologies for
6 all system costs across all three electric investor-owned utilities. The
7 Settling Parties intend for that proceeding to allow PSE and all
8 interested interveners “to fully present their viewpoints on cost of
9 service and allocation methodologies with the goal of receiving
10 consistent policy direction from the Commission, and in that
11 proceeding no party will be bound by any cost of service or allocation
12 agreements in this [S]ettlement.”²

13

14 **Q. Why does Staff recommend engaging in a generic proceeding rather than**
15 **simply presenting a preferred methodology in the current GRC?**

16 A. Although Staff could have presented a COSS in the present case, such a presentation,
17 and any resulting order by the Commission, would apply only to Avista. Staff is
18 concerned that divergent cost of service treatment across the IOUs in Washington
19 will impact similarly situated ratepayers inconsistently. For example, Pacific Power
20 uses a Peak & Average method for calculated rates, but Avista uses the Peak Credit
21 methodology. If Staff were to propose a change in methodology in the present case,
22 the proposal would only apply to one company. A generic docket allows the
23 Commission to address this issue in one fell swoop, avoiding ad hoc considerations
24 of cost of service proposals across numerous general rate cases. Further, this
25 promotes the development of a consistent methodology that can be applied to all
26 IOUs.

² *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-141368, Order 03, 3, ¶ 8 (Jan. 29, 2015) (internal citations omitted).

1 **B. Background**

2
3 **Q. What is a Cost of Service Study?**

4 A. A COSS identifies the costs to serve the customers of each schedule and compares
5 the costs to the total revenue provided by each schedule. The rate base, revenue, and
6 expenses are divided proportionally based on the service provided to each group of
7 customers. This allows rates to be set properly for individual customer groups,
8 called customer classes.

9 COSS principally relies on cost causation for assigning costs. However,
10 multiple methodologies exist for assigning costs to individual customer classes.
11 Each of these methodologies has a variety of strengths and weaknesses.

12
13 **Q. How does a COSS affect rates?**

14 A. A COSS is a useful guide for determining a rate spread that allows the Company to
15 recover the appropriate level of revenue from each customer class. In rate design,
16 the breakdown among fixed basic, demand, and volumetric charges is informed by
17 the division of costs into each functional category. The principle output of a COSS,
18 called a parity ratio, is an important input into developing a final cost-based rate,
19 though other factors may be considered by the Commission. I discuss each of these
20 factors in the rate spread section of my testimony.

1 **Q. What is a parity ratio?**

2 A. A parity ratio shows the extent to which a customer class or rate schedule is paying
3 the cost to serve them. For example, a rate schedule with a parity ratio of 1.05 is
4 paying 105 percent of the costs that are assigned to that schedule through the COSS.

5
6 **Q. How should the Commission use the parity ratios from a COSS to allocate**
7 **revenues?**

8 A. The parity ratios are an important aspect of the allocation of any revenue requirement
9 increase or decrease. A parity ratio that falls outside of a target range may be
10 considered unreasonable or unfair. For example, a rate schedule with a parity ratio
11 well below 1.00 means that schedule is essentially being subsidized by other rate
12 schedule(s).

13 However, parity ratios are not the only consideration in establishing cost-
14 based rates. Furthermore, the more uncertainty surrounding a COSS, the less precise
15 these ratios should be considered to be.

16
17 **Q. Is it important to achieve a parity ratio of 1.00 for all rate schedules?**

18 A. No, especially if you consider that different intervenors may rely upon different cost
19 of service studies with different resulting parity ratios for any given rate schedule.
20 The results of any given COSS, and its associated parity ratios, should inform the
21 Commission's judgment when it assigns proportions of an average rate increase.

22
23

1 **C. Electric Cost of Service**

2
3 **Q. Please describe the Electric COSS presented by the Company in this Case.**

4 A. The COSS presented by the Company is based on the peak credit methodology
5 previously approved by the Commission and is the same COSS that has been used in
6 the Company's last four GRCs.³ The Company has proposed no change to its
7 electric cost of service methodology in this case.

8
9 **Q. What are your conclusions regarding the Electric COSS presented by the**
10 **Company?**

11 A. Overall, the Electric COSS is consistent with those of the Company's prior filings.
12 However, Staff is concerned about the results of the proposed Electric COSS because
13 the Commission has not explicitly approved a COSS for Avista since before 2005.⁴
14 Through a generic proceeding, Staff sees potential in exploring the topics outlined
15 below, among others.

- 16 • The breakdown of generation versus demand related costs and the use of
17 additional data points, such as the 200 Coincident Peak or Average &
18 Excess methodologies.
19 • The breakdown of customer versus distribution related costs. For
20 example, whether pole transformers should be included in customer
21 related costs.

³ Knox, Exh. No. __ (TLK-1T) 12:6-7.

