

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
v.)	Docket Nos. UE-110876/UG-110877
)	<i>(Consolidated)</i>
)	
AVISTA CORPORATION d/b/a AVISTA)	
UTILITIES,)	
)	
Respondent.)	
)	
)	

RESPONSIVE TESTIMONY OF MICHAEL C. DEEN
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

February 24, 2012

1 **I. INTRODUCTION**

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

3 **A.** My name is Michael C. Deen, and my business address is 900 Washington Street, Suite
4 780, Vancouver, Washington 98660. I am employed by Regulatory and Cogeneration
5 Services, Inc. (“RCS”), a utility rate and consulting firm.

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

7 **A.** I have been involved in the electric utility industry for over 5 years. During that time, I
8 have served as an analyst and expert on a variety of power supply, cost, ratemaking, and
9 policy topics, primarily regarding the Bonneville Power Administration and Pacific
10 Northwest utilities. I recently provided testimony on behalf of the Industrial Customers
11 of Northwest Utilities (“ICNU”) before the Washington Utilities and Transportation
12 Commission (the “Commission”) in the Puget Sound Energy general rate case,
13 consolidated dockets UE-111048/UG-111049, and in the 2011 PacifiCorp Washington
14 general rate case, docket UE-111190. A further description of my educational
15 background and work experience can be found in Exhibit No. __ (MCD-2).

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

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

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

21 **A.** The purpose of this testimony is to address the decoupling proposal of the Northwest
22 Energy Coalition (“NVEC”) described in Exhibit No. ___(RCC-1T).

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

2 **A.** NWEC’s decoupling proposal in this proceeding is inappropriate for industrial customers.
3 Further, NWEC’s proposal is not sufficiently developed, and it is inconsistent with the
4 Commission’s stated policy goals for decoupling. If the Commission wishes to pursue a
5 full decoupling mechanism, then it should be considered in the context of a separate, later
6 proceeding after a complete proposal is filed.

7 **II. DECOUPLING PROPOSAL**

8 **Q. PLEASE SUMMARIZE THE BACKGROUND OF DECOUPLING PROPOSALS**
9 **IN THIS PROCEEDING.**

10 **A.** In a prior phase of this proceeding, the Commission approved a settlement, pursuant to
11 which Avista abandoned its Energy Efficiency Lead Adjustment (“EELA”), a limited
12 decoupling proposal. On June 28, 2011, the Washington Utilities and Transportation
13 Commission (“WUTC” or the “Commission”), through a bench request, invited
14 intervenors to examine full decoupling for Avista, by presenting the critical elements of a
15 full decoupling proposal, and indicating whether or not a decision on decoupling could be
16 made by the end of this rate case. The parties reached a settlement of all issues, except
17 decoupling, and agreed to address decoupling in a separate schedule. NWEC’s proposal
18 was filed on November 3, 2011, and parties are invited to respond to the proposal in
19 responsive testimony, due on February 24, 2012. This testimony analyzes NWEC’s
20 proposal in light of the WUTC’s Policy Statement on Decoupling and responds to some
21 issues raised in testimony by the NWEC.

1 **Q. THE COMMISSION HAS INVITED PARTIES TO ADDRESS THE**
2 **DECOUPLING PROPOSALS FILED IN RESPONSE TO THE BENCH**
3 **REQUEST. HOW DOES ICNU VIEW THESE PROPOSALS?**

4 **A.** Only NWECC has proposed a decoupling mechanism. ICNU does not believe that this
5 proposal is appropriate or necessary for promoting industrial conservation. The
6 Commission has stated that the purpose of considering decoupling is to “remove barriers
7 to utilities acquiring all cost-effective conservation or to encourage utilities to acquire all
8 cost-effective conservation.”^{1/} The decoupling mechanism presented would not
9 accomplish either of these goals.

