BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NOS. UE-991606 & UG-991607

REBUTTAL TESTIMONY OF BRIAN J. HIRSCHKORN
REPRESENTING AVISTA CORPORATION

Exhibit T- ___ (BJH-T)

Q. Please state your name and your employer.

A. My name is Brian J. Hirschkorn and I am employed by Avista Corporation as a senior rate analyst.

Q. Have you filed direct testimony in this Case?

A. Yes. I filed direct testimony addressing the Company's proposed rate spread and rate design - the spread of the Company's proposed revenue increase(s) among the electric and gas general service schedules, as well as the proposed rates within each of the schedules.

Q. Could you please summarize your rebuttal testimony?

A. My rebuttal testimony will address the proposals of the Commission Staff, Public Counsel, Industrial Customers of Northwest Utilities (ICNU), and Northwest Industrial Gas Users (NWIGU) regarding rate spread and rate design. More specifically, my testimony addresses the following issues:

Electric Rate Spread: The testimony of Staff witnesses Kilpatrick and Russell address the agreement of the three parties cited above regarding electric and gas rate spread, respectively. My testimony will show that the electric rate spread proposal of the other parties does not result in a reasonable level of movement toward cost-based rates. Further, I provide examples of electric rate spread at various overall revenue increase levels that would result in the Company's proposed movement of one-third toward unity. The Company is generally in agreement with joint gas rate spread proposal of the other parties.

Bimonthly Meter Reading and Billing: Mr. Lazar proposes that the Commission should adjust the Company's revenue requirement downward based on an assumed level of bimonthly meter

reading and billing as opposed to actual costs. My testimony will show that bimonthly meter reading and billing would not be a reasonable alternative for the Company and its customers.

Electric Residential Basic Charge: Mr. Lazar claims that a substantial portion of meter reading and billing costs are usage-related and should not be recovered through in the basic charge. My testimony will show that meter reading and billing costs are not usage-related, and classifying them as such would result in an unreasonable allocation of those costs and would have an unfair effect on customers' bills.

- Electric Residential Rate Design: Mr. Lazar proposes to retain the three-block residential rate structure as opposed to the Company's proposal to adopt a two-block structure. My testimony will show that Mr. Lazar's rationale for retaining the three-block structure has no relationship to the actual cost of providing service.

Gas Residential Basic Charge: Mr. Lazar proposes to exclude all of the embedded cost of gas services from the residential gas basic charge. My testimony will show that Mr. Lazar's rationale for excluding all gas service costs from the basic charge is unreasonable and that the Company's proposed basic charge of $5.00 includes only a fraction of total gas service costs.

Gas Rate Design: My testimony generally supports the rate design proposals of Staff Witness Russell and NWIGU Witness Schoenbeck.

Electric Rate Spread

Q. Do you agree with the joint proposed spread of the electric rate increase (decrease) as discussed in Staff Witness Kilpatrick's testimony and as set forth in Exhibit __(DEK-1)?

A. I commend the other parties in this proceeding for recognizing the present disparities which exist between the rates and cost of service for the various service schedules. The joint

electric rate spread proposal (joint proposal) discussed in Staff witness Kilpatrick's testimony generally provides for some movement in the rates toward cost of service. On page 6 of Mr. Kilpatrick's testimony he states: "Staff agrees with Public Counsel witness Mr. Jim Lazar and ICNU witness Mr. Donald Schoenbeck that any electric rate increase should be spread among the classes in the relative proportions proposed in the direct testimony and exhibits of Brian Hirschkorn." However, the joint proposal results in less movement toward cost based rates if the Company's entire revenue request is not approved.

This proceeding presents an opportunity for the Commission to spread the approved revenue increase by service schedule to better align rates and costs. The Company's proposed rate spread results in a movement of one-third toward unity, as does the joint proposal at the Company's proposed increase. However, the joint proposal results in less movement toward unity if any amount less than the Company's entire revenue request is approved.

Q. How would the Company's proposed rate spread differ from the other parties' joint proposal?

A. Page 1 of Exhibit No. __(BJH-1) shows a comparison of the other parties' joint proposed rate spread compared to the Company's proposed spread using various revenue increase examples shown in Exhibit __(DEK-1), sponsored by Mr. Kilpatrick. The Company's proposed rate spread would result in a one-third movement toward unity under all of the examples, which cover a wide array of overall revenue changes, while the joint proposal results in a lesser movement toward unity as the overall revenue requirement decreases. As discussed on pages 10 and 11 of my direct testimony, the Company proposed a movement of only one-third toward unity based on the magnitude of its total proposed increase and proposes that a one-third movement toward unity be the <u>minimum</u> amount of movement that the Commission

consider in this Case, regardless of the overall revenue increase granted.

As shown on page 1 of Exhibit __(BJH-1), and as discussed in my direct testimony on pages 8 and 9, the rates for most commercial and industrial customers (Schedules 11 and 21) are substantially higher than the cost to provide service. Not only is this a concern from a "fair, just, and reasonable" standpoint, it is also a concern from a competitive standpoint, as the Company faces competitive pressure from surrounding public utilities. During the past few weeks, a new large commercial customer (3 million kwhs annually) locating in Othello chose to take service from Big Bend Electric rather than the Company, as their annual bill is projected to be $30,000 less under Big Bend's rates as compared to Avista's. The Company would have had virtually no incremental distribution investment required to serve this customer, and the revenue received would have provided a measurable contribution to system costs.

Q. As mentioned on pages 23 and 24 of Mr. Lazar's testimony, he would rely on a revenue to cost ratio instead of a rate of return comparison to provide guidance in the spread of a revenue increase or decrease. Have you calculated revenue to cost ratios for the various service schedules based on the Company's present and proposed rates?

