Exh. ELJ-1T
Dockets UE-200900, UG-200901, UE-200894
Witness: Elaine L. Jordan

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*)**

TESTIMONY OF

Elaine L. Jordan

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Electric Pro Forma Revenue Normalization 3.01
Cost of Service
Rate Spread
Rate Design
Bill Impact
Pricing Pilots

April 21, 2021

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Elaine L. Jordan, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is elaine.jordan@utc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Energy Regulation Section of the Regulatory Services Division.

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

A. I have been employed by the Commission since September 2018.

Q. Please state your qualifications to provide testimony in this proceeding.

A. I graduated with honors from Oregon State University in 2017 with a Bachelor of Science degree in Environmental Economics and Policy. The following year, I earned a Master of Science degree in Applied Economics, also from Oregon State University. Since then, I have attended in-depth training in rate regulation: The Basics Practical Regulatory Training (October 2018) hosted by The New Mexico State Center for Public Utilities; and Transformational Electric Pricing: Advanced

Seminar in Utility Rate Theory, Methods, and Applications (September 2019) hosted by the Financial Research Institute. In May 2020 I completed a Graduate Certificate in Public Utility Regulation and Economics through New Mexico State University.

I was the lead for the Commission's cost of service rulemaking, Dockets UE-170002 and UG-170003. I have provided formal recommendations to the Commission through filed memoranda in Docket UG-180794, Puget Sound Energy's (PSE's) 2018 purchased gas adjustment, and in Dockets UE-190231 and UG-190232, PSE's 2018 annual decoupling true-up. Currently, I am the Staff lead facilitating the development of monitoring and reporting plans for pricing pilots approved for PacifiCorp in Docket UE-191024.

Q. Have you testified previously before the Commission?

A. Yes. I provided testimony on decoupling mechanisms in Dockets UE-190334 and UG-190335, Avista Corporation's ("Avista's" or "Company's") 2019 general rate case (GRC).

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the scope and purpose of your testimony?

A. I address the Company's: 1) electric adjustment 3.01 – E-PREV, pro forma revenue normalization; 2) electric and natural gas cost of service studies; 3) electric and natural gas rate spread; and 4) electric and natural gas rate design. I provide electric and natural gas bill impact analysis for Commission Staff's (Staff) proposed revenue

requirement and Staff's recommendations for refunding tax benefits and AFUDC balances.[1] I also address the need for new dynamic pricing pilots.

Q. Please summarize your recommendations.

A. I recommend that the Commission take the following actions:

Electric Adjustment 3.01 – E-PREV, Pro Forma Revenue Normalization

- Reject the Company's proposed adjustment amount.
- Accept Staff's updated adjustment amount, which increases revenue requirement by $907,000.

Electric and Natural Gas Cost of Service

- Accept the Company's electric cost of service study.
- Accept the Company's natural gas cost of service study.

Electric and Natural Gas Rate Spread

- Reject the Company's proposed electric and natural gas rate spread, which is equal percent of margin.
- Accept Staff's proposed electric rate spread, which better takes into account historic inequality and provides relief to rate classes that have been subsidizing other classes. Accept Staff's proposed natural gas rate spread, which better allocates the burden among customer classes.

Electric and Natural Gas Rate Design

- Accept the Company's proposed electric and natural gas rate design methodology.

[1] Staff witness Betty Erdahl testifies about refunding the tax benefits and the AFUDC balance to ratepayers.

- Use the updated electric billing determinants for Schedule 25 to calculate rates to account for a known and measurable change in the rate year.

Pricing Pilots

- Require Avista to design dynamic pricing pilots in line with Staff's efforts in other cases on pricing pilots.[2] At a minimum, Staff recommends the Company begin dynamic pricing pilots within one year of the effective date of this proceeding.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibits ELJ-2 through ELJ-9.

Exh. ELJ-2 is an excerpt of Staff witness Jason Ball's responsive testimony in the 2019 PSE GRC containing an in-depth discussion of pricing pilots.

Exh. ELJ-3 consists of the proposed pricing pilot monitoring and reporting plans filed by PacifiCorp on March 26, 2021.

Exh. ELJ-4 is Avista's response to UTC Staff Data Request No. 156, Attachment B, which updates the electric pro forma revenue amount for Adjustment 3.01 E-PREV.

Exh. ELJ-5 shows the electric residential bill impact and billing components for all rate schedules using Staff's proposed revenue requirement increase, rate spread, and rate design.

Exh. ELJ-6 shows the natural gas general service bill impact and billing components for all rate schedules, except special contracts, using Staff's

[2] *See* Exh. ELJ-2, Jason Ball Testimony in 2019 PSE GRC (UE-190529), and Exh. ELJ-3, PacifiCorp Pricing Pilot Monitoring and Reporting Plans.

proposed revenue requirement increase, rate spread, and rate design.

Exh. ELJ-7 is the cover letter for Avista's proposed electric vehicle time of use base tariffs, filed in Docket UE-210182.

Exh. ELJ-8 is Avista's response to UTC Staff Data Request No. 80, which shows the Company is not in the process of designing pricing pilots.

Exh. ELJ-9 is an excerpt from the Company's final 2021 electric Integrated Resource Plan, which shows the Company could reduce peak demand using time varied rates.

III. REVENUE REQUIREMENT ADJUSTMENTS

A. Uncontested Adjustments

Q. Did you review any adjustments that you are not contesting?

A. Yes. I reviewed and do not contest the following Avista adjustment:

- Gas Adjustment 3.01 G-PREV, pro forma revenue normalization.

B. Adjustments to Update

Q. Are there any adjustments that need to be updated?

A. Yes. Staff is updating the amount in electric Adjustment 3.01 E-PREV, pro forma revenue normalization.

Q. What is the purpose of Avista's electric Adjustment 3.01?

A. Adjustment 3.01 restates the test year revenue to capture known and measurable changes to base rates, test year loads, and number of customers. For example, Avista's base rates were changed on April 1, 2020, as a result of Dockets UE-190334 and UG-190335. The Company recalculated the revenue received in the test year (calendar year 2019) to account for those changes in rates.

Q Why is Staff updating electric Adjustment 3.01?

A. Staff is updating Avista's as-filed electric Adjustment 3.01 because it does not account for the impending departure of a customer on Avista's electric extra-large general service schedule (Schedule 25), which impacts pro forma revenue. In response to discovery, the Company updated electric Adjustment 3.01 to account for the departure of this customer. Staff uses this updated Adjustment 3.01 in its electric revenue requirement calculation. Staff is not contesting the methodology the Company used to calculate this adjustment.

Q. What is the impact of Staff's electric Adjustment 3.01?

A. Staff's electric Adjustment 3.01 changes the net operating income to $11,055,000, a decrease of $685,000.[3] This increases Staff's revenue requirement by $907,000.

[3] Exh. ELJ-4, pro forma Adjustment 3.01 – Avista response to UTC Staff Data Request No. 156, Attachment B.

