Exhibit BGM-11T
Dockets UE-200900/UG-200901/UE-200894
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. AVISTA CORPORATION d/b/a AVISTA UTILITIES Respondent.	DOCKETS UE-200900, UG-200901, UE-200894 *(Consolidated)*
In the Matter of the Petition of AVISTA CORPORATION d/b/a AVISTA UTILITIES, For an Accounting Order Authorizing Accounting and Ratemaking Treatment of Costs Associated with the Company's Wildfire Resiliency Plan.	

CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

May 28, 2021

I. INTRODUCTION

Q. ARE YOU THE SAME WITNESS WHO FILED RESPONSE TESTIMONY IN THIS MATTER?

A. Yes. On April 21, 2021, I submitted Response Testimony in this matter on behalf of the Alliance of Western Energy Consumers ("AWEC") regarding the revenue requirement of Avista Corporation d/b/a Avista Utilities ("Avista").

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. I respond to the Response Testimony filed by Staff and Public Counsel regarding the tax accounting changes and the associated regulatory liability approved in Docket Nos. UE-200895 and UG-200896. I also discuss rate design for electric Schedule 25 in response to the proposal of Inland Empire Paper Company for a special contract, with has now been incorporated into a Partial Multiparty Settlement Stipulation ("Stipulation") filed in these dockets on May 27, 2021. AWEC supports the Stipulation for reasons that will be discussed in testimony supporting the Stipulation, to be filed on or before June 25, 2021.

II. TAX ACCOUNTING CHANGE

Q. WHAT WAS YOUR RECOMMENDATION FOR THE TAX ACCOUNTING CHANGE REGULATORY LIABILITY IN RESPONSE TESTIMONY?

A. In connection with tax accounting changes for meters and IDD#5 shared services expenditures, Avista has, as of December 31, 2020, recognized regulatory liability balances of $58,136,820 for electric services and $28,200,361 for natural gas services. In Response Testimony, I disagreed with Avista's recommendation of spreading the amortization of this regulatory liability in a manner that offsets the revenue requirement increase in this case over a one-year period, followed by a 10-year amortization for the remaining balances. I noted that such an approach will result in embedding a significant rate increase once the first-year amortization expires. Accordingly, I recommended a fixed amortization over a five-year period.[1/]

Q. WHAT DID STAFF RECOMMEND?

A. Staff witness Ehrdal proposes amortizing the regulatory liability through separate rate schedules - Schedule 76 for electric and Schedule 176 for natural gas.[2/] Staff proposes allocating the sur-credit revenues in proportion to the rate base of the respective rate classes.[3/] Staff endorses its allocation proposal based on the position that rate base was how the deferred taxes associated with the regulatory liability were collected from customers. Finally, Staff proposes bifurcating the amortization between Excess Deferred Federal Income Tax ("EDFIT") and Accumulated Deferred Federal Income Tax ("ADFIT") amounts. With respect to the EDFIT amounts associated with the regulatory liability, Staff recommends a one-year amortization. With respect to the ADFIT balances, Staff recommends amortizing the regulatory liability balance over the life of the underlying plant.

Q. DO YOU SUPPORT STAFF'S RECOMMENDATION FOR A SEPARATE TARIFF?

A. Yes. Including the sur-credit revenues in a separate tariff provides a method to track the total amounts refunded to customers in order to determine whether the balance had been over- or under-collected.

1/ Mullins, Exh. BGM-1T at 70.
2/ Erdahl, Exh. BAE-1T at 12:20-21
3/ See Erdahl, Exh. BAE-8.

Q. DO YOU SUPPORT STAFF'S RECOMMENDATION TO ALLOCATE THE SUR-CREDIT REVENUES IN PROPORTION TO RATE BASE?

A. Yes. Under Staff's approach, large customers receive a smaller allocation of the sur-credit compared to a volumetric allocation performed on an equal cents per kilowatt-hour or equal cents per therm basis. Staff's approach is reasonable, however, because it partially recognizes the way that the underlying ADFIT and EDFIT was being allocated to the respective customer classes.

