

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	)	
	)	
Complainant,	)	DOCKET NO. UE-070804
	)	and
v.	)	DOCKET NO. UG-070805
	)	(consolidated)
	)	
AVISTA CORPORATION d/b/a AVISTA UTILITIES	)	
	)	
Respondent.	)	
_____	)	
	)	
In the Matter of the Petition of	)	
	)	
AVISTA CORPORATION d/b/a AVISTA UTILITIES,	)	DOCKET NO. UE-070311
	)	
For an Accounting Order Regarding the Appropriate Treatment of the Net Costs Associated With the Repurchase of Debt	)	
_____	)	

**RESPONSE TESTIMONY OF DONALD W. SCHOENBECK**

**ON BEHALF OF**

**THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**ADDRESSING AVISTA CORPORATION'S  
POWER COST ONLY RATE CASE  
PROPOSAL**

**REDACTED VERSION**

(Confidential Information Removed)

**October 17, 2007**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   **A.**   My name is Donald W. Schoenbeck. I am a member of Regulatory &  
3       Cogeneration Services, Inc. (“RCS”), a utility rate and economic consulting firm.  
4       My business address is 900 Washington Street, Suite 780, Vancouver, WA 98660.

5   **Q.   PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

6   **A.**   I’ve been involved in the electric and gas utility industries for 35 years. For the  
7       majority of this time, I have provided consulting services for large industrial  
8       customers addressing regulatory and contractual matters before numerous state  
9       commissions, public utility governing boards, governmental agencies, state and  
10      federal courts, the National Energy Board of Canada and the Federal Energy  
11      Regulatory Commission. I have appeared before the Washington Utilities and  
12      Transportation Commission (“WUTC” or the “Commission”) at least 40 times  
13      since 1982. A further description of my educational background and work  
14      experience is summarized in Exhibit No.\_\_\_\_(DWS-2).

15  **Q.   ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

16  **A.**   I am testifying on behalf of the Industrial Customers of Northwest Utilities  
17      (“ICNU”). ICNU is a non-profit trade association, whose members are large  
18      industrial customers served by electric utilities throughout the Pacific Northwest,  
19      including Avista Corporation (“Avista” or the “Company”).

20  **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21  **A.**   My testimony addresses the single issue of whether Avista’s request for a Power  
22      Cost Only Rate Case mechanism (“PCORC”)—similar to the Puget Sound Energy  
23      (“PSE”) PCORC mechanism—should be approved by the Commission.

1   **Q.   PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY ON THIS**  
2   **MATTER.**

3   **A.**   The Company's proposal for a PCORC mechanism should not be adopted at this  
4       time. ICNU opposes the continuation of PSE's PCORC in its current form and  
5       therefore cannot support virtually an identical mechanism for Avista.

6               The circumstances facing Avista today are much different from those  
7       facing PSE when PSE's PCORC mechanism was created. PSE's has been  
8       acquiring new resources virtually every year. Avista on the other hand is not  
9       indicating a need for new resources until the year 2011. Avista's variation in  
10      short-term power costs have been, and can continue to be, "covered" through the  
11      Company's Energy Recovery Mechanism ("ERM"). Also, the Company may file  
12      a general rate case at any time to the extent there are cost pressures in other non-  
13      power supply areas.

14             Currently, there is a collaborative focusing on modifying the PSE PCORC  
15      mechanism, which includes Staff, Public Counsel, PSE and ICNU. The insights  
16      gained from this process might benefit and aid in the creation of a PCORC for  
17      Avista that could be supported by all parties. Accordingly, at the conclusion of  
18      the reexamination of the PSE PCORC mechanism (from either a successful  
19      collaborative or a litigated proceeding), parties could commence a collaborative to  
20      consider a PCORC mechanism for Avista, based upon the results for PSE. For all  
21      these reasons, Avista's proposal should not be adopted at this time.

1 **Q. PLEASE DESCRIBE AVISTA’S PROPOSAL IN THIS PROCEEDING TO**  
2 **INSTITUTE A MECHANISM TO UPDATE CERTAIN COSTS.**

3 **A.** The Company is proposing a PCORC in order to update virtually all production  
4 and transmission related cost categories between general rate cases. An  
5 examination of the costs that would be updated coupled with the proposed  
6 timeline for the proceeding shows that, for all practical purposes, the mechanism  
7 is the same as PSE’s PCORC process. Indeed, the Company essentially  
8 acknowledges the close similarity in responses to Staff data requests nos. 59 and  
9 396 and Public Counsel data request No. 25 (attached to this testimony as Exhibit  
10 Nos.\_\_(DWS-3), \_\_(DWS-4) and \_\_(DWS-5)).

