BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NO(S) UE-090134 & UG-090135

DIRECT TESTIMONY OF GLENN A.WATKINS (GAW-1T)

ON BEHALF OF

PUBLIC COUNSEL

AND

THE ENERGY PROJECT

AUGUST 17, 2009

DIRECT TESTIMONY OF GLENN A. WATKINS (GAW-1T)
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GLENN A. WATKINS' EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. Please state your name, employer, and present position and role in the case?

A: My name is Glenn A. Watkins. My business address is James Center III, 1051 East Cary Street, Suite 601, Richmond, VA 23219.

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

A: I am a Principal and Senior Economist with Technical Associates, Inc., which is an economics and financial consulting firm with offices in Richmond, Virginia.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of the Public Counsel Section of the Washington Attorney General's Office (Public Counsel) and The Energy Project.

Q: Please describe your professional qualifications.

A: Except for a six-month period during 1987 in which I was employed by Old Dominion Electric Cooperative as its forecasting and rate economist, I have been employed by Technical Associates continuously since 1980.

During my twenty-nine year career at Technical Associates, I have conducted marginal and embedded cost of service, rate design, cost of capital, revenue requirement, and load forecasting studies involving numerous gas, electric, water/wastewater, and telephone utilities, and have provided expert testimony in Alabama, Arizona, Georgia, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, North Carolina, New Jersey, Ohio, Illinois, Pennsylvania, Vermont, Virginia, South Carolina, Washington, and West Virginia. I hold an M.B.A. and B.S. in economics from Virginia Commonwealth University. I am a member of several professional organizations as well as a Certified Rate of Return Analyst. A more complete description of my education and experience is provided in Exhibit No.__(GAW-2).

Q: What is your ratemaking experience within Washington State?

A: I represented Public Counsel in the 2008 rate case involving Puget Sound Energy (electric and gas) and the 2008 Pacific Power rate case on issues relating to cost of service and rate design.

Q: What is the purpose of your testimony is this proceeding?

A: Technical Associates has been engaged to review and evaluate Avista's electric and natural gas class cost of service studies, proposed class revenue increases, residential rate design and low-income rate assistance program proposals. The purpose of my testimony is to comment on these proposals and provide alternative recommendations in these areas.

Q: Please summarize your findings and recommendations.

A: With regard to class revenue responsibility (class revenue allocations), I accept and agree with Avista's proposals for both its electric and natural gas operations. In this regard, if the Commission authorizes an overall increase in revenue requirement somewhat less than the increases proposed by the Company, its proposed base rate class revenue allocations should be scaled back proportionately. However, should the Commission authorize an increase substantially less than that requested by Avista, an across the board, equal percentage increase in base rates by class would be appropriate.

With regard to Residential rate design, I accept Avista's proposed rate structure and proposed monthly customer charge increase from $5.75 to $6.00 for both its electric and natural gas operations. Should the Commission authorize a very small percentage (or virtually no) increase for either electric or natural gas operations, I recommend maintaining the current customer charge of $5.75.

Finally, with regard to Avista's Public Purposes Riders (Schedules 91, electric, and Schedule 191, natural gas), I recommend that the Low Income Rate Assistance Program (LIRAP) component of these Schedules be increased, at a minimum, by the same percentage as the overall authorized percentage increase in the Company's revenue requirement. In addition, I express the view that increased funding is necessary to achieve greater participation by low income customers in LIRAP.

II. CLASS REVENUE RESPONSIBILITY

Q: Mr. Watkins, what are the bases for Avista's proposed class revenue allocations?

A: Avista witness Brian Hirschkorn indicates that his proposed class revenue increase allocations for both electric and natural gas used the results of the Company's class cost of service studies (CCOSS) as a guide to spread the overall requested increase in base rate revenue. With respect to the Company's electric operations, Mr. Hirschkorn also considered the impacts resulting from the proposed decrease in the Energy Recovery Mechanism (ERM) surcharge.

Q: Have you reviewed the Company's CCOSS filed in this case?

A: Yes. I conducted an examination of Avista's separate electric and natural gas CCOSS conducted and sponsored by Avista witness Tara Knox.

Q: What are your findings regarding your examination of the Company's Electric CCOSS?