A. Yes. Page 2 of Exhibit No.__(BJH-1) provides the present revenue to cost ratio as well as that under the Company's proposed rates using the cost of service study filed by the Company. As shown, even under the Company's proposed rate spread applied to the total requested increase, the revenue to cost ratio for Residential Service Schedule 1 would still be less than 90%, and the ratios for Schedules 11 and 21 would be 119% and 117% respectively. Therefore, regardless of whether the Commission uses a rate of return comparison or a revenue to cost comparison, the conclusion is the same - the rates for Schedules 1, 11, and 21 are not

within a reasonable range relative to costs, and this proceeding presents an opportunity to at least bring those rates closer to that range.

Gas Rate Spread

Q. Do you have any concerns regarding the joint gas rate spread proposal presented by the parties?

A. The Company is generally in agreement with the joint gas rate spread proposal because the proposed revenue changes by schedule are not materially different than those proposed by the Company. As provided in the joint testimony sponsored by Staff witness Russell, the joint gas rate spread proposal would spread the overall revenue increase based on a uniform (equal) percentage of present margin under each of the schedules, with the exception of Interruptible Service Schedule 131 and High-Volume Transportation Service Schedule 148, which would receive no increase.

Bimonthly Meter Reading and Billing

Do you agree with Mr. Lazar's proposed revenue adjustment that results from his reduction of actual meter reading and billing expenses?

A. No, I do not. Mr. Lazar imputes an assumed reduction of costs if the Company were to provide bimonthly meter reading and billing as opposed to monthly. There would be several significant negative consequences if the Company were to change from monthly meter reading and billing to bimonthly. The most significant consequence would be the potential financial hardship some customers would experience. This hardship would result from the unexpected magnitude of bimonthly bills during the winter months. During the months of December,

January, and February, many customers' bills can $200 or more. Bimonthly billing could result in bills of $400 or more for many customers. This would not be a concern if all customers could reasonably estimate their bimonthly bill and budget accordingly. However, many customers are surprised at the amount of their monthly bill during these winter months. Undoubtedly, if the Company implemented bimonthly meter reading and billing, significantly more customers would be forced to make payment arrangements, the number of "high-bill" complaints and "special" meter reads will increase, and the Company would see an increase in the level of past-due payments and uncollectibles.

Another result of bimonthly billing would be a substantial increase in the number of customers opting for the Company's monthly level-pay billing plan. WAC 480-100-072 requires utilities to offer residential customers a budget, or level-pay, billing plan. Further, the proposed Rule cited above, which is in the process of being modified as part of the Commission's Revised Rulemaking Process, states that level-pay billing plans must be offered to customers on a monthly bill basis. As billing represents 74% of combined meter reading and billing costs, even if meters are read on a bimonthly basis, much of Mr. Lazar's assumed savings would not be captured if a substantial number of additional customers opted for monthly level-pay billing.

Q. Doesn't Mr. Lazar state in his testimony that customers should be encouraged to join the Company's level-pay program?

A. Yes he does, on Page 22 of his "Revenue Requirements" testimony.

Q Has the Company conducted any surveys of residential customers regarding bimonthly meter reading and billing?

A. Yes. The Company conducted a survey of 200 customers in 1997. The results of the

survey showed that over 50% of those surveyed would not favor a move to bimonthly meter reading and billing. Of those surveyed, 20% said a move to bimonthly would be "not very acceptable" and 32% said it would be "not at all acceptable". The survey also asked customers if bimonthly meter reading and monthly billing would be acceptable, where bills would be estimated every other month; the response was still over 42% responding that such a procedure would be "not very acceptable" or "not at all acceptable".

Q. Mr. Lazar cited several utilities in Western Washington that read meters and bill bimonthly. Why is Avista different from these utilities?

A. These utilities have read meters and billed customers on a bimonthly basis for many years, so customer acceptability is not an issue. Further, all of the Western Washington utilities cited in Mr. Lazar's testimony offer a monthly level-pay billing option, so many of their customers are billed on a monthly basis. Also, the weather in Western Washington is milder than it is in Eastern Washington, therefore, winter heating bills don't tend to be as high, nor is there as much variability in bills from month to month.

The Company recently conducted a survey of other utilities regarding meter reading and billing, which was provided in response to Public Counsel Data Request No. 18 (see Exhibit No. 30). The results of the survey showed that bimonthly meter reading and billing was accepted by customers where the utility had performed these functions on a bimonthly basis for many years; however, those utilities that attempted to switch from monthly to bimonthly had a significant increase in customer complaints and past-due payments, and much of the projected cost savings was eroded by cost increases related to addressing additional customer complaints and changes to billing systems.

Q. Does Puget Sound Energy still read meters and bill customers on a bimonthly basis?

A. No. Puget has installed an automated meter reading system for the majority of its customers and over two-thirds are read and billed on a monthly basis. It is interesting that Puget has in essence switched from a bimonthly to a monthly meter reading and billing basis.

Q. Does the Commission require the electric and gas companies which it regulates to read meters and bill on a bimonthly basis?

A. No, it does not.

Electric Residential Basic Charge

Q. Mr. Lazar's proposed residential basic charge for electric service is $3.82 per month, compared to the Company's proposed charge of $5.00 per month. What accounts for the difference in the two proposals?

A. Both methodologies are similar in that they determine the monthly revenue requirement for services, meters, meter reading and billing, however, Mr. Lazar only includes 55% of the Company's actual meter reading and billing costs as a customer-related cost.

Q. Is Mr. Lazar's exclusion of 45% of meter reading and billing costs from his proposed basic charge directly related to his proposed revenue adjustment?

A. Apparently not. Mr. Lazar states on page 5 of his rate design testimony that the two issues are "entirely independent".

Q. What is Mr. Lazar's reasoning for his exclusion of 45% of the Company's actual meter reading and billing costs from the basic charge?

A. Mr. Lazar believes that 45% of the Company's meter reading and billing costs are usage-related because, as he surmises, if customers' usage did not vary from month to month, it would not have to read meters and bill customers each month.