11 In principle, the PSE PCORC was designed to allow timely recovery of  
12 *new* resource costs. This is explained at page 10 of PSE’s SEC 10K filing, which  
13 was filed in March of 2007:

14 A limited-scope proceeding called a PCORC was created in 2002  
15 by the Washington Commission to periodically reset power cost  
16 rates. The main objective of the PCORC proceeding is to provide  
17 for timely review of new resource acquisitions costs and  
18 inclusion of such costs in rates at the time the new resource goes  
19 into service. To achieve this objective, the Washington  
20 Commission agreed to an expedited five-month PCORC decision  
21 timeline rather than the statutory 11-month timeline for a general  
22 rate case.<sup>1/</sup>

23 **Q. IS AVISTA’S PROPOSED MECHANISM “TRIGGERED” BY THE**  
24 **ACQUISITION OF A NEW RESOURCE**

25 **A.** No. The Company’s proposal would allow it to file a PCORC for any reason,  
26 including short term power cost fluctuations, re-licensing costs at existing

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<sup>1/</sup> Exhibit No.\_\_(DWS-6).

1 facilities or for capital improvements at existing facilities. The Company  
2 acknowledges this “flexibility” in response to ICNU data request No. 2.04:

3 Avista’s financial forecast shows a continuing need for rate relief  
4 for the next several years, driven in part by the costs identified  
5 above, among others, and therefore, the need for the PCORC is  
6 not necessarily driven by any one particular event or cost change,  
7 but a combination of changes that necessitate a more frequent  
8 update to base power supply costs than in prior years.  
9 Accordingly, while there may not be any particular event that  
10 would trigger a PCORC filing, the Company would assess the  
11 combination of circumstances that, when taken together, would  
12 necessitate a PCORC filing.<sup>2/</sup>

13 **Q. HAS PSE EVER FILED A PCORC THAT DID NOT INCLUDE A MAJOR**  
14 **RESOURCE ACQUISITION?**

15 **A.** No. PSE has filed three PCORCs. In each filing, the utility had acquired a  
16 portion of, or all of, a new generating resource. In docket UE-031725, PSE  
17 proposed the acquisition of Frederickson 1 (about 135 MW for PSE’s 50% share)  
18 with an associated capital cost of \$80 million.<sup>3/</sup> In docket UE-050870, PSE  
19 proposed the acquisition of the Hopkins Ridge wind project (150 MW) with a  
20 capital cost of \$190 million.<sup>4/</sup> Most recently, in docket UE-070565, the utility  
21 proposed the acquisition of the Goldendale Generating Station (277 MW) with a  
22 capital cost of \$131 million.<sup>5/</sup> Thus, with each and every PCORC filing, PSE was  
23 seeking Commission approval for the acquisition of a major new generating  
24 resource at a substantial capital cost.

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<sup>2/</sup> Exhibit No.\_\_\_\_(DWS-7).

<sup>3/</sup> WUTC v. PSE, Docket No. UE-031725, Exhibit No. 221 (JHS-11) at 5.

<sup>4/</sup> WUTC v. PSE, Docket No. UE-050870, Exhibit No. 16 (JHS-4) at 5.

<sup>5/</sup> WUTC v. PSE, Docket No. UE-070565, Exhibit No. 95 (JHS-5) at 6.

1   **Q.    ASIDE FROM DETERMINING THE PRUDENCY OF THE NEW**  
2   **RESOURCE ACQUISITION, ARE THERE ADDITIONAL ISSUES THAT**  
3   **ARISE IN PSE’S PCORC?**

4   **A.**    Yes. Under the existing PSE mechanism and the proposed Avista mechanism, all  
5           production costs and most transmission costs may be updated by the utility.  
6           Consequently, an extensive analysis is required in order to determine the  
7           reasonableness of all the forecasted values the utility is seeking in each account  
8           for the projected test year. In fact, with regard to power supply costs, the analysis  
9           that should be done for a PCORC is precisely the same as should be undertaken  
10          for a general rate case.