A: Ms. Knox's electric CCOSS was conducted using the Peak Credit methodology to classify and allocate generation (production) and transmission costs. This methodology is consistent with Avista's CCOSS conducted in its last general rate case (Docket No. UE-080416) as well as the methodology typically used by the other investor-owned electric utilities in Washington (Puget Sound Energy and Pacific Power). I concur with Ms. Knox's use and application of the Peak Credit method to classify generation and transmission costs in this case. However, I understand that Avista is currently in the process of conducting a new class load study such that its current estimates of class peak loads may be somewhat imprecise.

In order to address questions regarding current class demands, which remain to be answered by the load study, Ms. Knox conducted various sensitivity analyses utilizing various assumptions concerning relative class contributions to peak demands. These demand sensitivity analyses indicate that class rates of return will not materially change once the updated class load study is completed.

As with any class cost of service study, Ms. Knox's CCOSS required several subjective decisions and judgments regarding the assignment of jointly incurred costs to individual classes. I do not necessarily agree with certain aspects of Ms. Knox's allocation of distribution and customer service costs. However, my analysis indicates that revisions to Ms. Knox's study would not materially change the relative magnitude of individual class rates of return in terms of the CCOSS serving as a guide for establishing class revenue responsibility, nor would they change my opinion that the Company's proposed class revenue allocations are reasonable.

The following class rates of return at current rates were provided by Ms. Knox's CCOSS:

TABLE 1: AVISTA ELECTRIC ROR AT CURRENT RATES

Class	Rate of Return	Relative Rate of Return
Residential	2.88%	66%
General Service	9.35%	214%
Large General Service	6.29%	144%
Extra Long General Service	2.18%	50%
Pumping	3.34%	76%
Lighting	5.43%	124%
Total Washington	4.37%	100%

Q: Please provide a summary of Avista's proposed electric class revenue allocations.

A: Mr. Brian Hirschkorn proposes the following general base rate class increases:

TABLE 2: AVISTA PROPOSED ELECTRIC BASE RATE INCREASES

Class	General Base Rate Increase ($000)	General Base Rate Increase Percent
Residential	$31,647	18.5%
General Service	6,264	15.0%
Large General Service	20,956	17.7%
Extra Long General Service	8,318	18.1%
Pumping	1,517	17.8%
Lighting	1,067	18.7%
Total	$69,762	17.8%

As can be seen above, the Company's proposed overall general rate increase of 17.8% is distributed fairly evenly (in percentage terms) across classes with the exception of the General Service class. I find Avista's proposal reasonable since the General Service class is currently providing a rate of return that is more than double that of the system average (9.35% for General Service compared to 4.37% for Total Washington). Moreover, minor differences in other class percentage increases are consistent with CCOSS results. To the extent that the Commission authorizes an overall general base rate increase substantially less than the $69.762 million requested by Avista (50% of the increase or less), an across the board, or equal percentage increase to class base rate revenues would be appropriate. This is due to the uncertainty of actual class peak demands and the fact that it makes little practical sense to attempt surgical precision with CCOSS results when a small overall Company percentage increase in revenue is authorized.

Q: What are your findings regarding your examination of Ms. Knox's natural gas CCOSS?

A: As with her electric CCOSS, Ms. Knox's natural gas study reflects the same methods and approaches used in Avista's last general rate case. Specifically, Ms. Knox employed the Peak and Average method to allocate Distribution Mains cost, which is also consistent with the Mains Allocation method used by other natural gas LDCs in Washington. While I do not agree with certain aspects of Ms. Knox's study (particularly her treatment of small versus large Distribution Mains), my disagreements would not be significant enough to cause me to conclude that Mr. Hirschkorn's class revenue increase allocations are inappropriate or unreasonable.

The following class rates of return were produced by Ms. Knox's CCOSS:

TABLE 3: AVISTA NATURAL GAS ROR AT CURRENT RATES

Class	Rate of Return	Relative Rate of Return
General Service (Sch. 101)	6.98%	100%
Large General Service (Sch. 111)	6.83%	98%
High Load Factor General Service (Sch. 121)	6.48%	93%
Interruptible (Sch. 131)	7.20%	103%
Transportation (Sch. 146)	7.97%	115%
Total Washington	6.96%	100%

Q: Please provide a summary of Avista's natural gas class revenue allocations.