Q. Doesn't usage for the majority of customers vary from month to month?

A. Yes.

Q. Do you agree with Mr. Lazar's reasoning that a portion of meter reading and billing costs are usage-related?

A. No, I do not. The costs associated with meter reading and billing do not vary with the amount of energy customers' use. The meter reading and billing costs per customer is the same whether a customer uses 600 or 3,000 kwhs a month. Mr. Lazar's proposal would have a customer who uses 3,000 kwhs during a month pay more than twice the amount for meter reading and billing as a customer using 600 kwhs during a month, even though the cost of performing those services for both customers is the same.

Q. Are you aware of any prior Commission orders or decisions which support Mr. Lazar's contention that some portion of meter reading and billing costs are usage-related and should be recovered through energy charges?

A. No. I am not aware of any prior orders or decisions supporting Mr. Lazar's contention.

Q. If Mr. Lazar's method of determining the basic charge, as shown on Pages 1 and 2 of his Exhibit__(JL-RD-1) included 100% of the Company's actual meter reading and billing costs as a customer-related cost, how much would his proposed basic charge be?

A. It would be $4.72 per month.

Q. Do you have any other concerns regarding Mr. Lazar's proposed calculation of the costs which should be recovered through the basic charge?

A. Yes. Mr. Lazar uses the rate of return proposed by Public Counsel Witness Hill in his calculation.

Q. If the Commission included 100% of the Company's actual meter reading and billing

costs and used the rate of return ultimately approved by the Commission in this Case in Mr. Lazar's calculation of the costs which should be recovered through the basic charge, would the Company accept the result as a reasonable level to establish in this Case?

A. Yes, it would.

Electric Residential Rate Design

Q. Do you agree with Mr. Lazar's testimony that the Company's residential three-block inverted rate structure should be retained?

A. No, I do not. Mr. Lazar's proposed retention of the three-block structure is based on an allocation of costs which have no relationship with the actual incurrence of costs.

Q. Could you please explain this statement?

A. Mr. Lazar's proposed retention of the present three-block structure is based on his conceived allocation of the Company's generating resource costs beginning with the Company's low-cost hydro resources being allocated to base-load consumption (the first 600 kwhs of usage under the Schedule) and the Company's highest-cost resources being allocated to the present tail-block (over 1,300 kwhs of usage). Mr. Lazar's proposed allocation of resources has absolutely no relationship to how these resources are used to serve customer load requirements. In fact, the Company's higher-cost generating resources are actually used to serve customers' base-load usage requirements throughout the year while low-cost hydro resources are used to serve more variable weather-sensitive consumption.

Pages 3 and 4 of Exhibit No.__(BJH-1) show the actual operation of the Company's generating resources and the Company's system load requirements for January 10, 2000 and July 28, 1999, respectively. As shown, changes in hourly load requirements are met with

changes in low-cost hydro generation, while higher-cost thermal generating resources (Colstrip, Centralia, and Kettle Falls) operate on a uniform basis throughout the day, as well as on a uniform basis throughout the year. Much of this hourly, as well as daily and seasonal, load variability is created by residential space-heat and air-conditioning use. Therefore, most of the residential weather-sensitive usage which Mr. Lazar assigns high-cost resources to is actually met with the operation of the Company's lowest-cost resources. Conversely, most of the residential base-load usage which Mr. Lazar assigns low-cost resources to is actually met with higher-cost resources.

Q. Why does the Company operate its generating units on this basis?

A. The amount of hydro generation can be changed ("dispatched") on a real-time basis by controlling the amount of water passing through the turbines, therefore, these generating units are well-suited to serve varying load requirements. Thermal generating units such as Colstrip, Centralia and Kettle Falls are designed to operate most efficiently on a continuous basis and generally are not ramped up and down to serve varying load requirements.

Q. Could the Company's thermal generating units be considered "base-load" resources, or generation used to serve a constant level of customer energy requirements, as opposed to "peaking" resources, those resources that are used to serve variable or peak-load requirements?

A. Yes, with the exception of Rathdrum and the Northeast Turbine. The Company acquired its other thermal generating resources because of the projected increase in customers' "base-load" requirements, and the need for resources that supply energy on a continual basis.

Q. Mr. Lazar also states that electric space-heat customers have higher distribution costs than customers without electric space heat. Is this true?

A. I don't believe so. Most of the Company's distribution costs required to provide service

to a residential customer are fixed and those costs would be relatively the same regardless of whether a customer uses electric space-heat or not. The only cost which may vary is the size of the transformer which may be required to serve the customer's estimated load requirements. Further, as most distribution costs are recovered through the existing energy charge(s), an electric heat customer provides a substantially higher contribution to those costs than a non-electric heat customer.

Q. Mr. Lazar contends that electric space-heat usage will increase under the Company's proposed two-block rate structure. Further, he suggests that if the Company's two-block rate structure is approved by the Commission, a revenue adjustment should be made to offset the incremental margin he contends the Company would receive from these increased sales, otherwise referred to as a price-elasticity adjustment. Do you agree with this portion of his testimony?

A. No. Mr. Lazar surmises that residential electric space-heat customers stand ready to adjust their usage up or down based on any changes in the tail-block rate for residential service. Residential customers will not increase their consumption for electric space heat because the marginal cost of each additional kwh might be slightly less than it was a year ago, as Mr. Lazar assumes. Residential customers react to changes in their total bill, and they know that if they use more electricity their bill will be higher, and vice-versa.

Q. What percentage of the Company's residential customers utilize electricity as their primary heat source?

A. As stated in my direct testimony, 21% of the Company's residential customers use electricity as their primary source of space heat, which is a substantial reduction from the number that existed a decade ago. Many of these customers do not have the ability to switch to

natural gas. Retention of the present three-block inverted rate structure only creates additional financial pressure on these customers to merely heat their home. Further, as discussed above and in my direct testimony, the three-block inverted rate structure is not supported on an embedded or incremental cost basis.