IV. COST OF SERVICE

Q. What are the Commission's requirements for cost of service studies?

A. Chapter 480-85 WAC details how to create and present the results of a cost of service study in a Commission proceeding.

Q. Did the Company comply with the requirements of Chapter 480-85 WAC?

A. Yes. However, the Company requested, and the Commission authorized, a one-time exemption from WAC 480-85-050(2) for the electric cost study and from WAC 480-85-050(1) for the natural gas cost study.[4]

Q. Does Staff agree the Company's proposed cost of service studies otherwise comply with Chapter 480-85 WAC?

A. Yes.

V. ELECTRIC AND NATURAL GAS RATE SPREAD

Q. Please summarize Staff's recommendation for electric and natural gas rate spreads.

A. Staff recommends the Commission reject the Company's proposed electric and natural gas rate spreads. Instead, the Commission should use Staff's proposed rate

[4] See Order 01 of this case, entered Nov. 25, 2020. WAC 480-85-050(1) requires data to come from advanced metering technology or a load study. WAC 480-85-050(2) requires any rate schedule data not be older than five years. Staff supported granting the petition for exemptions.

spreads, as outlined in Table 4 (electric) and Table 6 (natural gas), which ameliorate excessive cross-class subsidization. Addressing subsidization is particularly important given the Coronavirus disease 2019 (COVID) global pandemic, which creates an urgent need to balance rate impacts.

Q. Can you please discuss the economic conditions of Avista's service territory and the potential impact of the COVID pandemic?

A. Yes. Throughout the last year, the COVID pandemic has ground most of the world to a halt. Individuals and businesses alike have faced enormous challenges overnight. The Commission has discussed on many occasions the hardship to customers.[5] Staff is extremely concerned by the situation customers are facing, especially given the historical context of Avista's electric rate spread, which I discuss below in Sub-Section B. Staff's proposal provides a balanced move for customers who are currently paying excessively high electric and natural gas bills, while recognizing the impact on other customers whose lives have been upended due to COVID.

A. Rate Spread Principles

Q. What is the purpose of rate spread?

[5] E.g., the Commission opened Docket U-200281 "to explore ways to assist those people who continue to need essential utility services but are unable to pay for them because of this crisis." *In Re Response to the COVID-19 Pandemic*, Docket U-200281, Order 01, 2, ¶ 9.

A. Rate spread is an "art" that uses various judgement calls to determine how much of the revenue requirement increase (or decrease) each customer class will be responsible for.

Q. How is rate spread determined?

A. The Commission may consider a number of factors, including "fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability."[6] The starting point, however, is the parity ratio of each customer class.

Q. What is parity?

A. "Parity" exists when each customer class pays 100 percent of the costs the utility incurs to serve that class. A parity ratio measures the degree to which revenues from a customer class covers that class's share of the utility's cost of service. Parity ratios are the main result of a cost of service study. A parity ratio is "a customer class's revenue-to-cost ratio divided by the system's revenue-to-cost ratio."[7]

Q. How do you use parity ratios?

A. Parity ratios are a crucial tool for identifying equitable rate spreads. For example, a customer class with a parity ratio below 1.00 means that those customers receive a subsidy from other customers; this is referred to as cross-class subsidization.[8]

[6] WAC 480-85-010(2).
[7] WAC 480-85-030(6).
[8] Parity is a zero sum game. Moving one customer class closer to parity causes a change in another class's parity ratio, but the move does not impact the total level of revenue. For example, assigning a relative increase more than 100% to customer class X would mean customer class Y would receive a relative increase less than 100%, all else being equal. This would affect both customer classes and X and Y parity ratios, but it does not affect the total revenue required by the utility.

Q. Does it matter how far away from 1.00 a parity ratio is?

A. Yes. To understand the extent of cross-class subsidization, it is useful to categorize parity ratios in ranges of magnitude as follows.

Table 1 – Parity Ratio Ranges	
Parity Ratio Range	*Category*
+/- 5 (i.e., 0.95 to 1.05)	Error range
+/- 10 (i.e., 0.90 to 1.10)	Range of reasonableness
+/- 20 (i.e., 0.80 to 0.90 or 1.10 to 1.20)	Unreasonable cross-class subsidization
+/-30 (i.e., 0.70 to 0.80 or 1.20 to 1.30)	Excessive cross-class subsidization
+/-40 (i.e., <0.70 or >1.30)	Grossly excessive cross-class subsidization

In essence, these ranges mean that parity ratios above 1.10 or below 0.90 warrant corrective action.

Q. What are the parity ratios presented by the Company?

A. Table 2 are the electric parity ratios, as presented by Company witness Tara Knox. Table 3 are the natural gas parity ratios, as presented by Company witness Joel Anderson.

Table 2 – Electric Parity Ratios	
Customer Class	*Parity Ratio*
Residential, 01/02	0.82
General Service, 11/12	1.24
Large General Service, 21/22	1.25
Extra Large General Service, 25	1.15
Pumping Service, 30/31/32	1.03
Lighting, 41-48	1.12

Table 3 – Natural Gas Parity Ratios	
Customer Class	*Parity Ratio*
General Service, 101/102	0.91
Large General Service, 111/112	1.70
Interruptible Sales Service, 132	1.40
Transportation Service, 146	0.91

B. Electric Rate Spread

1. Company Proposal

Q. What was the Company's proposed electric rate spread?

A. Company witness Joseph Miller proposed a uniform percentage increase to each customer class. This is often referred to as an "equal percent of margin" rate spread.

Q. How does Avista's proposed rate spread affect the parity ratios?

A. Avista's rate spread preserves existing cross-class subsidization, does nothing to alleviate the burden on customers that are already paying more than their fair share, and perpetuates unfair cross-class subsidization. This is evident in the fact that the residential electric customers are underpaying by nearly 20 percent and being substantially subsidized by other customer classes, namely the general service and large general service customers.

Q. How does the Company justify this rate spread given that the residential class is underpaying by nearly 20 percent?

A. It does not. The Company's "objective for rate spread was to offset the rate impact from the general rate increase with the Tax Customer Credit . . . so that all customers [would] not experience a billed rate increase."[9]

[9] Miller, Exh. JDM-1T at 6:3-5.

Q. Did Avista propose an alternative rate spread if the Commission orders a revenue requirement less than the Company's request?

A. Yes. Avista's alternative proposal would be to: allocate the same dollar amount to the residential class; equal percent of margin to the extra-large general service, pumping service, and street and area lighting schedules; and split any remaining revenue equally between the general service and large general service classes.[10]

2. Staff Proposal

Q. Does Staff agree with the Company's proposed rate spread or alternative proposed rate spread?

A. No, for four reasons. First, spreading changes in the overall revenue requirement does not have anything to do with the pass back of tax benefits. Second, spreading the revenue requirement increase equally across all customer classes continues the substantial inequality experienced by Avista's customers. Third, spreading the rate increase equally is unfair when there is unequal access to Company-funded debt relief due to the COVID global pandemic. Fourth, under the Company's alternative proposal, the residential customers would receive the entirety of Staff's proposed revenue requirement increase.