A: Mr. Hirschkorn's Exhibit No. ___(BJH-7) provides his proposed class increase, including gas costs. These class increases in base tariff revenues are as follows:

TABLE 4: AVISTA PROPOSED NATURAL GAS BASE RATE INCREASES

Class	Proposed Increase In Base Rates ($000)	Base Rate Revenue Percent Increase
General Service	$3,584	2.4%
Large General Service	1,080	1.9%
High Load Factor General Service	132	1.9%
Interruptible	5	0.8%
Transportation	117	6.8%
Total Washington	$4,918	2.3%

However, because Avista's base rates include gas costs, such a comparison does not reflect the Company's proposed changes in Margin (non-gas) revenues. The following Margin revenue increases are proposed by Mr. Hirschkorn:

TABLE 5: AVISTA PROPOSED NON-GAS BASE RATE INCREASES

Class	Current Base Rate Revenue ($000)	Less Gas Costs ($000)	Current Margin Revenue ($000)	Proposed Increase ($000)	Proposed Increase Percent
General Service	$150,654	$106.123	$44,531	$3,584	8.0%
Large General Service	55,578	44,659	10,919	1,080	9.9%
High Load Factor General Service	6,991	5,841	1,150	132	11.5%
Interruptible	653	562	91	5	5.5%
Transportation	1,711	14	1,697	117	6.9%
Total Washington	$215,587	$157,199	$58,388	$4,918	8.4%

As can be seen in Table 5, when gas costs are subtracted from base rate revenues, Mr. Hirschkorn's proposal results in a somewhat higher percentage increase to the High Load Factor General Service class than the overall system percentage increase and lower than system average percentage increase for the Interruptible and Transportation classes. Given my conceptual disagreements with Ms. Knox's treatment of Distribution Mains in her CCOSS, I accept Mr. Hirschkorn's class revenue allocations at the requested overall increase of $4.918 million. However, should the Commission authorize an overall increase significantly lower than the Company's request, an across the board, equal percentage increase in total base rate revenues by class is more appropriate.

III. RATE DESIGN

Q: Please explain Avista's current and proposed electric Residential rate structure.

A: Currently, Avista's electric Residential rates include a traditional fixed monthly customer charge plus a three-tiered inverted block rate structure for all energy (KWH) consumed. The Company proposes to maintain this rate structure in this case with a 4.3% increase to the fixed monthly customer charge (from $5.75 to $6.00) and an approximate 20% increase to each of the usage blocks.

Q: What is your recommendation regarding Avista's Electric Residential rate design?

A: I support the Company's proposed inverted block rate structure and accept the proposed increase in the customer charge from $5.75 to $6.00. While fixed customer charges should be set at a minimal level to only recover the cost of maintaining a customer's account, the modest increase (4%) proposed in this case is acceptable.

Q: Please explain Avista's current and proposed natural gas Residential rate structure.

A: Avista's Residential natural gas customers are served under its General Service Rate Schedule 101. This base rate schedule consists of a fixed monthly customer charge and a flat usage (per Therm) charge for all gas consumed. Avista proposes to maintain the current rate structure in this case with a 4.3% increase to the fixed monthly customer charge (from $5.75 to $6.00) and an approximate 2.2% increase to the base rate flat usage charge.

Q: What is your recommendation regarding Avista's natural gas Residential (General Service) rate design?

A: I support the Company's proposed flat usage rate structure and accept the proposed increase in the customer charge from $5.75 to $6.00. As with electric customer charges, natural gas fixed monthly charges should be set at a minimal level to only recover the cost of maintaining a customer's account, such that the modest increase (4%) proposed in this case is acceptable.

IV. LOW INCOME RATE ASSISTANCE PROGRAM

Q: How is Avista's Low Income Rate Assistance Program (LIRAP) funded?