Gas Residential Basic Charge

Q. In his testimony, Mr. Lazar states that the present gas residential basic charge of $4.00 per month is adequate. Do you agree with his conclusion?

A. No, I do not. The most significant difference between the basic charge analysis presented by the Company and that presented by Mr. Lazar is that the Company includes a portion of the cost of gas service lines in the basic charge where Mr. Lazar would not include any service costs in the basic charge.

Q. Doesn't Mr. Lazar agree that all of the cost of electric services should be recovered through the residential electric basic charge?

A. Yes, he does.

Q. What is Mr. Lazar's rationale for treating gas customers differently and excluding the cost of gas services from the basic charge?

A. Mr. Lazar provides two reasons why he believes the cost of gas services should not be recovered through the basic charge. The first is that residential gas customers with very low usage could be charged twice for a gas service, once via a Contribution in Aid of Construction (CIAC) at the time the service extension is installed, and again through the monthly basic charge. The second reason is the magnitude of the embedded dollar amount associated with gas services.

Q. Is Mr. Lazar's theory correct that a low-use customer could be charged twice for the cost of a gas service?

A. Mr. Lazar would be correct if the Company had a significant number of low-use gas customers (non-space or water heat) and all gas service costs were recovered through the basic charge. However, neither of these situations exist. Residential customers requesting natural gas service are not willing to pay for the cost of a service extension only to utilize the service for cooking or some other low-use appliance, as assumed by Mr. Lazar. Nearly all residential customers receiving or requesting natural gas service do so primarily to heat their homes and are not required to pay a CIAC for the service extension at the time of installation. Even for those few customers who may only use gas for cooking or some other low-use appliance, they could potentially be "double-charged" for a service extension only if the Company recovered 100% of gas service costs in the basic charge. However, the Company's proposed basic charge of $5.00 would recover less than 20% of the gas service costs.

Q. You stated that Mr. Lazar has a concern regarding the embedded dollar amount of gas services. Could you please explain his concern.

A. Mr. Lazar is "suspicious" with regard to the amount which the Company shows as embedded gas service costs, however, he claims that he was unable to examine the issue in the time available in this case. As the Company has added a substantial number of gas customers during recent years, the embedded cost of gas services is heavily weighted toward present installation costs. Rather than propose that some amount of gas service costs be recovered in the basic charge, he claims that no gas service costs should be recovered in the charge.

Q. Is the Company proposing that all gas service costs be recovered through the basic charge in this Case?

A. No, it is not. As shown on Page 5 of Exhibit 64, if the Company recovered all gas service costs in the basic charge, along with the cost of meters, meter reading and billing, the charge would be $10.17 per month. However, given the overall proposed gas increase in this Case, the Company believes that an increase from $4.00 to $5.00 per month is reasonable. As mentioned above, the Company's proposed basic charge of $5.00 per month would result in less than 20% of gas service costs being recovered through the basic charge.

Gas Rate Design

Q. Could you please summarize the differences in the other parties' proposals, as compared to the Company's regarding rate design within the Company's gas service schedules.

A. Yes. Both Staff Witness Russell and NWIGU Witness Schoenbeck address gas rate design in their testimony. Mr. Russell proposes a declining four-block rate structure for Interruptible Service Schedule 131, as compared to the present flat rate for all usage under the Schedule, and a declining five-block rate structure for Transportation Service Schedule 146, as compared to the Company's proposed four-block structure. Mr. Schoenbeck proposes the same five-block rate structure as Staff Witness Russell, however, the rates proposed by Mr. Schoenbeck would be slightly lower in the initial rate blocks as compared to those proposed by Witness Russell or the Company. Mr. Schoenbeck also proposes adding another rate block to Firm Sales Service Schedule 121 in order to reduce the potential margin loss to the Company resulting from eligible customers switching from Schedule 121 to Transportation Service 146.

Q. Do you support Mr. Russell's proposed four-block rate structure for Interruptible Service Schedule 131?

A. Yes, I do. Mr. Russell's proposed rate design provides an additional financial incentive for customers to take interruptible service, which is appropriate. However, only one customer

is presently served under the Schedule and the potential for additional customers to opt for service under the Schedule is not likely.

Q. Do you have any significant concerns regarding the five-block rate structure for Transportation Schedule 146 proposed by Mr. Russell or Mr. Schoenbeck?

A. No. I support the proposed five-block rate design for the Schedule, which I have discussed with both witnesses. However, I believe that the rates which are established for the various blocks is an important consideration. The Company and the Staff propose slightly higher rates for the first two blocks of the Schedule as compared to Mr. Schoenbeck's proposal. Under the present rates for Transportation Schedule 146, eligible customers switching from sales service schedules to transportation service can save a considerable amount through lower distribution rates, thus resulting in potential lost margin to the Company. This is not appropriate as the cost of providing distribution service to these customers would not be any different under sales or transportation service. The Company, Staff, and NWIGU agree that the rates for the initial blocks under Transportation Schedule 146 should be set at a level high enough to significantly reduce the present distribution rate disparity, thus minimizing potential lost margin to the Company.

Q. How does Mr. Schoenbeck's proposal differ from that of the Company and Staff?

A. Mr. Schoenbeck proposes that the rates for the first two blocks under Schedule 146 be slightly less than those proposed by the Company and Staff. Mr. Schoenbeck is concerned with the potential percentage increase in the transportation bill for smaller customers under the Schedule.

Q. Isn't the Company and Staff also concerned with the percentage increase to smaller customers under the Schedule?

A. Yes, but in this case the resulting percentage increase can be misleading as Company transportation service represents only a fraction of those customers' total gas bill. Further, the proposed five-block rate structure reduces the potential increase to these smaller customers as compared to the Company's original proposed four-block structure. These smaller customers served under Schedule 146 have enjoyed a significant distribution cost savings for years, and it is time to restructure the rates to significantly reduce this inequity.