[10] Miller, Exh. JDM-1T at 6:21 - 7:6.

Q. What is Staff's proposed rate spread?

A. Table 4 is Staff's proposed rate spread based on Staff's proposed electric revenue requirement increase of $7,230,000.

Table 4 – Staff Proposed Electric Rate Spread		
Customer Class	*Relative Increase*	*Dollar Increase*
Residential, 01/02	145.38%	$4,604,000
General Service, 11/12	50.00%	$530,000
Large General Service, 21/22	50.00%	$907,000
Extra Large General Service, 25	100.00%	$932,000
Pumping Service, 30/31/32	100.00%	$167,000
Lighting, 41-48	100.00%	$90,000

Q. Why is Staff's rate spread appropriate?

A. Staff's rate spread addresses the inequality embedded in Avista's rates head-on. The residential customer class has been underpaying for a long time, and it has fallen to other customers to make up the difference. Over the last decade, the Commission has authorized rate changes for the Company seven times.[11] In each of those cases, rate spread was settled. Since the settlement testimony does not mention how the parties agreed to the spreads, there is no record on the factors that contributed to the results. However, an indirect consequence of those settlements is the inequality Avista's customers face today.

Q. Can you please show the settled rate spreads from the last decade?

[11] *See* Table 5.

A. Yes. Table 5 outlines the approximate relative revenue requirement increase (or decrease in the 2015 rate case) assigned to each class.[12]

Table 5 – Historical Electric Rate Spread

Customer Class	*Docket*						
	190334	170485	150204	140188	120436	110876	100467
Residential, 01/02	118%	106%	100%	100%	100%	87%	107%
General Service, 11/12	50%	80%	100%	100%	100%	130%	89%
Large General Service, 21/22	100%	80%	100%	100%	100%	122%	96%
Extra Large General Service, 25	100%	100%	100%	100%	100%	74%	91%
Pumping Service, 30/31/32	100%	100%	100%	100%	100%	107%	107%
Lighting, 41-48	50%	100%	100%	100%	100%	100%	100%

Since 2010, only two cases resulted in any movement towards parity. While gradualism is an important principle, the residential class has been the beneficiary of substantial cross-class subsidization for a decade. The burden of this subsidy is carried by the general service and large general service customers. It is unreasonable for this burden to exist, even more so during a global pandemic that has taken a devastating toll on some types of business, among them many small businesses. Perpetuating this inequality, as the Company has proposed, is patently unfair.

[12] The darker the green, the closer to a 100% relative increase assigned to that customer class.

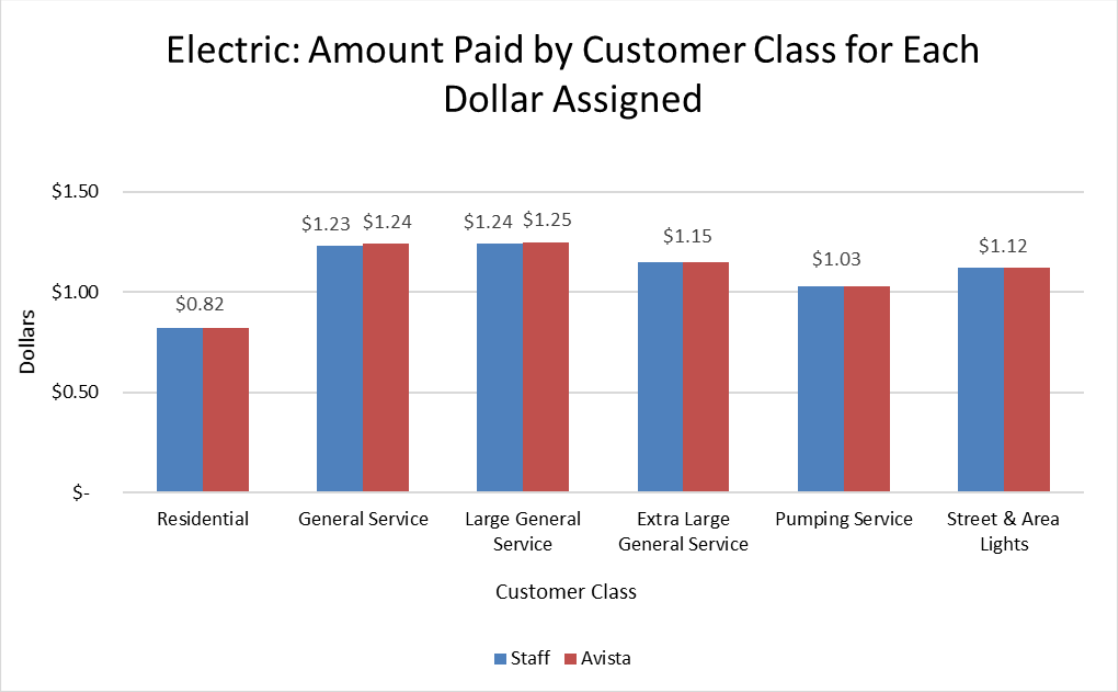
Q. Can you put this inequality into dollar terms?

A. Yes. For every dollar of costs assigned to a residential customer, they pay only 82 cents. The remaining 18 cents are covered by small businesses, large industrial companies, agricultural operations, and other commercial customers.

In contrast, for every dollar of costs assigned to the general service class, they pay an extra 24 cents; large general service customers pay an extra 25 cents.

Figure 1 shows the dollar subsidy each class is paying (over $1.00) or receiving (under $1.00), both under the Company's rate spread proposal and Staff's proposal.

Figure 1 – Electric: Amount Paid by Customer Class for Each Dollar Assigned



Q. If the general service and large general service customers are excessively above parity, why assign them any of the proposed rate increase?

A. Fairness. Fairness necessitates assigning to each customer class at least a portion of the revenue requirement increase. Fairness also means that customers should be paying rates at parity. It is important to note that the rate spread that Staff proposes as fair in this case is wholly tempered by COVID. For example, if the world were not in the middle of a global pandemic, Staff would have proposed a 182 percent relative increase to the residential customer classes, a 10 percent relative increase to the general service and large general service customer classes, and a 100 percent relative increase to the remaining customer classes.[13] It is only because of economic conditions in the service territory that Staff proposes the general service and large general service classes receive a relative increase of 50 percent.

Q. If it is unreasonable for this subsidy to exist at all, why not adjust rates to their fully allocated cost of service?

A. As previously stated, the parity ratio is not the only factor that Staff evaluated. Staff balanced the need to move classes closer to parity with economic conditions in the service territory, fairness, and limiting rate shock. In order for the residential class to be within the reasonable range of parity (plus or minus 10 percent of 100), the residential class would need a relative increase of 1,500 percent.[14] That would require an additional $47.5 million in revenue from the residential class, which is 6.6 times more than Staff's proposed revenue requirement in this case. That rate spread would be unduly burdensome at any time but is especially burdensome during the

[13] A relative increase of 182 percent increases the residential parity ratio to 0.83. A 10 percent relative increase results in a parity ratio of 1.23 for general service and 1.24 for large general service customers. The parity ratios for the remaining classes remain the same.
[14] This assumes the other five customer classes receive a zero percent relative increase.

ongoing pandemic. Therefore, Staff recommends a more gradual approach. Staff's recommendation strikes an appropriate balance among all of the rate spread factors, especially considering that not every customer class has the same level of alternative bill relief.