Q. IS STAFF'S APPROACH CONSISTENT WITH HOW DEFERRED TAXES ARE COLLECTED FROM EACH CUSTOMER CLASS?

A. No. While AWEC supports Staff's approach in this case, it is necessary to note here that, in the context of Avista's cost of service study, deferred income taxes are not actually allocated in proportion to rate base. While ADFIT and EDFIT are allocated in proportion to rate base, the deferred tax expense included in the income statement, which gives rise to ADFIT and EDFIT, is allocated in proportion to net operating income. Thus, rate classes with a higher allocated net operating income pay a higher proportion of deferred taxes. In future cases, it may be worthwhile to further consider how deferred tax expenses are being allocated amongst the customer classes, although for purposes of this case AWEC does not oppose Staff's approach to use rate base for allocating the tax accounting change regulatory liability.

Q. DO YOU SUPPORT THE AMORTIZATION STRUCTURE PROPOSED BY STAFF?

A. No. I continue to recommend a simpler approach of a flat, five-year amortization for both ADFIT and EDFIT.

Q. WHY IS IT NOT PREFERABLE TO ALLOCATE THE REGULATORY LIABILITY BALANCES ASSOCIATED WITH EDFIT OVER ONE YEAR?

A. The EDFIT portion of the regulatory liability is material, consisting of $10,300,000 for electric services and $4,800,000 for natural gas services. Allocating these amounts over a single year is not preferred because it will result in offsetting increases to rates following the expiration of the one-year amortization period. From my perspective, it is preferable to amortize the entire regulatory liability balance over the same period so that the amortization amount remains fixed. With a fixed amortization amount, ratepayers avoid unnecessary rate increases that will otherwise occur if the amortization amount changes. Such an approach promotes rate stability.

Q. WHY DO YOU ALSO RECOMMEND A 5-YEAR AMORTIZATION FOR THE ADFIT BALANCES?

A. Amortizing the ADFIT liability balances over the remaining life of the assets in Staff's proposal is contrary to the purpose of making the tax accounting changes and the decision to move to flow-through accounting for these items. The Commission approved the accounting change and flow-through accounting in Docket Nos. UE-200895 and UG-200896. Amortizing the freed-up ADFIT balances over the remaining life of the assets, however, mimics the treatment under normalization accounting, rather than the flow-through accounting the Commission approved. If it were the Commission's preference to maintain the lengthy amortization period required by normalization, the Commission could have rejected Avista's application and continued using normalization accounting. Since flow-through accounting was approved, however, I recommend that it be used in a way that benefits ratepayers and promotes rate stability. A five-year amortization period best balances those objectives. Given the revenue requirement amounts at issue in this case, a five-year amortization results in a material benefit to customers in this case but also spreads the benefit over a long enough time to avoid rate instability.

Q. WHAT DID PUBLIC COUNSEL PROPOSE WITH RESPECT TO THE TAX ACCOUNTING CHANGE REGULATORY LIABILITY?

A. Public Counsel witness Crane proposes the Commission adopt an amortization that will eliminate the first year electric or gas increase in this case.[4/] Further, Public Counsel witness Watkins recommends that the allocation of the tax accounting change regulatory liability be designed in a way that exactly offsets any base rate increases for each customer class authorized for both electric and natural gas services.[5/] Public Counsel also agrees with Avista's proposed rate design that spreads any rate increase equally to all customer classes.[6/]

Q. DO YOU AGREE WITH PUBLIC COUNSEL'S RECOMMENDATIONS?

A. Not entirely. It is preferable to adopt an amortization approach for the tax liability that is agnostic to the revenue requirement change that the Commission approves in this case. The revenue requirement increase and the amortization of the regulatory liability are two separate issues, and need to be considered as such. To the extent that a fixed amortization is more or less than any rate increase that may be approved in this case, it is preferable to pay the difference in rates now because doing so will avoid a potential future rate increase when the higher first-year amortization would otherwise expire.