Q. In order to further address the potential margin loss to the Company resulting from Schedule 121 customers switching to transportation service, Mr. Schoenbeck proposes that another block be added to Sales Service Schedule 121. Do the Company and Staff believe that the addition of another rate block is necessary in order to reduce the potential margin loss?

A. The Company and Staff do not believe it is necessary to add an additional rate block to Schedule 121 if slightly higher proposed rate levels are established for the first two blocks under Transportation Schedule 146, as compared to Mr. Schoenbeck's proposal.

Summary

Q. Could you please summarize your rebuttal testimony?

A. With regard to the joint electric rate spread proposal sponsored by Staff Witness Kilpatrick, that proposal will result in a reasonable level of movement toward cost-based rates only if the Company's entire requested increase is approved. The Company urges the Commission to approve a rate spread which results in at least a one-third movement toward unity in the rate of return for each of the service schedules, regardless of the overall increase approved.

Mr. Lazar's proposed revenue adjustment related to bimonthly meter reading and billing

should be rejected because of the potential reaction and financial effect on customers. Prior customer survey results show that over half of the Company's customers do not favor bimonthly meter reading and billing and a survey of other utilities shows that moving from monthly to bimonthly meter reading and billing typically results in customer dissatisfaction and projected cost savings are not achieved.

Mr. Lazar's proposal of including only 55% of meter reading and billing costs in the electric residential basic charge should also be rejected. His claim that the other 45% of those costs are usage-related and should be recovered through energy charges is unfounded. His proposal would result in customers with higher energy usage paying substantially more for meter reading and billing as a low-use customer. This makes no sense as the cost of meter reading and billing is the same for both customers.

Mr. Lazar's rationale used to retain the Company's three-block residential rate structure has no basis with regard to the actual cost of providing service. Mr. Lazar claims that low-cost resources be allocated to the first 600 kwhs of (base-load) usage under the Schedule and higher-cost resources be allocated to weather-sensitive usage, thus supporting his proposed retention of the present structure. However, actual operation of the Company's generating resources to meet customer load requirements is just the opposite of Mr. Lazar's cost allocation – higher cost thermal generating units are operated to meet base-load requirements while lower-cost hydro generation is used to meet weather-sensitive load swings.

Mr. Lazar's proposal to not increase the basic charge for residential gas service is based on the exclusion of all gas service costs. While he supports inclusion of all service costs being reflected in the electric basic charge, he believes that none of the gas service costs should be reflected in the gas basic charge. The Company's proposed increase from $4.00 to $5.00

would include only a fraction (less than 20%) of gas service costs.

The Company supports the proposed gas rate spread agreed to jointly by the other parties, as well as the five-block rate structure for Transportation Service Schedule 146 as proposed by Witnesses Russell and Schoenbeck. However, the Company believes that the rates for the first two blocks under Schedule 146 should be set at a slightly higher level than the rates proposed by Mr. Schoenbeck.

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.

Q Please state your name, business address and present position with Avista

Corporation?

A My name is Brian J. Hirschkorn and my business address is East 1411 Mission Avenue, Spokane, Washington. I am presently assigned to the Rates Department as a Senior Rate Accountant.

Q Would you briefly describe your duties?

A My primary areas of responsibility include electric and gas rate design, customer load and revenue analysis, and tariff administration.

Q Would you briefly describe your educational background?

A I was graduated from Washington State University in 1978 with Bachelor degrees in Business Administration and Accounting.

Q Have you previously testified before the Commission?

A Yes. I have testified before this Commission in several prior rate proceedings as a rate design witness.

Q What is the scope of your testimony in this proceeding?

A My testimony in this proceeding will cover the spread of the proposed annual revenue increase of $5,066,000, or 6.8%, among the Company's gas general service schedules in the state of Washington and the design of the proposed rates within each of the schedules. I am also responsible for the revenue normalization adjustment, which includes the weather normalization and unbilled revenue adjustments, as well as the purchase gas cost adjustment.

Q Are you sponsoring any exhibits to be introduced in this proceeding?

A Yes. I am sponsoring Exhibit __(BJH-1), which was prepared under my supervision and direction.

Q Would you please explain what is contained in Section 1 of Exhibit __(BJH-1) entitled "Gas Rates on File and Presently in Effect"?

A Section 1 of Exhibit __(BJH-1) is a copy of the Company's present rates governing gas service in the state of Washington, which are on file with this Commission as a part of the Company's tariff, WN U-27.

Q Turning now to Section 2 of Exhibit __(BJH-1), would you please state what is covered by that section?

A This section, entitled "Proposed Gas Rates as Filed", contains the proposed gas rates and schedules which are being filed with the Commission as a part of our revised tariff, WN U27.

Q Would you please describe what is contained in Section 3 of Exhibit __(BJH-1)?

A Section 3 of Exhibit __(BJH-1) contains supplemental information regarding the spread of the proposed revenue increase to the Company's gas service schedules and the proposed rates within the schedules, which will be referred to throughout my testimony.

Revenue Normalization Adjustment

Q Would you please describe the "revenue normalization adjustment" which you have referred to?

A The revenue normalization adjustment represents the difference between the company's actual revenues during the test period and revenues on a forward-looking basis based on normalizing/pro forma adjustments. The adjustment includes the repricing of pro forma sales and transportation volumes at present rates using pro forma sales volumes which have

been adjusted for unbilled revenue, abnormal weather, and any material customer load or schedule changes. The adjustment also includes the normalization of purchase gas costs based on pro forma retail sales volumes. The total amount of the adjustment is $1,516,000 on a net operating income basis, as shown on Page _ of Exhibit __(DMF-2).