Q. What options exist for small business customers to help offset their utility bills?

A. While there are some programs from the federal and state governments targeting small businesses (namely grants and loans), there are no small business programs specifically available from the Company. By contrast, Avista recently began the "Residential Debt Relief Program," which offers grants to residential customers with past-due utility bills.[15]

Q. The Residential Debt Relief Program is targeted at customers making less than $52,400 for a family of four. Does Staff's proposal punish residential customers who have larger incomes?

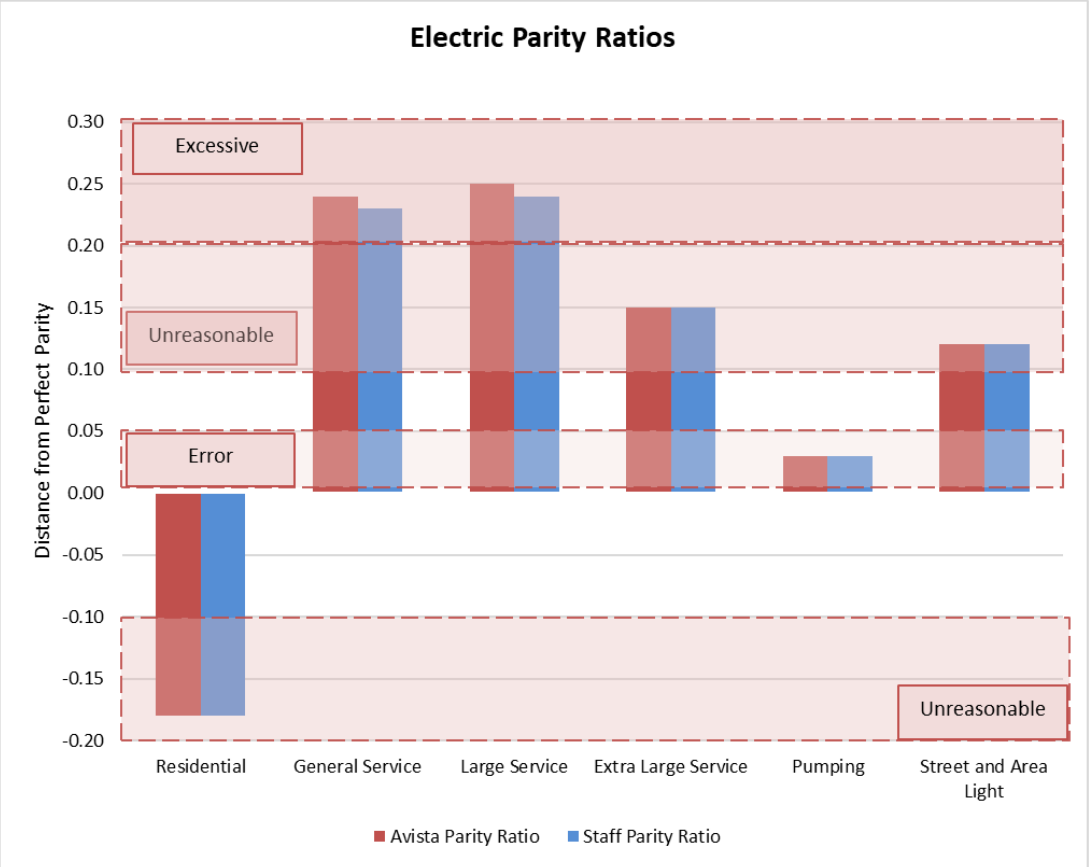
A. No. As I discuss later in Section VII, with Staff's proposed overall revenue requirement increase, tax benefit and AFUDC pass back, and rate spread, the average residential customer using 914 kWh per month would experience a monthly bill decrease of $1.14, or 1.4 percent, for a total bill of $81.19. Again, the residential class has been the beneficiary of unreasonable cross-class subsidization for a long time. Staff's proposal shifts the cost allocations to a more appropriate balance.

[15] On February 19, 2021, the Company filed original tariff sheets 73, 73A, and 73B, known as the "Residential Debt Relief Program," in Docket UE-210114. These debt relief programs are only open to low income residential customers who meet certain qualifications. This program provides grants of up to $2,500, with the intention of wiping the slate clean for low income customers.

Q. Please compare the parity ratios from the Company's proposed rate spread and Staff's proposed rate spread.

A. Figure 2 compares the Company and Staff parity ratios under the respective proposed rate spreads. Even with a relative increase of 145 percent, the residential class's parity ratio remains unchanged and remains in the "unreasonable" range. This is primarily due to the fact that the total dollar increase assigned to the residential class is only two percent more than what they are currently paying. As previously noted, for the residential parity ratio to change at all under Staff's proposed revenue requirement, the residential class would need to be assigned at least a 182 percent relative increase.

Figure 2 – Electric Parity Ratios, Company and Staff



C. Natural Gas Rate Spread

1. Company Proposal

Q. What is the Company's proposed natural gas rate spread?

A. Company witness Miller proposes an equal percent of margin increase to all natural gas customers, except special contract customers.

Q. How does Avista's proposed rate spread affect the parity ratios?

A. As with the electric rate spread, the natural gas rate spread preserves existing cross-class subsidization, does nothing to alleviate the burden on customers that are already paying more than their fair share, and perpetuates unfair cross-class subsidization. This is evident in the fact that the large general service class is overpaying by 70 percent, which is substantially subsidizing the general service and the transportation service customers.

Q. Did Avista propose an alternative rate spread if the Commission orders a revenue requirement increase less than the Company's request?

A. Yes. Avista would not change the dollar amount allocated to the general service and transportation service customers under Avista's proposal and would equally split any remaining revenue between the large general service and interruptible service classes.[16]

[16] Miller, Exh. JDM-1T at 16:18-22.

2. Staff Proposal

Q. Does Staff agree with the Company's proposed rate spread?

A. No, for three reasons. First, similar to electric rate spread, changes in revenue requirement are not related to tax benefits. Second, there are two classes that are in the grossly excessive parity range, which Avista's proposed rate spread does not address. Third, under the Company's alternative proposal, the general service and transportation customers would receive the entirety of Staff's proposed revenue requirement increase. Two classes receiving the totality of the revenue requirement increase does not satisfy that fairness principle, which is every class be assigned at least a portion of the revenue requirement increase.

Q. What is Staff's proposed rate spread?

A. Table 6 is Staff's proposed rate spread based on Staff's proposed revenue requirement increase of $5,619,000.

Table 6 – Staff Proposed Natural Gas Rate Spread

Customer Class	*Relative Increase*	*Dollar Increase*
General Service, 101/102	118.32%	$5,109,000
Large General Service, 111/112	25%	$274,000
Interruptible Service, 131/132	50%	$6,000
Transportation Service, 146	118.32%	$230,000

Q. How did Staff arrive at this proposal?

A. Two classes are overpaying in the grossly excessive range (large general service and interruptible service) and two classes are underpaying, albeit within the range of reasonableness (general service and transportation service). Therefore, Staff's primary goal is to reduce the amount of excessive subsidization provided by the large general service and interruptible service customers.