⁴ Company Response to UTC Staff Data Request No. 151.

- 1 • The treatment of transmission related costs using different methodologies
- 2 and the resulting breakdown between demand and energy.
- 3 • The assignment of costs directly related to specific customers or accounts.
- 4 • The impact of recent technology changes on measuring cost of service,
- 5 such as smart grid and wider adoption of demand meters.
- 6 • The appropriate designation of similarly situated customers into unique
- 7 classes and the impact of individual customers on specific schedules.
- 8 • The impact from new customer classes that may not be currently
- 9 accounted for, such as distributed generation customers.
- 10 • The appropriate method for allocating attrition-derived costs in an electric
- 11 COSS.

12 These issues are relevant to all IOUs' cost of service. Rather than litigate every issue
13 for each company separately with different stakeholder groups and potentially
14 arriving at inconsistent results, Staff proposes resolving all issues in a single, generic
15 proceeding.

16
17 **Q. Are you suggesting that the Company's electric COSS cannot be relied upon at**
18 **all in the present case?**

19 A. No. Although Staff is concerned with the precision of the results from the
20 Company's proposed COSS, this does not render the current methodology or its
21 presentation irrelevant. The COSS should be considered *directionally* accurate for
22 the purpose of setting rates.

1 Further, a COSS is not the sole factor used by the Commission in setting
2 rates. As discussed in the rate spread section of my testimony, the Commission also
3 relies on “fairness, perceptions of equity, economic conditions in the service
4 territory, gradualism, and rate stability.”⁵

5
6 **D. Natural Gas Cost of Service**

7
8 **Q. Please describe the Natural Gas COSS presented by the Company in this case**

9 A. The Company’s proposal is based on Avista’s previously proposed COSS in its 2015
10 GRC, Docket UG-150205. The principle basis for the Company’s natural gas cost-
11 of-service proposal is the peak and average methodology.⁶ Here, as in the previous
12 case, the Company proposes to split the allocation of distribution mains based on
13 size, among other reasons, to better reflect Avista’s distribution system.⁷

14 Additionally, the Company uses a 4-factor allocator that blends several components
15 to better reflect the relationship of administrative and general costs and general plant
16 to their use.⁸ The 4-factor allocator is also used in the Commission Basis Reports.

17
18 **Q. Do you agree with the Company’s proposed assignment of distribution mains**
19 **and the use of a 4-factor allocator?**

⁵ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, 124-25, ¶ 350 (May 7, 2012).

⁶ Miller, Exh. No. __ (JDM-1T) 10:15-23.

⁷ *Id.* at 11:15-18.

⁸ *Id.* at 11:1-7.

1 A. In principle, yes. The Company has proposed a well-designed allocation
2 methodology for assigning costs among customer classes. The Company's proposed
3 main allocation is consistent with the approach proposed by Staff in Avista's 2012
4 and 2014 GRCs.⁹ The 4-factor approach for assigning general plant and other
5 administrative and general costs was also proposed by Staff in the Company's 2014
6 GRC.¹⁰ Staff is encouraged that the Company has presented these recommendations
7 in this case. Even though these approaches are consistent with Staff's previous
8 recommendations, a generic proceeding would provide the best forum to fully
9 discuss and consider the Company's methodology.

10

11 **Q. How will generic proceedings on electric and gas COSS help in deciding issues**
12 **that are already before the Commission?**

13 A. COSS generic proceedings will allow the Commission to analyze all aspects of
14 natural gas (and electric) cost of service, for all IOUs. The Company has presented a
15 reasonable approach to allocating costs across customer classes that reflects the
16 operation of the system.¹¹ However, natural gas cost of service may be impacted by
17 additional issues, including those listed below, that could be addressed in a generic
18 proceeding.

- 19
- The breakdown of customer versus distribution related costs.
 - The assignment of costs directly related to specific customers or accounts.
- 20

⁹ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-120436 and UG-120437, Direct Testimony of Christopher T. Mickelson, Exh. No. CTM-1T 36:8-15; *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 and UG-140189, Direct Testimony of Christopher T. Mickelson, Exh. No. CTM-1T 57:8-15.

¹⁰ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 and UG-140189, Direct Testimony of Christopher T. Mickelson, Exh. No. CTM-1T 52:10-12.

¹¹ Company's Response to NWIGU Data Request No. 2.8.

- 1 • The impact of recent technology changes on measuring cost of service.
- 2 • The appropriate designation of similarly situated customers into unique
- 3 classes and the impact of individual customers on specific schedules. For
- 4 example, special contracts may need to be a separate customer class.
- 5 • The classification and allocation of underground storage plant costs.
- 6 • The appropriate method of allocating attrition-derived costs in a natural
- 7 gas COSS.