The adjustment includes the elimination of "Buy-Sell" (capacity release) revenues billed to certain transportation customers and the repricing of the adjusted (pro forma) customer loads at the present rates in effect. "Buy-Sell" revenues result from releases of pipeline capacity which the Company holds title to. These releases were made to numerous Company transportation customers at 100% of Northwest Pipeline rates, prior to FERC Order 636. Because the Company bills these customers for the use of this pipeline capacity, these billings are recorded as revenue by the Company. This revenue is deferred and credited to sales customers in the Company's PGA filings, thereby reducing pipeline transportation costs. As these revenues are deferred and passed to customers, it is appropriate to eliminate them as part of the adjustment.

The rates used to price pro forma sales volumes include Schedule 150 – Purchase Gas Cost Adjustment, as this tariff represents a "permanent" change in rates. The rates used exclude temporary Gas Rate Adjustment Schedule 155, which reflects the approved amortization of deferred gas costs approved in the Company's last PGA filing.

Q Would you please briefly describe the unbilled revenue adjustment?

A As billed usage for the test period does not represent actual usage by customers during the calendar test period, the unbilled revenue adjustment is necessary to estimate actual consumption during the calendar year. The estimated amount of unbilled revenue is based on a detailed examination of billed consumption and meter reading days during the beginning and end of the test year. The adjustment for unbilled revenue results from subtracting this detailed estimate of unbilled revenue from the net amount of unbilled revenue actually recorded during the year.

Q Why is the amount of the pro forma unbilled revenue adjustment different from the amount shown in the Company's actual operating results?

A The pro forma adjustment is a more detailed estimate of unbilled revenue as compared to the estimate recorded in the Company's actual operating results. Additionally, the pro forma adjustment utilizes the present rates in effect to determine the amount of the revenue adjustment.

Q Could you please describe the weather normalization portion of the revenue normalization adjustment?

A The determination of the amount of gas usage associated with abnormal weather during the test period is described in Company Witness Knox's testimony. I am responsible for determining the amount of revenue associated with the adjustment using present rates in effect. The weather normalization portion of the revenue normalization adjustment increases revenue by $7,101,000, reflecting the fact that 1998 was significantly warmer than normal.

Q Would you please explain the purchase gas cost adjustment made by the company in this filing?

A Pro forma purchase gas costs were determined by multiplying pro forma customer usage for the test period by the purchase gas cost(s) per therm, which were approved by the Commission in the Company's last PGA filing, effective February 15, 1998. The purchase gas cost adjustment is then determined by subtracting actual gas costs during the test

year from pro forma gas costs. By making this adjustment, there is a matching of the approved level of gas costs with pro forma usage for the test period. Any differences in gas costs are reflected in the Company's annual PGA filing.

Q Is the Company proposing any changes to its present (Commission approved) allocation of purchase gas costs by service schedule in this Case?

A No, it is not.

Rate Spread

Q Would you please review the Company's present rate schedules and the types of gas service offered under each?

A Yes. The Company's present Schedules 101, 111, and 121 offer firm sales service. Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. Schedule 111 is generally for customers who consistently use over 200 therms/month and Schedule 121 is generally for customers who use over 10,000 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales service to customers whose annual requirements exceed 250,000 therms.

Schedule 146 provides transportation/distribution service for customer-owned gas for customers whose annual requirements exceed 250,000 therms. Schedule 148 is a transportation service schedule for large-requirements customers with competitive options to taking transportation/distribution service from the Company, i.e., pipeline direct-connection. It is a banded-rate schedule with the rates for service being negotiated between the Company and the customer within the rate-band. The Company has only four customer accounts served under Schedule 148: Kaiser Aluminum-Mead, Kaiser Aluminum-Trentwood, Lamb-Weston, and Mutual Materials. I will discuss these service agreements in more detail later in my testimony.

Q The Company also has rate schedules 112, 122, and 132 on file with the Commission. Could you please explain what customers are eligible for service under these schedules?

A Schedules 112, 122, and 132 are in place to provide service to customers who at one time were provided service under Transportation Service Schedule 146. The rates under these schedules are the same as those under Schedules 111, 121, and 131 respectively, except for the application of temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a temporary rate adjustment to amortize the deferred gas costs approved by the Commission in the prior PGA. Transportation service customers are analyzed individually to determine their appropriate share of deferred gas costs. If those customers switch back to sales service, the Company continues to analyze those customers individually, otherwise, those customers would receive amounts of gas costs deferrals which are not due them, thus the need for Schedules 112, 122, and 132. There are presently only five customers in total served under these Schedules.

Q How many customers does the Company serve under each of its rate schedules?

A As of August 1999, the Company provided service to the following number of customers under each of its schedules:

Schedule	Type of Customer	No. of Customers
General Service 101	Residential & Sm. Commercial	115,600

Lg. General Service 111	Comm. & Ind. over 200 therms/mo.	2,465	
Ex. Lg. Gen. Service 121	Comm. & Ind. over 10,000 therms/mo.	41	
Interruptible Service 131	Interruptible over 250,000 therms/yr.	1	
Transportation Service 146	Transportation of Customer-owned Gas	34	
High-Volume Transport 148	Negotiated Rate for Transpotation		4

Q How does the Company propose to spread the overall revenue increase of $5,066,000 among its general service schedules?

A The Company is proposing the following revenue/rate changes by rate schedule:

General Service Schedule 101	7.6%	
Large General Service Schedule 111/112	4.6%	
Extra Large General Service Schedule 121/122	4.8%	
Interruptible Sales Service Schedule 131/132	0.0%	
Transportation Service Schedule 146		9.6%
Banded Rate Transportation Schedule 148	0.0%	

This information is also shown on Page 1, Section 3 of Exhibit __(BJH-1).

Q What rationale did the Company use in its proposed spread of the overall revenue increase to the various rate schedules?