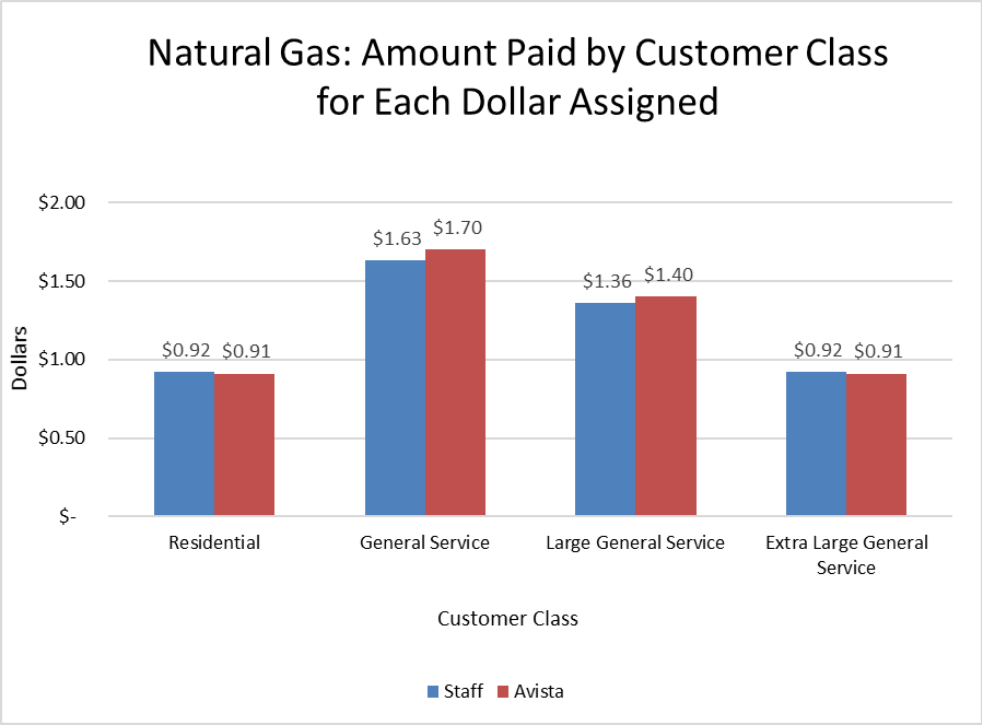
Q. Can you put this inequality into dollar terms?

A. Yes. For every dollar of costs assigned to a general service or transportation service customer, they pay only 91 cents. The remaining nine cents are covered by large general service and interruptible service customers.

In contrast, for every dollar of costs assigned to the large general service class, they pay ***an extra 70 cents***. An interruptible service customer is paying an extra 40 cents.

Figure 3 shows the dollar subsidy each class is paying (over $1.00) or receiving (under $1.00), both under the Company's rate spread proposal and Staff's proposal.

Figure 3 – Natural Gas: Amount Paid by Customer Class for Each Dollar Assigned



Q. If the large general service customers are this far above parity, why assign them any of the proposed rate increase?

A. Fairness. Fairness dictates that each customer class should be assigned at least a portion of the revenue requirement increase. Fairness also means that customers should be paying rates at parity. Moving the large general service class to the range of reasonableness of parity (plus or minus 10 percent of 100) would require a relative rate reduction of 600 percent; the interruptible service schedule would need a relative reduction of 350 percent.[17] Fairness has also tempered Staff's proposed rate spread to accommodate the impacts caused by COVID. If the world were not in the middle of a global pandemic, Staff would have proposed a 122 percent relative increase to the

[17] If the revenue reduction from these two classes were evenly spread to the general service and transportation service classes, the general service and transportation service classes would each of a parity ratio of 0.99.

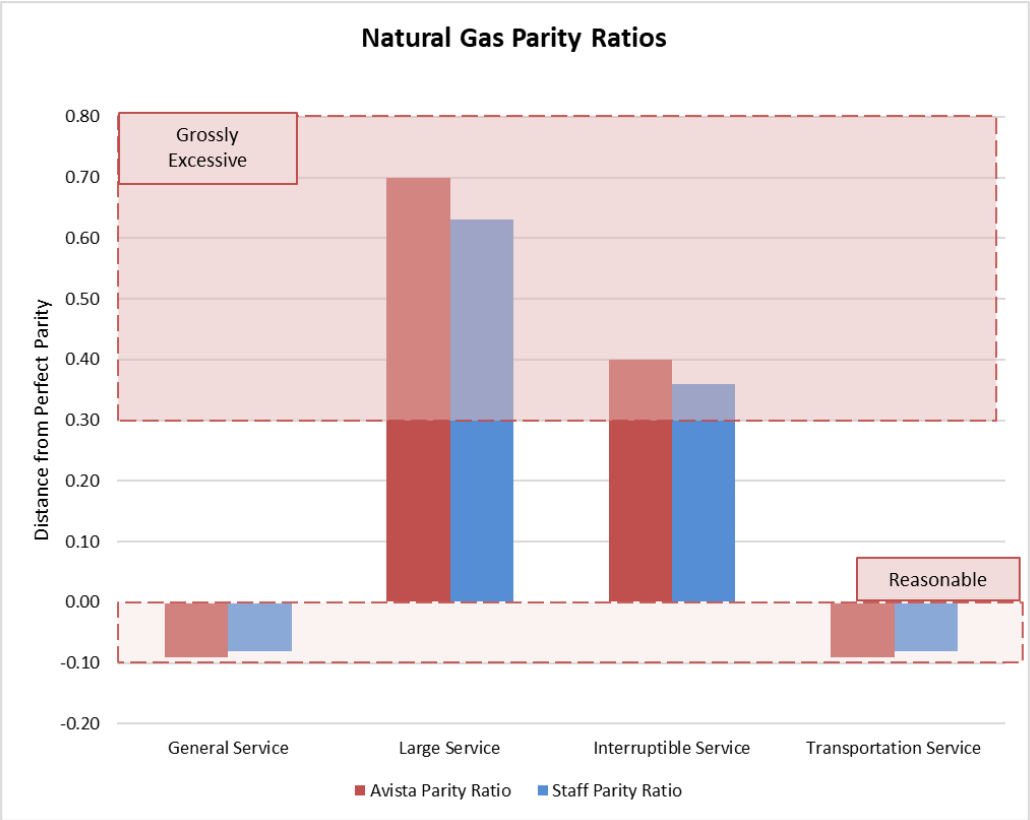
general service and transportation service customers, a 10 percent relative increase to the large general service customers, and a 25 percent relative increase to the interruptible service customers.[18] It is only because of economic conditions in the service territory that Staff proposes the large general service class receive a relative increase of 25 percent, and the interruptible service class a relative increase of 50 percent.