10 Washington law mandates implementation of conservation. The Energy
11 Independence Act (“EIA” or “I-937”) requires Avista to acquire all cost-effective
12 conservation available to it. No Party has demonstrated that any barriers are preventing
13 Avista from acquiring all cost-effective conservation; in fact, there is no allegations that
14 Avista is failing to meet its state-mandated conservation targets. This demonstrates that
15 there is no barrier to the acquisition of cost-effective conservation.

16 Avista has not indicated that it needs further incentives to acquire more cost-
17 effective conservation than its state mandated target requires. The EIA requires Avista’s
18 conservation target to include all cost-effective conservation available, and no party has
19 demonstrated that there is more cost-effective conservation available than required by its
20 conservation target. Thus, Avista does not need further incentive to reach its
21 conservation target. In the words of the Commission, “the EIA already provides ample
22 incentive.”^{2/}

^{1/} WUTC Docket No. U-100522, Report and Policy Statement ¶ 12 (Nov. 4, 2010).

^{2/} Id. at ¶ 24.

1 This means that a decoupling scheme will likely have no actual effect on Avista’s
2 conservation efforts. It will neither remove existing barriers, nor supply a needed
3 incentive. The only change decoupling would likely bring is greater certainty of revenue
4 to the Company, regardless of quality of service, economic conditions, or changes in
5 customer use. The cost of this certainty would be borne by ratepayers.

6 **Q. IF DECOUPLING WERE MANDATED BY THE COMMISSION, SHOULD**
7 **INDUSTRIAL CUSTOMERS BE INCLUDED?**

8 **A.** No. Large industrial customers are fundamentally differently situated than customers in
9 other classes. During the development of the Commission’s Policy Statement, Avista
10 itself noted that large industrial customers should be excluded from decoupling programs
11 because they are “much more prone to changes in general economic and business climate,
12 and . . . any decrease in use per customer is often not related to conservation
13 programs”^{3/}

14 NWEC has recognized that it would be unfair to extend a decoupling mechanism
15 to industrial customers in this case. NWEC has proposed that an Avista decoupling
16 mechanism should exclude customers in rate schedule 25 because this schedule has very
17 few members and accounts for only 10% of energy charges but 20% of retail sales.^{4/}
18 This means that industrial customers could end up subsidizing other classes if they were
19 to pay decoupled rates on their large share of retail sales, despite being responsible for
20 only a small fraction of the fixed costs being recovered.

21 Large industrial customers have widely disparate load shapes and unique service
22 requirements. Because these classes contain few, unique customers, the loss of load

^{3/} WUTC Docket No. U-100522, Comments of Avista at 9 (June 4, 2010).
^{4/} Direct Testimony of Ralph C. Cavanagh, Exhibit No. __ (RCC-1T) at 13.

1 caused by even a single customer changing usage habits or going out of business during
2 times of economic difficulty could drastically change the class-generated revenue. This
3 could activate a decoupling mechanism and raise prices for the few remaining customers
4 in the class, despite the lack of any connection to Avista's conservation efforts.

5 Applying decoupling to large industrial customers would send the wrong message
6 and potentially harm Avista's conservation programs. Currently, industrial customers
7 know that if they invest in conservation, they will lower their own energy costs and
8 reduce Avista's need for acquiring more expensive new generation. Under decoupling,
9 however, industrial conservation will result in higher rates and discourage industry from
10 supporting conservation. Industry will know that their conservation efforts will result in
11 decoupling charges, which will provide an incentive for industry not to invest in
12 conservation or support Avista's conservation programs.

13 For all of these reasons, I agree with NWECA's proposal to exclude customers in
14 rate schedule 25 from any potential decoupling mechanism.

15 **Q. IF THE WUTC WISHES TO PURSUE DECOUPLING FOR AVISTA, WHAT**
16 **PROCESS DO YOU RECOMMEND?**

17 **A.** The WUTC has made clear that a decoupling mechanism should be adopted in the
18 context of a general rate case so that the effect of decoupling on the cost of capital, the
19 criteria for exclusion of customer classes, and many other issues could be considered in
20 context.^{5/} The burden should be upon Avista or NWECA to design a decoupling
21 mechanism that complies with Commission standards and present it in a future rate case
22 where it can be considered in proper context. This would comport with the

^{5/} Report and Policy Statement ¶ 28.