A The Company utilized the results of the cost of service study, as sponsored by Company witness Knox, as a guide in developing the proposed rate spread. A primary goal of the proposed rate spread is to move the rates of return of the individual schedules closer to the Company's overall rate of return (unity) so that all customers contribute fairly to the cost of service and contribute a reasonable return on operating plant. The proposed spread of the increase results in a movement of the rate of return for each of the sales service schedules toward unity.

Page 2, Section 3 of Exhibit __(BJH-1) shows the rates of return for each of the Company's gas schedules before and after application of the proposed increases. Column (d) shows the relative rates of return under present rates and column (f) shows the relative rates of return under proposed rates. The relative rate of return is determined by dividing the rate of return for each schedule by the overall rate of return for the company's Washington gas operations.

The relative rates of return before and after application of the proposed increases by schedule are as follows:

	Before	After
Schedule 101:	0.95	0.98
Schedule 111:	1.16	1.09
Schedule 121:	0.76	0.89
Schedule 131:	1.57	1.16
Schedule 146:	1.17	1.09
Schedule 148:	1.10	0.81

As shown, the relative rates of return for all schedules move closer to unity (1.00), with the exception of Transportation Schedule 148, which I will discuss later in my testimony.

Q What would be the increase in the typical residential customer's bill based on the Company's proposed increase for Schedule 101?

A The increase for a typical residential customer using 80 therms of gas per month would be $2.80 per month, or an increase from $36.04 per month to $38.84 per month.

Q How do the Company's proposed rates for Schedule 101 compare to the residential rates for other utilities who provide gas service in the state of Washington?

A As shown on Page _ of Section 3 of my Exhibit, even under the proposed rates for Schedule 101, the average monthly bill for an Avista residential customer would still be considerably lower than that for the other gas utilities providing service in the state.

Q Why isn't the Company proposing any overall revenue increase to Interuptible Service Schedule 131 or (Banded-Rate) Transportation Schedule 148?

A Presently there is only one customer being served under Schedule 131. As previously shown, the present rate of return being provided by this customer is 57% higher than unity. Even after application of the proposed increase, with no increase applied to Schedule 131, the rate of return for the Schedule would still be 16% above unity. Further, the present rate for service under Interruptible Service Schedule 131 is higher than the present tail-block rate under firm sales service Schedule 121. Obviously, it makes no sense for a customer to pay a higher rate for a lower level of service. Under the proposed rates, the rate for service under Schedule 131 is slightly lower than the tail-block rate under Schedule 121, thereby better aligning the rates with the level of service provided.

With regard to Schedule 148, the rates for the four customer accounts served under the Schedule are fixed during the terms of those Agreements and the Company does not have the ability to alter those rates except for any adjustments as provided for under the Agreements. The rates charged to these customers were negotiated in good faith based on the estimated cost for the customer to bypass the Company's distribution system and direct-connect to the nearest pipeline transporter. The Agreements for the two Kaiser Aluminum Plants served under Schedule 148 were approved by the Commission in its Third Supplemental Order in Docket UG-901459, issued March 9, 1992. Those Agreements are for a term of nine years, expiring in 2001, at a distribution rate of 2.8¢/therm. The Agreement with Lamb-Weston, which is a food-processor located near Connell, Washington, had a primary term of five years, September 1993 through August 1998, at a distribution rate of 3.35¢/therm. The Agreement is presently on a year-to-year basis at a distribution rate of 3.50¢. The Agreement with Mutual Materials, which is a _____ located in the Spokane Valley, is a seven-year agreement which was negotiated in 1998, and provides for distribution rates of 3.168¢/therm for the first 2.5 million therms/year and 2.1¢/therm for all volumes used over 2.5 million. These Agreements, as well as related supporting documents, are provided as part of my workpapers submitted with this filing.

Schedule 148 customers provide revenues which not only recover their direct costs of providing service, but they make a substantial contribution to the fixed costs of providing service to all gas customers; for example, A&G expenses allocated to Schedule 148 in the company's cost of service study are $628,000.

Q If all four Schedule 148 accounts were lost to the Company via their direct-connection to a pipeline transporter, what would be the lost revenue/margin to the Company?

A If all four accounts were lost to direct-connect, the lost revenue/margin would be approximately $1.3 million per year, most of which are fixed gas operating costs which would need to be recovered from other customers.

Rate Design

Q Could you please explain what is shown on Page 4 of Section 3 of Exhibit __(BJH-1)?

A Yes. Page 4 of Section 3 shows a comparison of the present and proposed rates within each of the Company's gas service schedules.

Q Could you please explain the present rate design of the Company's gas service schedules?

A General Service Schedule 101 generally applies to residential and small commercial customers who use less than 200 therms/month. The schedule contains a single rate/therm for all gas usage and a monthly customer/basic charge.

Large General Service Schedule 111 has a three-tier declining-block rate structure and is generally for customers who consistently use over 200 therms/month. The schedule consists of a monthly minimum charge for the first 200 therms or less, and block rates for 201-1,000 therms/month and usage over 1,000 therms/month.

Extra Large General Service Schedule 121 has a four-tier declining-block rate structure with a monthly minimum charge for the first 500 therms or less, and block rates for 501-1000 therms/month, 1,001-10,000 therms/month, and usage over 10,000 therms/month. There is also an annual minimum of 60,000 therms under the schedule and a minimum load factor requirement of approximately 58%.

Interruptible Sales Service Schedule 131 has a single rate for all usage and an annual minimum charge based on a usage requirement of 250,000 therms per year.

Transportation Service Schedule 146 consists of a two-block rate structure for all volumes with a monthly customer charge of $164.88 and an annual minimum charge based on 250,000 therms per year.

Transportation Service Schedule 148 is a banded rate schedule with a monthly customer charge of $200 per month and individually negotiated rates for customers with competitive options which must fall within the rate band.