Q. Please compare the parity ratios from the Company's proposed rate spread and Staff's proposed rate spread.

A. Figure 4 compares the Company's and Staff's parity ratios under the respective proposed rate spreads.

[18] This alternate rate spread would result in the following parity ratios: general service, 0.92; large general service, 1.62; interruptible service, 1.34; and transportation service, 0.92.

Figure 4 – Natural Gas Parity Ratios, Company and Staff



VI. ELECTRIC AND NATURAL GAS RATE DESIGN

Q. Please summarize Staff's recommendation.

A. Staff recommends the Commission accept the Company's proposed electric and natural gas rate design methodology.

Q. Please summarize the Company's proposed electric rate design.

A. The Company's proposal can be found in Table 7.

Table 7 – Company Proposed Electric Rate Design			
Customer Class	*Billing Component*		
	Basic Charge/Monthly Minimum Charge	Energy Charge	Demand Charge
Residential, 01/02	No change	Equal percent increase to each block	N/A
General Service, 11/12	No change	Equal percent increase to each block	No change
Large General Service, 21/22	No change	Equal percent increase to each block	No change
Extra Large General Service, 25	No change	Equal percent increase to each block	No change
Pumping Service, 30/31/32	No change	Equal percent increase to each block	N/A
Lighting, 41-48	N/A	Equal percent increase	N/A

Q. Please summarize the Company's proposed natural gas rate design.

A. The Company's natural gas proposal can be found in Table 8.

Table 8 – Company Proposed Natural Gas Rate Design		
Customer Class	*Billing Component*	
	Basic Charge/Monthly Minimum	Energy Charge
General Service, 101/102	No change	Equal percent increase to each block
Large General Service, 111/112/116	Increase monthly minimum by $15.90, for a total of $123.46	Remaining amount is equal percent increase to each block
Interruptible Service, 131/132	No change	Equal percent increase to each block
Transportation Service, 146	No change	Equal percent increase to each block

Q. Does Staff support the Company's proposed electric and natural gas rate design methodology?

A. Yes.

Q. Does Staff have any changes to how the electric rates are calculated?

A. Yes. Staff updated the rate design model to remove the test year billing determinates for the Schedule 25 customer that will leave the system in the rate year.

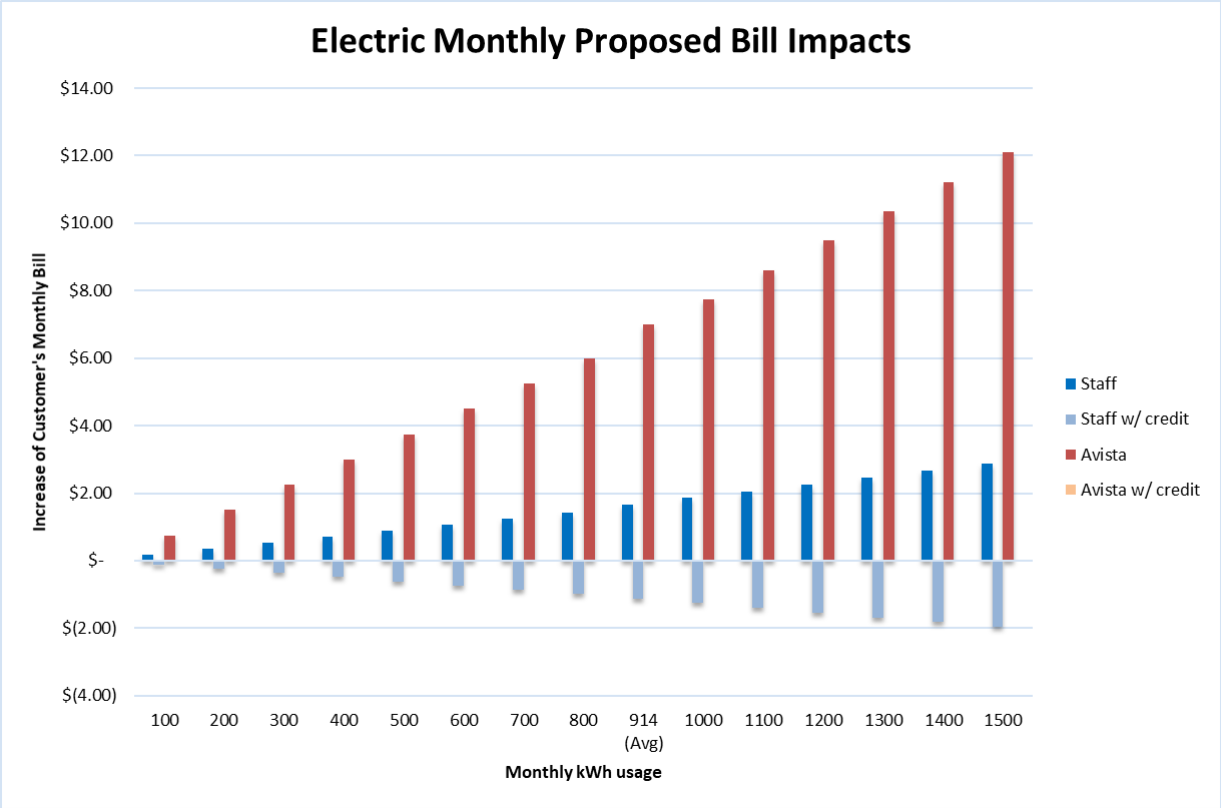
VII. ELECTRIC AND NATURAL GAS BILL IMPACTS

Q. Please summarize the bill impacts using Staff's proposed revenue requirement, rate spread, and rate design.

A. The average electric residential customer using 914 kWhs per month would experience a bill increase of $1.67, or 2.0 percent.[19] When the tax benefit and AFUDC refunds are included, the monthly bill decreases by $0.89, or -1.1 percent per month; this would result in a monthly bill of $81.44.[20] Figure 5 compares the Company's proposed bill impact and Staff's proposed bill impact, both with and without the tax benefit and AFUDC refund.

[19] Exh. ELJ-5, Staff Proposed Electric Bill Impact and Billing Components at 1.
[20] *Id.* at 2.