1 Commission's requirement that "[a] utility's request for a full decoupling mechanism
2 must be made in its direct testimony of its rate case filing"^{6/}

3 **Q. DOES THE MECHANISM PROPOSED BY NVEC CONFORM TO THE**
4 **COMMISSION'S POLICY STATEMENT?**

5 **A.** NVEC's mechanism conforms to some of the principles discussed by the Commission in
6 its Policy Statement. Nonetheless, NVEC's mechanism does not appear to conform to
7 the Commission's stated preference for per-class decoupling or include a suitable
8 conservation test.

9 Additionally, the mechanism includes some elements that do not function to
10 eliminate disincentives to conservation, but rather solely operate to generate additional
11 utility revenue. These include the lack of an ROE adjustment and the possibility of five-
12 year periods in which the mechanism would function with minimal Commission scrutiny.

13 In order to fully conform to the Policy Statement and protect customers, any
14 potential full decoupling mechanism should be administered per-class, rather than per-
15 customer, and should contain an earnings test and a conservation test that protect
16 customers while removing the disincentive to promote conservation. It should also
17 reflect the utility's reduced risk and be subject to review by the Commission.

18 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY PER-CUSTOMER AND PER-**
19 **CLASS DECOUPLING.**

20 **A.** One study identifies per-customer decoupling as a system that sets a revenue-per-
21 customer rate, meaning that when a utility's customer base grows, so does the total

^{6/} Id.

1 revenue the utility is entitled to receive through the true-up.^{7/} On the other hand, per-
2 class decoupling (sometimes called “rate-cap” decoupling) divides a utility’s revenue
3 requirement proportionately among classes, and trues-up each class to this amount.

4 While both methods ultimately assign a revenue requirement per customer, the primary
5 difference is that under straight per-customer decoupling, when new customers join the
6 system, the utility automatically raises its revenue requirement.

7 **Q. HAS THE COMMISSION INDICATED WHETHER PER-CUSTOMER OR PER-**
8 **CLASS DECOUPLING IS APPROPRIATE?**

9 **A.** Yes. The WUTC Policy Statement explicitly states that a true-up should track customer
10 use by class, and recover “revenue attributed to each affected class of customer,” rather
11 than revenue per-customer.^{8/} This deliberate choice is consistent with the rest of the
12 Policy Statement, where the WUTC stated that the revenue produced by additional
13 customers is a constituent of “found margin,” meaning that it would offset reductions due
14 to conservation, weather, or economic malaise.^{9/} If additional customers simply add to
15 the revenue requirement as would occur under the NWECC proposal, then the revenue they
16 produce cannot offset reductions.

17 Should a utility later demonstrate that there is no longer “reasonable balance”
18 between this found margin and the cost to serve new customers, the Commission
19 suggested that the utility’s line extension tariffs could be amended, or some portion of
20 this found margin could be excluded from the true-up.^{10/} ICNU believes this

^{7/} See Pamela Lesh, Rate Impacts and Key Design Elements Of Gas and Electric Utility Decoupling, 7 (2009); WUTC v. Avista Corporation, Docket No. UE-090134, Brief of NW Energy Coalition, App. A (Nov. 10, 2009).

^{8/} Report and Policy Statement ¶ 28.

^{9/} Id. ¶ 11.

^{10/} Id. ¶ 28, n.44.

1 demonstrates that the Commission’s articulation of a per-class mechanism was
2 intentional.