11   **Q.    DOES THE FIVE MONTH TIME FRAME UNDER THE PSE**  
12   **MECHANISM AND THE PROPOSED AVISTA MECHANISM ALLOW**  
13   **FOR AN ADEQUATE REVIEW OF ALL THE PROJECTED COSTS?**

14   **A.**    No. I believe the parties agreed to this abbreviated time period under the  
15           mistaken impression that a PCORC would be a “single issue” proceeding  
16           focusing on the prudence of a new resource acquisition. This is far from the  
17           reality experienced in the three PSE cases. As I have pointed out in testimony in  
18           each of the PSE PCORC filings, the majority of each revenue increase being  
19           sought by PSE is related to projected cost increases not directly related to the  
20           resource acquisition. This requires an initial review of supporting documents  
21           (some of which are not provided until the Commission has issued a confidentiality  
22           agreement in the proceeding), submittal of several rounds of data requests (to  
23           which PSE almost always takes the full 10 days to respond), and clarifying  
24           discussions with utility personnel. Accordingly, the analyst must attempt to  
25           undertake the eight month review effort typically done in a general rate case in

1       about two months. This is simply an impossible task given the extensive  
2       documentation, including workpapers, EXCEL spreadsheets, and the extremely  
3       large AURORA data base that are provided to support the filing.

4       **Q. DOES ICNU SUPPORT PSE'S PCORC IN ITS CURRENT FORM?**

5       **A.** No. ICNU has several objections with regard to PSE's PCORC filings. First and  
6       foremost is the very limited time frame in which to analyze a very complex  
7       number of cost projections and perform the necessary computer model  
8       simulations (each of which takes over 20 hours to run). The practical review time  
9       is woefully inadequate under the existing procedures. Second, PSE has filed  
10      subsequent updates to the cost projections that can be impossible to analyze  
11      within the remaining time period before intervenor testimony is due. These last  
12      minute "surprises" should not be allowed or be much more limited in scope.  
13      Third, there are the administrative delays in getting the necessary confidential  
14      information from the utility and long data response times. In a general rate case  
15      proceeding, these can be tolerated (although not appreciated), but under the  
16      existing PCORC schedule, these circumstance are intolerable as every day's delay  
17      becomes quite critical. Finally, ICNU questions the need for a PCORC as utilities  
18      can and have been filing frequent general rate cases. The protections afforded all  
19      parties under the general rate case procedures will allow for cost recovery and  
20      equitable due process. For all these reasons, ICNU questions the continuing need  
21      for a PSE PCORC-style process.

1   **Q.     DO OTHER PARTIES HAVE THESE SAME CONCERNS?**

2   **A.**    Yes. As a result of PSE's most recent PCORC docket, a collaborative is under  
3           way to review and modify the PCORC process. This collaborative includes  
4           representatives of Staff, Public Counsel, PSE and ICNU. The only party that is  
5           satisfied with the existing PCORC structure is PSE. Public Counsel, Staff and  
6           ICNU have all expressed serious concerns with the PSE mechanism as it exists  
7           today.

8   **Q.     IS AVISTA PROJECTING THE ACQUISITION OF NEW RESOURCES**  
9   **IN THE NEAR TERM?**

10  **A.**    No. Avista's response to Staff data request No. 53 indicates the first new resource  
11          acquisition will occur in 2011 which is several years from now.<sup>6/</sup> Thus, the  
12          primary reason parties agreed to a PCORC mechanism for PSE is not present in  
13          the circumstances Avista is facing today. The explanation provided in the last  
14          paragraph of Exhibit No.\_\_(DWS-8), and Exhibit No.\_\_(DWS-9) (Avista's  
15          response to Public Counsel data request No. 24) reinforces the fact that Avista's  
16          request for a PCORC is simply based upon wanting the flexibility to file what  
17          would be in essence a highly expedited general rate case. The discretion being  
18          sought by Avista for filing a PCORC is far too broad and not equitable to its  
19          customers. At best, a PCORC proceeding can only be justified if it is the only  
20          available process with which the capital costs associated with a new and  
21          significant resource can be placed into rates.

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<sup>6/</sup> Exhibit No.\_\_(DWS-8).