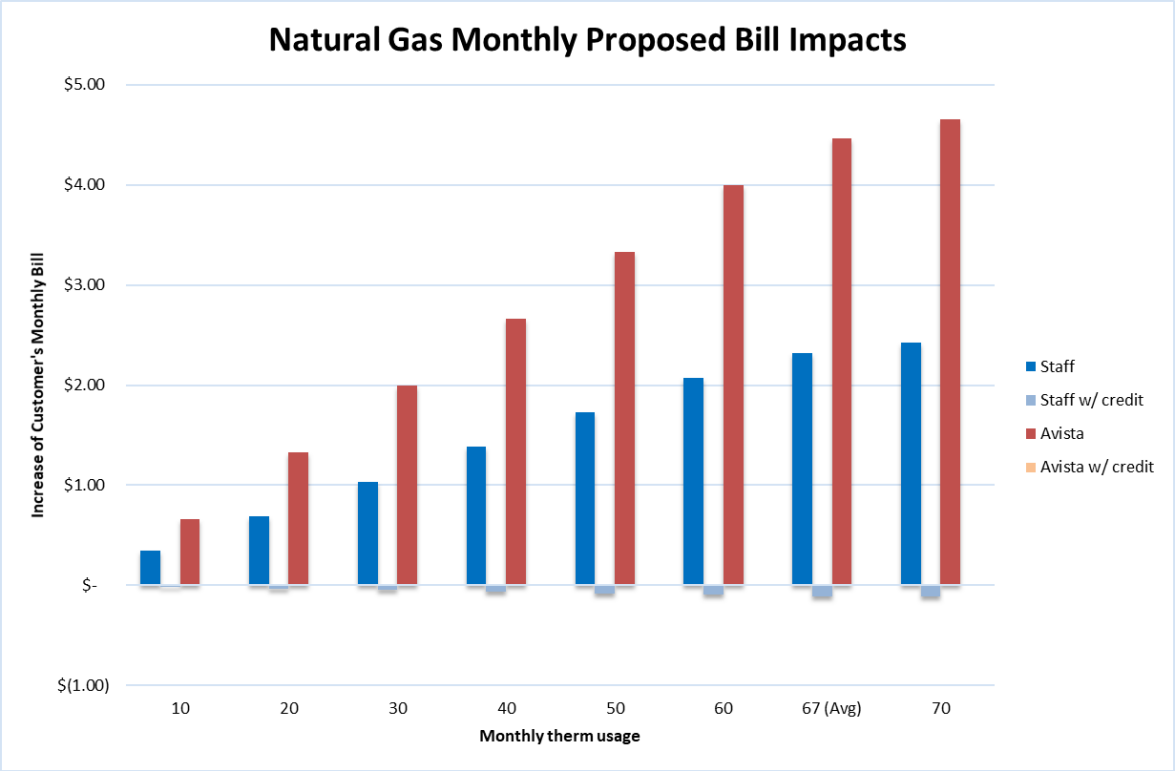
Figure 5 – Electric Monthly Proposed Bill Impacts, Company and Staff



The average natural gas residential customer using 67 therms per month would experience a bill increase of $2.32, or 4.1 percent.[21] When the tax benefit and AFUDC refunds are included, the bill decreases by $0.11, or 0.2 percent per month; this would result in a monthly bill of $56.42.[22] Figure 6 compares the Company's proposed bill impact and Staff's proposed bill impact, both with and without the tax benefit and AFUDC refund.

[21] Exh. ELJ-6, Staff Proposed Natural Gas Bill Impact and Billing Components at 1.
[22] *Id.* at 2.

Figure 6 – Natural Gas Monthly Proposed Bill Impacts, Company and Staff



Q. Did Staff make any changes to the Company's bill impact models?

A. Yes. For the electric bill impact model, Staff updated the billing determinants to reflect the loss of load in the extra-large general service. For both the electric and natural gas bill impact models, Staff removed the Company's tax credit calculations.

Q. Please provide the electric and natural gas base rate bill components that result from Staff's case.

A. Exh. ELJ-5 contains the electric bill components for all schedules. Exh. ELJ-6 contains the natural gas bill components for all schedules, except for special contracts.

VIII. NEW BASE RATE SCHEDULES 13 AND 23

Q. On March 18, 2021, the Company filed with the Commission two new base rate tariff offerings.[23] Please describe the proposed tariffs.

A. The new base rate tariff offerings are two different electric vehicle (EV) time of use (TOU) rates for commercial customers, Schedule 13 and Schedule 23. The customers that may take service under the new schedules are current general service (Schedule 11) or large general service (Schedule 21) customers.

Q. Would these offerings impact the electric cost of service study, rate spread, or rate design in the current case?

A. In this case, no. If the Commission allows these tariffs to become effective, in future rate cases, these schedules would be treated as their own separate customer classes and would be reflected in the cost of service study.[24] For rate spread purposes, Schedule 13 customers should be treated like Schedule 11 customers; Schedule 23 customers should be treated like Schedule 21 customers. For rate design, Staff recommends the basic charges remain the same, and that any revenue requirement increase is spread to the on-peak and off-peak charges in the same manner as Avista describes in the EV TOU cover letter, which is:

> The proposed off-peak energy charge for Schedule's 13 and 23 are proposed to be priced at the tail block rates for both Schedule's 11 and 21, respectively. The on-peak energy charge is calculated by taking all

[23] Docket UE-210182, Proposed Revision of Tariff WN U-28, Revising Electric Transportation Schedule 77, and Proposing Commercial Electric Vehicle Rate Schedules 13 and 23, (filed March 18, 2021). See Exh. ELJ-7, Avista EV TOU Cover Letter, for a description of the filing.
[24] Exh. ELJ-7, Avista EV TOU Cover Letter at 17.

remaining unrecovered revenue and dividing it by the estimated Schedule 11 and 21 on-peak energy usage.[25]

IV. PRICING PILOTS

Q. Please summarize Staff's recommendation.

A. Staff recommends the Commission require Avista to design and implement dynamic pricing pilots for the electric residential and general service customer classes. These pilots should be designed using the recommendations from Staff's prior testimony.[26]

In addition, Staff recommends the Commission require the Company to model its monitoring and reporting plans on those filed by PacifiCorp in Docket UE-191024 on March 26, 2021.[27]

Drafts of the pilots and monitoring and reporting plans should be presented to Staff and other interested parties six months after the rate effective date in this case; final proposed pilots and monitoring and reporting plans should be filed for Commission approval within one year of the rate effective date of this case.

Q. What is a pricing pilot?

A. A pricing pilot offers an experimental rate structure to a limited number of customers over a limited period of time. TOU rates are a common choice for an experimental rate structure. Pricing pilots allow a utility to gather data on program costs and benefits, customer responsiveness to price signals, administrative complexity, and

[25] *Id.* at 16.
[26] Exh. ELJ-2, Jason Ball Testimony in 2019 PSE GRC (UE-190529).
[27] Exh. ELJ-3, PacifiCorp TOU Pricing Pilot Monitoring and Reporting Plans.

much more. Since pricing pilots typically rely on volunteers, they offer a distinct advantage: the utility engages with the customers most willing to provide feedback and to tolerate fluctuations in program design. This allows the utility to evaluate potential benefits and to work out potential problems before making a decision on whether or not to offer the tariff to the entire class or classes of ratepayer.

A. Staff Proposal

Q. What type of dynamic pricing pilots does Staff recommend the Company design?

A. At a minimum, Staff recommends that the Commission require Avista to:

1. Design TOU pilots for the electric residential (01/02) and general service (11/21) schedules.
2. Pick one of three other types of dynamic pricing pilots to offer in addition to the TOU pilots: 1) critical peak pricing (CPP); 2) peak time rebate (PTR); or 3) real time pricing (RTP). This pilot should target both residential and general service electric customers.