8 The Company's proposed distribution main allocation is not unique to Avista: it was
9 also proposed by PSE in Docket UG-111049.¹² Deliberating such changes for the
10 IOUs in a single proceeding is much more efficient than litigating each potential
11 change in separate cases. Further, the impact of a single modification in
12 methodology could be reduced or completely reversed by another. These offsetting
13 changes reflect the inherit problem with one-off alterations and lend support for
14 instituting generic proceedings. The generic proceedings allow the Commission to
15 identify and address all inputs that could impact cost of service, before instating a
16 new cost of service methodology.

17
18 **Q. Can the Commission rely upon the COSS presented by the Company?**

19 A. Yes. In Staff's opinion, the results of the Company's COSS can be considered
20 *directionally* accurate. For instance, the parity ratio for transport customers
21 (Schedule 146) in the Company's COSS is 0.82. Using Staff's proposed revenue

¹² *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Direct Testimony of Janet K. Phelps, Exh. No. JKP-1T 20:19 - 21:7. Ultimately, PSE's proposal was not a component of the settlement stipulation in that docket.

1 requirement (which includes an attrition adjustment) and rejecting the change in
2 main allocations decreases the relative costs assigned to transport customers by 19
3 percent. This still results in a parity ratio less than 1.00. In both cases, the COSS
4 implies that the revenues from transportation customers are not recovering the full
5 level of costs to serve those customers. While imprecise, the COSS presented by the
6 Company does illustrate the relationship between particular customer classes and the
7 service being provided to them. In conjunction with several other factors, a COSS
8 may explain the appropriateness of a rate spread that is above (or below) the average
9 overall increase (or decrease).

11 III. RATE SPREAD

12
13 **Q. What is rate spread?**

14 A. Rate spread is the division of a revenue requirement increase among the various
15 customer classes. For example, given Staff's recommended average electric rate
16 increase of 5.14 percent, then, depending on the COSS and other factors, some
17 customer classes may receive an increase that is higher or lower than average.

18
19 **Q. Please describe Staff's proposed rate spread for electric and natural gas service.**

20 A. For all rate schedules, Staff proposes spreading any increase to rates amongst the
21 customer classes uniformly. This proposal addresses several important factors that

1 the Commission routinely considers in establishing rate spread, including those
2 below.¹³

- 3 • Appearance of fairness – a uniform rate spread treats all customers
4 equally in the application of any rate increase.
- 5 • Perceptions of equity – as discussed above, the COSS presented by the
6 Company is directionally accurate but not necessarily precise. Therefore,
7 although certain classes are below or above parity, it may aggravate
8 existing equity problems to apply anything other than the average rate
9 increase to specific customer classes.
- 10 • Economic conditions in the service territory – under Staff’s proposed rate
11 design, the bulk of any rate increase is included in the demand and
12 volumetric charges. Since these are based on usage, customers have the
13 option of reducing electric or natural gas consumption to mitigate bill
14 impacts.
- 15 • Rate stability – As discussed by Mr. Hancock, Staff’s proposed rate is for
16 an 18-month period, reducing the frequency of rate changes over the next
17 year-and-a-half.

18 Attached as Exhibit No. JLB-2 is a comparison of Staff’s proposed rate spread with
19 the Company’s.

20
21 **Q. Please describe the Company’s proposed rate spread for electric and natural**
22 **gas service.**

¹³ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, 124-25, ¶ 350 (May 7, 2012).

1 A. The Company's proposed rate spread for electric service attempts to align each of the
2 electric schedules 17.5 percent closer to the parity point as determined by the COSS
3 presented by the Company.¹⁴ For gas service, the Company's proposed rate spread
4 brings the schedules 25 percent closer to parity for all customer schedules.¹⁵
5

6 **Q. Please describe the flaws you see in the Company's proposed rate spread for**
7 **both electric and natural gas.**

8 A. The Company's proposed rate spread is consistent with its proposed COSS.
9 However, given Staff's analysis presented in the previous sections, the precision of
10 the Company's COSS is concerning. Therefore, Staff recommends that the
11 Company's proposed rate spread be tempered by other factors that the Commission
12 normally considers when addressing rate spread. These factors are addressed by
13 using Staff's proposed rate spread.
14

15 **Q. Does Staff's proposal have the potential to exacerbate any cross-class**
16 **subsidization that may currently exist?**

17 A. Possibly. Without a completely accurate COSS, however, it is impossible to tell if
18 cross-class subsidization exists or, accordingly, whether a specific customer class
19 should be assigned a higher- or lower-than-average increase.¹⁶ Further, it does not
20 help to address out-of-balance parity ratios if, in the next case, those ratios flip due to

¹⁴ Ehrbar, Exh. No. __ (PDE-1T) 7:6.

¹⁵ *Id.* at 21:22.