3 An adjustment to line extension tariffs, if necessary, directly addresses the costs
4 of serving new customers. Per-customer decoupling is a blunt instrument that primarily
5 removes an important segment of found margin from the true-up. Further, the Report and
6 Policy statement indicates that it should be the responsibility of the utility to demonstrate
7 an actual inequity before it would be corrected through a line extension tariff adjustment
8 or removal of some new customer revenue from found margin.^{11/}

9 **Q. DOES NVEC’S MECHANISM USE PER-CLASS DECOUPLING?**

10 **A.** No. NVEC fails to acknowledge the Commission’s decision to implement decoupling
11 based on revenue attributed to each class; rather, the mechanism proposes “per-customer
12 decoupling based on the fixed-cost per-customer revenue requirement.”^{12/}

13 **Q. HOW COULD THIS OUTCOME BE AVOIDED?**

14 First and foremost, the distinctions between these kinds of decoupling shows that there
15 are far too many issues to resolve to adopt decoupling based on the record in this case.
16 However, if the Commission decides to adopt a decoupling mechanism now, it is
17 important that the revenue requirement established in this General Rate Case (“GRC”)
18 remain in effect, and that the Company’s revenues be trued-up to that amount on a per-
19 class basis for participating classes. This means that if a decoupling mechanism is
20 adopted, it should function as described in the WUTC’s Policy Statement, and it should
21 exclude industrial customers.

^{11/} Id.
^{12/} Responsive Testimony of Ralph C. Cavanagh, Exhibit No.____(RCC-1T) at 8.

1 This Commission has long assumed that a properly adjusted historic test year
2 creates the most accurate relationship between costs and revenues. Lost margin due to
3 conservation and the found margin represented by additional customer revenue are only
4 two of the multitude of factors affecting a utility's ability to recover its costs. There is no
5 reason to depart from this sound regulatory practice to allow a utility to automatically
6 increase its revenue requirement outside of a rate case, as NWECE's mechanism would do.
7 Rather, a per-class decoupling mechanism would assure that lost and found margin
8 remain in reasonable balance.

9 **Q. HOW DO YOU RECOMMEND NWECE'S MECHANISM BE ADJUSTED?**

10 **A.** Under the WUTC standards, a utility's revenue requirement is established in a GRC, and
11 that revenue is allocated by class according to accepted ratemaking principles. This
12 would maintain current practice during the GRC.

13 One year after the GRC, the utility would calculate the difference, per included
14 class, between the revenue projected by the adjusted historic test year and the actual
15 revenue attributable to each class. Subject to a conservation test and an earnings test, any
16 over collection would be returned to the customer class over the following rate year and
17 any under collection would be charged to the customer class over the following rate year.

18 **Q. IS NWECE'S DECOUPLING MECHANISM CONDITIONED UPON A UTILITY'S**
19 **LEVEL OF ACHIEVEMENT WITH RESPECT TO ITS CONSERVATION**
20 **TARGET?**

21 **A.** No. The NWECE proposal does not appear to conform to this key Commission
22 requirement.

1 **Q. WHAT DO YOU SUGGEST REGARDING THE CONSERVATION TEST?**

2 **A.** A conservation test is important and must be included to ensure that the decoupling
3 mechanism actually functions to promote conservation, not simply to guarantee revenue
4 or automatic rate increases to the utility. A conservation test should have been included
5 in NWEC's direct testimony so that parties would have sufficient opportunity to review
6 how it would work.

7 **Q. DOES THE NWEC PROPOSAL INCLUDE AN EARNINGS TEST?**

8 **A.** NWEC argues that the Commission's earning test requirement should be rescinded. In
9 the alternative, it suggests that the Company should recover from customers even if its
10 earnings before the true-up surpassed its allowed return on its investment. An earnings
11 test should limit a utility to collecting the percentage of annual true-up that equals the
12 percentage of its conservation target it achieves. I recommend that the true-up be capped
13 at the allowable rate of return ("ROR"), not 25 basis points above the ROR.