4/ Crane, Exh. ACC-1T at 46.
5/ Watkins, Exh. GAW-1T at 26:3-9.
6/ Id. at 27:6-8.

Further, Staff's recommendation to allocate the sur-credits based on rate base already results in residential customers receiving a larger portion of the sur-credit amounts relative to the other classes. Accordingly, allocating the sur-credits on the basis of the revenue requirement increase for each rate class, as Public Counsel proposes, is not necessary. AWEC recognizes that, in light of the COVID-19 pandemic, the circumstances of this case are unique. Notwithstanding, those circumstances are better considered in the overall rate spread, rather than the allocation of the tax accounting change regulatory liability.

Q. DOES AWEC OPPOSE PUBLIC COUNSEL'S RECOMMENDATION FOR AN EQUAL SPREAD OF THE RATE INCREASE TO CUSTOMER CLASSES IN THIS CASE?

A. Not in the context of this rate case. While Avista's cost of service study shows residential customers paying below their cost of service, and other customer classes paying above their cost of service, the COVID-19 pandemic has affected all customers in ways that are not consistent either within or across customer classes. Given the unique circumstances in which this case is being litigated, AWEC does not oppose Public Counsel's rate spread proposal.

III. ELECTRIC SCHEDULE 25 RATE DESIGN

Q. PLEASE SUMMARIZE AWEC'S RESPONSE TO TESTIMONY FILED BY INLAND EMPIRE PAPER COMPANY.

A. Inland Empire Paper Company ("IEP") filed testimony proposing a special contract based on an economic bypass opportunity. Given IEP's proposal and its discussion of the cost of servicing IEP, AWEC recommends that the Schedule 25 rate design be modified to be consistent with the costs of serving incremental energy for Avista's largest customers.

Q. WHAT RATE DESIGN DOES AVISTA PROPOSE FOR SCHEDULE 25?

A. Avista proposes that Schedule 25 demand charges remain unchanged and that Schedule 25 energy charges be increased by an equal percent across all three energy blocks.[7/]

Q. WHAT DOES AWEC PROPOSE FOR SCHEDULE 25?

A. If the Commission approves a rate increase, AWEC proposes both demand charges and the third energy block rates remain unchanged, and that the rates for the first two energy blocks (usage for the first 6 million kWh per month) be changed by an equal percent.

Q. WHY DOES AWEC MAKE THIS PROPOSAL?

A. A long held and undisputed tenant of economics is that economically efficient decisions are made when the price faced by consumers represent marginal costs. In other words, industrial energy consumers will make efficient use of energy when the incremental energy rate reflects the incremental cost of production. IEP has shown that the incremental cost of production for Avista's largest energy consumers is far below the actual cost to Avista.[8/] Several factors contribute to this, including the need for Avista to recover its fixed costs, and Schedule 25's large subsidy of other rate classes.[9/] AWEC proposes keeping the third energy block rate unchanged with a goal of reducing the gap between the cost of serving Schedule 25 customers and their ultimate revenues.

[7/] Miller, Exh. JDM-1T at 10:17-22.

[8/] Kaufman, Exh LDK-1T.

[9/] Avista's cost of service study shows Schedule 25 rates are substantially above cost of service and Avista's proposed rate spread makes no move towards parity for Schedule 25. Exh. JDM-1T, Table No. 3.

Q. HOW DOES AWEC'S PROPOSAL MAKE PROGRESS TOWARDS MORE EFFICIENT RATES?

A. Under AWEC's proposal, more of Schedule 25's allocation of fixed costs and cost subsidies will be recovered through the first two energy blocks. Most of the energy consumed on Schedule 25 is in the first two blocks.[10/] This means that holding the third block rate flat will have little to no impact on the final rates for the first two blocks. However, it will bring the third block closer to an economically efficient rate.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes.

[10/] See Miller Electric Workpapers, tab "WA Sch 25." This assumes that the third block load identified in the referenced workpaper is load that would transition to a special contract under the settlement.