Q. Please explain why Staff recommends pricing pilots in addition to TOU pilots.

A. In terms of dynamic pricing, TOU is the most basic. TOU rates send better price signals than the traditional inclining block rates. But TOU price signals are not as strong as other forms of pricing. CPP, PTR, and RTP send much stronger and more detailed price signals. Conducting the TOU pilots and the more advanced pilots at

the same time can result in a greater understanding of customer behavior in response to a wide variety of price signals, each providing different types of value to the system. For instance, CPP can produce significant capacity and energy savings by reducing consumption when the system (and region) is stressed, whereas TOU may only result in load shifting between static periods of a day or week. If the Company were to wait and conduct a CPP, PTR, or RTP pilot after a TOU pilot, it could be nearly a decade before meaningful results are discovered.

Q. Why does Staff recommend the Company choose among a CPP, PTR, or RTP pilot?

A. In order for pilots to be successful, a large number of customers need to sign up. If there are too many options for customers to choose from, the Company may not get enough data to determine if the pilot was successful or not. Additionally, offering too many advanced pilots at once, especially ones with competing incentives, would be administratively burdensome.

Q. Please discuss Staff's proposed timeline for implementing these pilots.

A. Staff recommends the Company collaborate with interested parties starting six months after the effective date of this case. At a minimum, the Company should provide the parties drafts of the TOU pilots, drafts of an additional dynamic pricing pilot, and drafts of the associated monitoring and reporting plans by April 1, 2022. Staff recommends the Commission require these pilots begin operating within a year of the effective date of this order.

Q. Are any other electric utilities in Washington offering pricing pilots?

A. Yes. The Commission approved three TOU pricing pilots in PacifiCorp's 2019 GRC; those pilots have a May 1, 2021, effective date. PSE initiated informal conversations with Staff in January 2021 regarding potential dynamic pricing pilots for future cases.

Q. Is there currently a generic proceeding or other collaborative process for pricing pilots?

A. No. In its final order in the 2019 PSE GRC, the Commission wrote approvingly of a collaborative process but expressed concern with the "multiple competing priorities" facing the Commission currently.[28] Staff recognizes that there are too many resource constraints facing the Commission to open a new collaborative process. Further, two of the three electric investor owned utilities are already designing and implementing pricing pilots. Staff's proposal aligns Avista with the proactive actions of the other utilities.

B. Company's Current Status

Q. Company witness Dennis Vermillion mentions a commercial EV TOU pilot.[29] Is that a pricing pilot?

A. Yes, that would be considered a pricing pilot. However, subsequent to the filing of

[28] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy,* Dockets UE-190529 & UG-190530, Order 08, 168, ¶ 579 (July 8, 2020).
[29] Vermillion, Exh. DPV-1T at 19:4-5.

this rate case, Avista and Staff had conversations about the Company's proposed offering. It is Staff's understanding that, based on feedback from Staff, the Company decided not to offer an EV TOU pilot; instead, the Company recently filed proposed EV TOU rates for two classes of commercial customers.[30]

Q. Does the commercial EV TOU tariff filing shed light on the Company's plans for residential EV rates?

A. Yes, in the cover letter for the proposed commercial EV TOU tariffs, the Company discusses residential EV rates. The Company states:

> The Company is not prepared to offer a new residential rate at this time, but as stated in the [Transportation Electrification Plan], intends to do so in the near future. In order to minimize costs and maximize benefits, it is anticipated that the new residential rate will incorporate whole-house loads supplied by the existing meter, as opposed to an EV-only rate supplied by a new meter installed for the exclusive use of the EV. [31]

Q. Is the Company currently in the process of creating any pricing pilots?

A. No. When asked if the Company has plans to pursue any other pricing pilots, the Company stated:

> Avista is not proposing additional pricing pilots beyond the commercial vehicle time of use pilot referenced by Company witness Vermillion within the next 24 months. Upon full completion of the Company's AMI metering infrastructure deployment, and the sufficient collection of data for which it could evaluate possible pricing structures, the Company will begin the process of examining the potential need for future pricing pilots. The Company is also cognizant of the current Integrated Resource Plan being developed and the cost effective need for new pricing structures coming in the next several years.[32]

[30] Docket UE-210182, Proposed Revision of Tariff WN U-28, Revising Electric Transportation Schedule 77, and Proposing Commercial Electric Vehicle Rate Schedules 13 and 23, (filed March 18, 2021). See Exh. ELJ-7, Avista EV TOU Cover Letter, for a description of the filing.
[31] Exh. ELJ-7, Avista EV TOU Cover Letter at 18.
[32] Exh. ELJ-8, Pricing Pilots Discovery – Avista Response to UTC Staff Data Request No. 80.

Q. Does Avista's latest draft electric Integrated Resource Plan (IRP) include savings related to dynamic pricing options?

A. Yes. Avista's electric IRP (Docket UE-200301) models TOU (both opt-in and opt-out) and variable peak pricing rates as types of demand response. The IRP Preferred Resource Strategy shows the Company could cost-effectively have the capability to reduce peak demand by 2 megawatts (MW) from a TOU pricing option and 7 MW from variable peak pricing in 2024.[33]

Q. Does the Company have the infrastructure needed to conduct pricing pilots?

A. Yes. The Company has installed advanced metering infrastructure (AMI) in its service territory. It is worth noting that PacifiCorp is conducting its pricing pilots without AMI technology.

Q. Given the results of the draft IRP and the near completed installation of AMI, is Staff satisfied with the Company's response to UTC Staff Data Request No. 80?

A. No. In order to establish if any type of dynamic pricing is cost-effective, the Company should engage in pricing pilots now. The draft IRP shows dynamic pricing options provide potential demand-side capacity. The Company has installed the necessary infrastructure to gather the pilot data. The cover letter for the commercial EV TOU tariff schedules indicates the Company is going to offer a residential dynamic pricing tariff in the near future. Now is the time for the Company to begin the pricing piloting process.

[33] Exh. ELJ-9, Excerpt of Docket UE-200301, 2021 Electric IRP at 11-9, table 11.4 (January 4, 2021).

Q. Please reiterate why Staff is recommending pricing pilots.

A. The Company's latest draft IRP shows that dynamic pricing can be a cost-effective resource in just three short years. The Company already has the metering infrastructure in place. In order for the Company to ascertain the value of dynamic pricing programs, they need to start pricing pilots as soon as possible. Therefore, Staff recommends the Company:

1. Design a TOU pilot for the electric residential and general service customer classes.
2. Design an additional dynamic pricing pilot that incorporates critical peak pricing, a peak time rebate, or real time pricing.
3. Create monitoring and reporting plans for each pricing pilot, similar to the ones filed in the PacifiCorp 2019 rate case.
4. Share the draft pilots and monitoring and reporting plans with Staff and other interested parties within six months of the rate effective date of the order. The pilots should be effective within one year of the rate effective date.

These pricing pilots are a key step towards modernizing and decarbonizing Avista's operations.

Q. Does this conclude your testimony?

A. Yes.