14 **Q. CAN YOU COMMENT ON THE DISTINCTION BETWEEN USING ROR OR**
15 **RETURN ON EQUITY ("ROE") IN THE EARNINGS TEST?**

16 **A.** Yes. ROR, of course, represents the Company's weighted average return on capital
17 investment, including both debt and equity components. ROE is only the return on the
18 equity portion of the Company's authorized capital structure. NWEC's Mechanism
19 appears to use ROR as the basis for the Earnings Test, but ROE could be used instead.
20 ICNU does not see a theoretical basis for preferring either type of test but notes that the
21 ROR test could have differential effects on the Company's actual realized ROE under
22 changing economic conditions. For example, in periods of declining debt costs, an
23 overall ROR earnings test would allow a utility to earn a higher ROE. Conversely, in

1 periods of rising debt costs, an ROR earnings test would lower the ROE. If the
2 Commission decides to pursue decoupling, this distinction should be considered in the
3 type of earnings test that is ultimately adopted.

4 **Q. WHY IS NVEC’S PROPOSAL INAPPROPRIATE?**

5 **A.** Decoupling is meant to enable a utility to recover its costs and have the opportunity to
6 earn the ROR that the Commission finds appropriate. The Commission notes lost margin
7 is only “one decrease in revenue among many decreases and increases in revenues and
8 expenses.”^{13/} Thus, if a utility is able to meet the ROR set by the Commission, the
9 matching principle is functioning properly and increases in revenue are offsetting
10 decreases. To allow a true-up beyond the ROR would function purely as a transfer of
11 wealth from ratepayers to shareholders. If a utility believes that it is unable to earn a fair
12 ROR, the proper way to address this is by filing a GRC. A utility should be required to
13 prevail in a full rate case to receive a higher ROR, rather than be allowed to increase its
14 ROR by 25 basis points through an automatic mechanism intended to promote
15 conservation.

16 **Q. DO YOU AGREE WITH NVEC’S ASSERTION THAT FULL DECOUPLING**
17 **SHOULD NOT BE REFLECTED IN THE COMPANY’S ROE?**

18 **A.** No. I recommend that if full decoupling is adopted, the Commission should reflect the
19 risk reduction by selecting an ROE at the low end of the reasonable range that has been
20 established in this case. This of course will lower the Company’s overall authorized
21 ROR for any given capital structure. The fact that the parties did not explicitly agree to
22 an authorized ROR in the Avista settlement should not prevent the Commission from
23 making a ROR adjustment in this case. The Commission can estimate the revenue

^{13/} Report and Policy Statement ¶ 9, ¶ 28.

1 requirement impact based on the ROR that will be used for bookkeeping purposes. If the
2 Commission believes more information regarding decoupling's impact on Avista's ROR
3 is needed, then the Commission should defer consideration of decoupling until Avista's
4 next general rate case. It is commonly accepted that mitigation of revenue variability via
5 electric decoupling changes a company's risk profile. In a great majority of the electric
6 decoupling programs currently in place, the decoupled utility's ROR has been adjusted
7 downward to reflect that change in risk (either through a direct reduction to ROE or by
8 reducing the equity component of the capital structure).

9 **Q. HOW DO YOU RESPOND TO NVEC'S CLAIM THAT NO ADJUSTMENT IS**
10 **WARRANTED?**

11 **A.** NVEC based its conclusion primarily on two sources that it claims demonstrate that no
12 ROE adjustment is necessary.^{14/} The first is a study by the Brattle Group, and the second
13 is a white paper by the Regulatory Assistance Project ("RAP"). The study by the Brattle
14 Group is completely inapplicable to electric decoupling and should not be relied on in
15 this proceeding. Ironically, the RAP white paper cited by NVEC addresses and debunks
16 the usefulness of the Brattle Study. Further, the RAP white paper does not conclude that
17 no ROE adjustment is necessary, and the section cited to by NVEC primarily considers
18 what type of ROE adjustment is proper when full decoupling is adopted.

19 **Q. PLEASE ELABORATE.**

20 **A.** The Brattle Study relies exclusively on data drawn from gas utilities but tries to apply its
21 findings to all types of utilities and all types of decoupling. As an example, Brattle

^{14/} Exhibit No. __ (RCC-1T) at 16-17.