¹⁶ As I use it here, the phrase "completely accurate" has two components: 1) correct mathematical calculations regarding the chosen method; and, 2) alignment with the Commission's preferred methodology and goals for cost of service.

1 a change in methodology. In such circumstances, cross-class subsidization would
2 simply be traded for intergenerational inequity.

3
4 **IV. RATE DESIGN**

5
6 **Q. What is rate design?**

7 A. Rate design is the breakdown into rates of the different costs identified by the COSS
8 for each customer schedule. There are generally three types of charges: fixed basic
9 charges, demand charges, and volumetric charges.

10
11 **Q. Has the Company proposed any changes to rate design in this case?**

12 A. No structural changes have been proposed by the Company. However, the Company
13 has proposed to increase the basic charges of several schedules based on the results
14 of the COSS. This is summarized in the tables below.

15

Electric Service	Current Rate	Company Proposed
Residential (Sched 1)	\$8.50	\$9.50
General (Sched 11)	\$18.00	\$20.00
Pumping (Sched 31)	\$18.00	\$20.00

16

Natural Gas Service	Current Rate	Company Proposed
General Service (Sched 101)	\$9.00	\$9.50
Transportation Service (Sched 146)	\$525.00	\$550.00

17 The Company also proposes a change to its offer of High Pressure Sodium
18 Vapor ("HPS") lights under schedules 42 and 47, which closes it to new customers.

1 **Q. Do you support the Company's proposal to increase the basic charges for**
2 **electric and natural gas residential customers?**

3 A. No. The Company has not sufficiently demonstrated that increases to the basic
4 charge are justified, particularly given that 2016 is the first year that the Company's
5 decoupling mechanism is in place. The Commission issued clear guidance on
6 increases to basic charges in Pacific Power's 2010 GRC, Docket UE-100749, stating:

7 [M]any customers will view any basic charge increase as an
8 additional increase above and beyond the rates approved in this Order.
9 Those customers will not take into account the offsetting decrease in
10 energy charges that would accompany an increase in their basic
11 charge. Given the significant increase in rates approved in this Order,
12 we do not want to wish to add to the rate burden already imposed on
13 customers, whether real or perceived. Not recovering some of the
14 "basic" costs through the basic charge does not mean those costs will
15 not be recovered; rather, those costs will just be recovered through the
16 variable charges.

17 Finally, . . . lower energy charges could result in reduced
18 deployment of energy efficiency. While no party presented empirical
19 evidence tying a reduced energy charge to the performance of the
20 Company's energy efficiency program, there is sufficient testimony to
21 establish a logical relationship between lower energy charges and
22 customer interest in energy efficiency. As energy charges decrease
23 relative to increased basic charges, a customer's energy efficiency
24 investment recovery period is extended, which may negatively affect
25 a customer's decision to invest in energy efficiency efforts.¹⁷

26 With the adoption of decoupling, the Company has a mechanism that
27 guarantees the recovery of an approved level of revenue. Increasing basic charges is
28 only justified, therefore, when: 1) there is a corresponding increase in specific
29 customer related costs; and, 2) any offsetting impact on energy efficiency or
30 conservation measures is sufficiently accounted for. The Company's only

¹⁷ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-100749, Order 06, 114, ¶¶ 333-34 (Mar. 25, 2011) (internal citations omitted).

1 justification for this increase is that “the fixed costs of operating and maintaining our
2 electric system are increasing.”¹⁸ This is not sufficient.

3
4 **Q. Do you support the Company’s proposal to increase demand charges across
5 several electric schedules?**

6 A. Yes. The Company’s proposal ensures that demand-related price signals remain
7 intact throughout the affected schedules.¹⁹ It is important to provide incentives to
8 customers to reduce their peak usage, which, in turn, reduces the Company’s need
9 for expensive peak energy resources.

10
11 **Q. Do you support the Company’s proposal to discontinue offering HPS lights to
12 new customers?**

13 A. Yes. The Company’s proposal is consistent with the Company’s biennial
14 conservation plan to replace 15,148 HPS fixtures in Washington by 2019.²⁰

15
16 **Q. Have you prepared an exhibit detailing the differences between the Company’s
17 proposed rate design and Staff’s?**

18 A. Yes. Included in Exhibit No. JLB-3 is the impact of changes described for each of
19 the individual electric rate schedules. Exhibit No. JLB-4 is the same information for
20 natural gas service.

21

¹⁸ Ehrbar, Exh. No. __ (PDE-1T) 11:13-14.

¹⁹ Ehrbar, Exh. No. __ (PDE-1T) 13:6-17.

²⁰*In the Matter of Avista Corp.*, Docket UE-152076, Ten-Year Achievable Conservation Potential and Biennial Conservation Target, 21 (Nov. 9, 2015).

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

2 **A. Yes.**