1 **Q. ARE THE PLANNED UPGRADES AT AVISTA’S EXISTING PLANTS OF**  
2 **SUCH A LARGE SCALE THAT A PCORC MECHANISM IS NEEDED?**

3 **A.** No. Avista witness Kelly Norwood opines that it will incur capital costs related  
4 to “major” hydro-electric upgrades and hydro relicensing that warrant the  
5 adoption of a PCORC.<sup>7/</sup> These costs are not “major” new costs. For example,  
6 Exhibit No.\_\_\_\_(DWS-10) is Avista’s response to Staff data request No. 54. The  
7 response indicates the projected capital expenditures for Noxon Rapids facility.  
8 This response indicates expenditures of only about \$8 million for each of the next  
9 four years. This is a very modest amount. These limited expenditures do not  
10 justify instituting a PCORC for Avista. Further, the increased capacity and  
11 energy from these hydro upgrades—with an incremental operating cost that is  
12 essentially zero—will reduce the need for expensive market purchases resulting at  
13 best in a very modest net rate impact.

14 **Q. IS AVISTA PROJECTING THE NEED FOR RETAIL RATE RELIEF IN**  
15 **THE NEAR TERM THAT IS UNRELATED TO THE ACQUISITION OF**  
16 **NEW RESOURCES?**

17 **A.** Yes. Exhibit No.\_\_\_\_(DWS-11C) is an excerpt of Avista’s confidential response  
18 to Public Counsel request No. 175C. Page 3 of this response indicates Avista is  
19 projecting electric rate relief in the near term as set forth in the following table.

20 General Rate Case Projections  
21 (Dollar Amounts in Millions)

Year	Amount
2008	
2009	
2010	

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<sup>7/</sup> Exhibit No.\_\_\_\_(KON-1) at 4.

1 As these cost pressures are un-related to new resource acquisitions and are  
2 attributable to ongoing utility operations, a general rate case filing is the  
3 appropriate procedure to seek any rate relief. In addition, Avista's ERM allows  
4 for recovery of changes in gas costs, purchase power expense and other power  
5 supply related costs. The ERM is the appropriate instrument to allow for a  
6 sharing of cost changes between customers and shareholders attributable to these  
7 short term cost excursions.

8 **Q. AVISTA WITNESS KELLY NORWOOD TESTIFIES THAT THE ERM**  
9 **CANNOT ADDRESS CERTAIN COSTS. EXHIBIT NO. \_\_ (KON-1) AT**  
10 **PAGE 4, LINES 1-8. DO YOU AGREE?**

11 **A.** I agree that the ERM is designed to track changes in short term power supply  
12 expenses and not capital related expenditures as noted at this portion of Mr.  
13 Norwood's testimony. However, there are methods for addressing these types of  
14 costs already. In particular, for extended capital construction projects or re-  
15 licensing costs, the Company can and does accrue "allowance for funds during  
16 construction" (or interest during construction) at the most recently authorized cost  
17 of capital. This "carrying cost" allowance is a direct recognition that major  
18 capital projects require special treatment and can be a drain on the financial  
19 resources of the Company. Second, Avista could always schedule a general rate  
20 case to coincide with the in service date of a major new resource acquisition. This  
21 is precisely what PSE did with regard to the Wild Horse project with an  
22 associated capital cost of \$383 million (Docket No. UE-060266). These are the  
23 existing available avenues that the Company can pursue for major capital projects  
24 or expenditures.  
25

1   **Q.   MR. NORWOOD ALSO OPINES THAT A PCORC IS APPROPRIATE**  
2   **FOR AVISTA BECAUSE OF THE PASSAGE OF I-937 AND SB 6001.**  
3   **EXHIBIT NO.\_\_\_\_ (KON-1) AT 4-5. DO YOU AGREE?**  
4  
5   **A.**   No.   The passage of these laws does not mean that Avista needs to file  
6        “continuous rate cases.” As noted earlier, Avista is not projecting the need for  
7        new resources until 2011. This fact alone indicates a PCORC is not needed now.  
8   **Q.   WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH**  
9   **REGARD TO AVISTA’S PCORC PROPOSAL?**  
10   **A.**   The Commission should deny Avista’s request for a PCORC at this time. ICNU  
11        opposes the continuation of PSE’s PCORC in its present form and therefore  
12        opposes the same mechanism for Avista. Further, well before Avista needs new  
13        resources in 2011, there will be a resolution with regard to the PSE PCORC  
14        mechanism from either a successful collaborative process or from litigating the  
15        matter in PSE’s next general rate case. The outcome from this reexamination  
16        would be invaluable in developing an Avista PCORC. Until such time, Avista  
17        should rely on the traditional rate making avenues of the general rate case and the  
18        ERM (which is an exception to traditional rulemaking) for compensation of  
19        power supply costs and all other cost categories.  
20   **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**  
21   **A.**   Yes, at this time.