1 claims that only a minority of jurisdictions have adjusted ROE to reflect decoupling.^{15/}
2 This may be true for the study’s sample group, which overwhelmingly consists of limited
3 decoupling and straight-fixed-variable rate design (arguably not decoupling at all), but
4 my review of electric decoupling cases currently in operation suggests that an
5 overwhelming majority of Commissions approving full decoupling for electric utilities
6 have had made downward ROE adjustments.^{16/}

7 The Brattle Study was conducted exclusively on an entirely separate industry.
8 There is no reason assume that electric companies, facing operating profiles and therefore
9 risks different from gas companies, would have identical risk profiles. Second, and more
10 importantly, the Brattle Study is not applicable to full-decoupling because full decoupling
11 eliminates risk from any revenue reduction rather than limiting recovery to conservation-
12 specific losses.

13 The RAP report cited by NWECA states that the Brattle Study “focused on only
14 one approach to measure the cost of capital . . . [and] did not consider the reduction in
15 systematic risk”^{17/} The paper explains that decoupling “will reduce systematic risk
16 (reduced earnings volatility due to economic cycles) because sales variations in business
17 cycles do not affect earnings under decoupling.”^{18/} Thus, RAP concludes that the Brattle
18 Study, focused on limited decoupling, does not even consider the primary risk reduction
19 effect of full decoupling, and based on this flaw, RAP finds the study unconvincing and
20 recommends adjustments to a decoupled utility’s ROE or capital structure.

^{15/} WHARTON ET AL., THE IMPACT OF DECOUPLING ON THE COST OF CAPITAL, 2, The Brattle Group, (March 2011).

^{16/} Exhibit No. ____ (MCD-3).

^{17/} Revenue Regulation and Decoupling: A Guide to Theory and Application, The Regulatory Assistance Project (June 2011), 39 n.31.

^{18/} Id.

1 **Q. WHAT DOES THE RAP REPORT SUGGEST REGARDING RISK**
2 **REDUCTION?**

3 **A.** The RAP report reaches precisely the opposite conclusion than NWECC does. It notes that
4 it would be unfair to shift market risk away from the utility and force customers to wait
5 until the bond market reflects the change in market risk. This is because the lag to a bond
6 market upgrade can be years, or even a decade. If customers must wait for the bond
7 market to respond to decoupling, savings for customers will be phased in slowly over
8 many years while the benefits of guaranteed revenue for the Company and assured
9 dividends for the shareholders accrue immediately. Thus, RAP states that a regulator
10 should recognize the reduction in business risk either by an ROE reduction or by
11 lowering the equity component of the utility's capital structure, and the principle reason
12 for such an adjustment is "so that it can be implemented concurrently with the imposition
13 of the risk mitigation."^{19/} RAP prefers the latter method, but Commissions in most
14 jurisdictions I have examined have chosen the former. In either case, RAP's
15 recommendation is precisely the opposite of NWECC's wait-and-see approach.

16 **Q. WHAT IS ICNU'S RECOMMENDATION?**

17 **A.** Exhibit No. ____ (MCD-3) shows that of 16 currently active decoupling programs that I
18 have examined, 11 were adopted in conjunction with an ROE adjustment. While most of
19 these reductions were a specified number of basis points, the most appropriate response
20 to any potential decoupling in this case is to select an ROE at the low end of the range the
21 Commission finds reasonable, rather than at the midpoint. ICNU agrees with the
22 Commission's own statement that "if it is necessary [to reflect reduced risk in rates] . . .

^{19/} Id. at 37, 39.

1 we think it is more appropriate to make a direct adjustment to return on equity, for
2 example, moving to the low end of a range of reasonable returns”^{20/}

3 **Q. DO YOU AGREE THAT A 5-YEAR DECOUPLING PROGRAM IS**
4 **APPROPRIATE?**

5 **A.** No. ICNU is concerned that instituting decoupling will lessen a utility’s incentive to
6 carefully manage costs. While frequent rate cases are not desirable, avoiding cost
7 scrutiny through automatic rate increases is worse for customers. Thus, complete review
8 of the decoupling mechanism should occur far sooner than five years.