Q Is the Company proposing any changes to the present rate structures contained in its gas service schedules?

A Yes, but only one. The Company is proposing a four-tier declining-block rate schedule for Transportation Service Schedule 146, in place of the present two-block rate structure. I will discuss this proposed change in more detail later in my testimony.

Q You stated earlier in your testimony that the Company is proposing an overall increase of 7.6% to the rates of General Service Schedule 101. Is the Company proposing an increase to the present basic/customer charge of $4.00/month under the schedule?

A Yes, it is. The Company is proposing that the basic charge be increased from $4.00 to $5.00 per month. Approximately half of the cost of providing gas service to sales customers represents costs other than the cost of the gas itself, many of which are fixed costs which do not vary with customer usage. Page 5 of Exhibit __ shows the monthly cost associated only with meters, meter reading, billing, and service lines, as extracted from the Company's cost of service study. The service line provides a connection from the distribution main, which typically runs along side the street in front of a customer's residence, to the customer's meter. As shown, these costs average $10.16 per customer per month; therefore, the proposed basic charge of $5.00 would only recover about half of these basic fixed costs

required to provide service. The Company believes that the basic charge should, at a minimum, recover these costs. However, given the level of the overall increase proposed in this filing, the Company believes that the proposed increase is reasonable.

Q Given the proposed increase to the basic charge, what is the resulting increase to the rate per therm under Schedule 101, in order to achieve an overall revenue increase of 7.6%?

A The proposed increase to the energy rate under the schedule is 2.255 cents per therm, or a 5.6% increase in the rate.

Q Could you please explain the proposed changes in the rates for Large and Extra Large General Service Schedules 111 and 121?

A The present rates for Schedules 101, 111, and 121 provide a clear and logical distinction for customer placement: customers who use less than 200 therms/month should be placed on Schedule 101, customers who use between 200 and 10,000 therms per month should be placed on Schedule 111, and only those customers who used over 10,000 therms per month should be placed on Schedule 121. Not only do the rates provide a guide for customer schedule placement, they provide a reasonable classification of customers for analyzing the costs of providing service.

The Company's proposed rates for Schedules 111 and 121 will maintain the rate structure within the schedules and continue to ensure appropriate schedule placement for customers and provide a reasonable classification for cost analysis. The proposed minimum charge for Schedule 111 for 200 therms or less was derived by multiplying the proposed Schedule 101 rate per therm by 200 and adding the proposed customer charge of $5.00. The remaining proposed revenue increase for Schedule 111 was then spread on an equal cents per therm basis (1.396 cents) to the remaining two rate blocks under the Schedule.

For Schedule 121, the minimum charge for 500 therms or less was derived by multiplying the proposed Schedule 101 rate per therm by 500 and adding the proposed customer charge of $5.00. The second and third block rates were then set equal to the corresponding block rates under Schedule 111. The remaining revenue increase for the Schedule was then used to determine the increase to the tail-block rate under the Schedule (1.533 cents).

Q You mentioned previously that the Company is proposing a change in the rate structure for Transportation Service Schedule 146. Could you please explain the proposed change.

A As shown on Page 4 of Section 3 of Exhibit __(BJH-1), the Company is proposing a four-tier declining-block rate as compared to the present two-block structure. In addition, the Company is proposing that the monthly customer charge be increased from the present level of $164.88 to $200.00, which matches the present customer charge under Transportation Schedule 148. The proposed rates and structure under Schedule 146 will more reasonably reflect the margins (rate less embedded gas costs) provided under the rates for sales Schedules 111 and 121, thereby reducing the potential margin effects (gain or loss) of customers shifting between sales and transportation service.

The Company presently serves approximately eighteen firm sales customers who qualify for transportation service (250,000 therms/year). Under present rates, the Company could potentially lose approximately $140,000 in annual margin if those customers were to switch to transportation service. Comparing the margins under the proposed sales rates to the present transportation rates, if all of those customers switched to transportation the Company could

potentially incur an annual lost margin of approximately $250,000. Under the proposed rate structure for Schedule 146, the potential lost margin is reduced to $85,000 per year. The proposed transportation rates provide nearly an equal amount of margin as compared to the proposed rates under Schedule 121 for a customer using 250,000 therms per year, which is the minimum annual usage requirement under Transportation Schedule 146.

Q Do all of the other gas utilities operating in Washington have declining-block rates with several steps under their transportation service schedules?

A Yes, they do. It also appears that the other utilities

Q Have you estimated the effect of the proposed rates for Schedule 146 on the annual bills of your various transportation customers?

A Yes. Page 6 of Section 3 of Exhibit __(BJH-1) shows the estimated effect on each of our 29 transportation customers annual gas bill, based on their 1998 usage. Column (b) shows the customer's present estimated annual gas bill, including an estimated commodity price of 25¢/therm (delivered to Avista's system). Column(c) shows the estimated dollar increase (decrease) in their annual transportation bill from the Company and column (d) shows the estimated increase (decrease) in their <u>total gas bill</u> on a percentage basis. As shown in column (d), the estimated effect ranges from a decrease of 0.7% to an increase of 9.0%.

Q Does the proposed rate structure for Schedule 146 reasonably reflect the cost of providing service to the various customers served under the Schedule?

A Yes. As previously mentioned, the proposed rates under Schedule 146 are similar to the proposed rates/margins and rate structure under the Company's sales schedules. Nearly all transportation revenue contributes to the recovery of Company gas distribution costs, as the Company does not purchase gas to serve these customers. Smaller-use customers are more expensive to serve on a per therm basis as compared to larger-use customers as there is a significant fixed amount of distribution investment required to serve even a small customer. The investment required to serve a customer is not linear with the amount of the customer's usage, in fact, the incremental amount of investment required for each additional therm of use is a declining curve, which is generally the rationale for declining-block rates.

Q Does that complete your direct testimony in this proceeding?

A Yes, it does.