A: Avista's LIRAP is funded through customer payments under the Company's Public Purposes Rider (Schedule 91 for electric, and Schedule 191 for natural gas). The Company's Public Purposes Rider includes a specific and separate provision for its DSM programs and its LIRAP program. The following are the LIRAP surcharges for its electric and natural gas operations:

TABLE 6: SCHEDULE 91 ELECTRIC LIRAP SURCHARGE

Electric (Schedule 91)	
Rate Schedule	LIRAP Surcharge
1	$0.00053/kwh
11 & 12	$0.00074/kwh
21 & 22	$0.00055/kwh
31 & 32	$0.00036/kwh
25	$0.00048/kwh
41-48	0.79% of base rate

As can be seen above, the LIRAP electric surcharge is a very small rider in terms of customer electric bills. For the average Residential customer using 1,000 kwh per month, the LIRAP surcharge is $0.53.

TABLE 7: SCHEDULE 191 NATURAL GAS LIRAP SURCHARGE

Natural Gas (Schedule 191)	
Rate Schedule	LIRAP Surcharge
101	$0.00962/kwh
111 & 112	$0.00831/kwh
121 & 122	$0.00768/kwh
131 & 132	$0.00743/kwh

Avista's natural gas LIRAP surcharge also represents a very small portion of customers' natural gas bills. For the average General Service (Residential) customers using 73 Therms per month, the LIRAP surcharge is $0.70.

Q: What is Avista's proposed treatment of LIRAP surcharges in this case?

A: The Company proposes no increase to the LIRAP funding in this case.

Q: Do you agree with the Company's proposal of no increase to the LIRAP surcharges within Rate Schedules 91 and 191?

A: No. Avista is proposing significant increases in Residential customer rates in this case that will clearly have a more adverse impact on low-income customers than its customer base as whole (non low-income customers).

In his testimony, Mr. Morris (p. 11) points to the Federal LIHEAP allocation as providing significant funds for this sort of assistance. While these funds were of significant assistance in serving more households with their energy cost than had previously been able to participate in LIHEAP, the federal funding is not guaranteed or intended as a permanent funding source to expand LIHEAP. While it is possible the Federal government may again make such an allocation, the Company should not rely on it.

It is generally agreed that LIRAP does not have sufficient resources to serve all of the customers who are eligible for the program. Simply indexing increases in LIRAP funding equal to any allowed rate increase in this case is not adequate to address the problem of limited program penetration. The recent economic decline has likely increased the number of households living in poverty beyond the 17.3% figure developed by Titus for the Decoupling Pilot evaluation.[1] Addressing limited program penetration would require increasing LIRAP funding by some amount greater than the allowed rate increase.

Q: If the LIRAP surcharge is increased at the same percentage as the Company's overall requested increase in revenues, what impact will this have on average residential customers' monthly bills?

A: With regard to Avista's electric operations, the Company is requesting a 17.8% increase in electric base rate revenues. An approximate 18% increase in Avista's electric LIRAP surcharge would cost the average Residential customer less than one dime ($0.095) per month.

With regard to Avista's natural gas operations, The Company is requesting a 2.4% increase in total billed revenue. A 2.4% increase in Avista's natural gas LIRAP surcharge would cost the average Residential customer less than two cents

[1] Exhibit No. ___ (BJH-2), p.76.

($0.017) per month.

Q: Are there demographic circumstances unique to Avista's service area that supports the need for additional LIRAP funding?

A: Yes. It is painfully obvious to all that Washington State and the nation as a whole is experiencing a severe economic recession. However, Avista's service areas (electric and natural gas) are comprised of a greater portion of low income families than the State of Washington as a whole. As an illustration, the Titus report, provided as an exhibit to Mr. Hirschkorn's testimony, indicates that approximately 17.3% of residential customers within Avista's service area have income at or below 125% of the Federal poverty level.

Q: What is your recommendation regarding Avista's LIRAP surcharges?

A: I recommend that the electric LIRAP surcharges be increased at the greater of the authorized overall percentage increase in revenues (17.8% at the Company's request) or 9.0% in the event the Company's overall increase is reduced.

I recommend that the natural gas LIRAP surcharge be increased at the greater of the authorized percentage increase in revenues (2.4% at the Company's request) or 1.75% in the event the Company's overall increase is reduced.

In addition, addressing limited program penetration would require increasing LIRAP funding for both gas and electric by some amount greater than the allowed rate increase.

Given the level of low income families within Avista's service areas and the minimal cost imposition on non low-income customers, such increases are clearly in the public interest.

Q: Does this complete your testimony?

A: Yes.