9 **Q. WHEN SHOULD A DECOUPLING PROGRAM BE REVIEWED?**

10 **A.** In the ongoing Puget Sound Energy decoupling proceeding, Staff states that “[w]hile it is
11 possible management would become less vigilant over costs under full decoupling,
12 because revenues are assured, the period rate case requirement assures continuing
13 Commission scrutiny”^{21/} This practice is widely followed for decoupling nationally.
14 Some state commissions approve decoupling programs that sunset after one or two years
15 or that make renewal contingent upon full review in a subsequent rate case. ICNU
16 recommends that any decoupling program adopted for Avista be subject to a full review
17 after 12 months, and that it be reviewed at least every two years thereafter.

18 **Q. DOES ICNU SUPPORT NVEC’S PROPOSED DECOUPLING REGIME?**

19 **A.** No. NVEC’s proposal does not conform to the Commission’s Policy statement,
20 particularly in regard to adjustments for return on equity. ICNU agrees with NVEC that
21 industrial customers should be exempted from any decoupling mechanism, if the
22 Commission decides to impose one.

^{20/} Re PacifiCorp, WUTC Docket No. UE-061546, Order No. 8 ¶ 106, n.67 (June 21, 2007).

^{21/} WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-111048/UG-111049, Staff Response to Bench Request at 12-13.

1 It is also disturbing that NWEAC makes a number of sweeping assertions about
2 decoupling that are simply not supported by the evidence it presents. For example, it
3 claims that decoupling supports aggressive investment in cost-effective energy efficiency
4 because 7 of 10 states it claims to have high ratios of efficiency investment per capita
5 have decoupling.^{22/} Yet neither NWEAC nor the spreadsheet it references indicates
6 whether there is any connection between decoupling and high investment per capita.
7 Claiming that decoupling *caused* efficiency when it is equally as likely that these states
8 were already leaders in energy efficiency when they considered adopting decoupling—as
9 is the case in Washington—appears to be an attempt to create a causal link when there is
10 only proof of a correlation. Further, NWEAC includes Oregon and Idaho in its list of 7
11 efficiency investment leaders with decoupling, whereas the cited report only gives one
12 figure for the Northwest generally, aggregating data from Washington, Oregon, Idaho,
13 and Montana.^{23/} It is perfectly possible that Washington, the largest of these states and a
14 pioneer in energy efficiency, is without decoupling, raising the energy efficiency ratios
15 for the region. In addition, NWEAC fails to note that Oregon has completely removed
16 investor-owned utilities from the conservation business, with those conservation
17 programs now being developed and administered by the Oregon Energy Trust.

18 **Q. PLEASE SUMMARIZE ICNU’S RECOMMENDATIONS REGARDING**
19 **DECOUPLING IN THIS PROCEEDING.**

20 **A.** ICNU disagrees with a number of specific recommendations in NWEAC’s decoupling
21 proposal. ICNU fundamentally believes that it would be impractical to implement a fully
22 considered decoupling mechanism before the end of this proceeding given the vague

^{22/} Responsive Testimony of Ralph C. Cavanagh, Exhibit No.____(RCC-1T) at 22.

^{23/} Id. at 22 n.27.

1 nature of NWECE's proposal. As such, any pursuit of decoupling for Avista should take
2 place in a future proceeding and be supported by the Company in its own direct case.
3 Further, it is inappropriate to include large industrial customer classes as part of a
4 decoupling mechanism, due to their relatively small contribution to the fixed-cost
5 recovery issues related to utility conservation programs and also their unique load
6 characteristics. Finally, ICNU finds the lack of adjustment to ROE in light of decoupling
7 particularly problematic.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.