BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. AVISTA dba AVISTA CORPORATION Respondent.	DOCKET NOS. UE-240006 AND UG-240007

TESTIMONY OF

LAUREN MCCLOY

ON BEHALF OF

NW ENERGY COALITION

July 3, 2024

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EXHIBIT LIST

I. INTRODUCTION

Q. Please state your name, title, and business address.

A. My name is Lauren McCloy, am I am the policy director for the NW Energy Coalition. My business address is 811 1st Ave, Suite 305, Seattle, WA 98014.

Q. Please describe your background and expertise.

A. As Policy Director for NW Energy Coalition, I support and guide the Coalition's policy work in the four Northwest states, including Idaho, and also our work on regional and federal issues, including regional planning, markets, and federal infrastructure funding. I have previously appeared as an expert witness before the Washington Utilities and Transportation Commission ("UTC" or "Commission"), as well as the Oregon Public Utilities Commission. I have also submitted written testimony to the Idaho Public Utilities Commission. Previously, I worked as Senior Policy Advisor to Washington Governor Jay Inslee, where I led and managed a broad range of issues in support of the Governor's energy priorities. In this role, I also represented Washington state on the Western Interstate Energy Board, and the Northwest Energy Efficiency Alliance Board. Prior to serving in that role, I was the Legislative Director for the UTC where I served as the Commission's liaison to the Washington state Legislature and the Governor's office, coordinated the UTC's legislative activities, and advised Commissioners on energy policy and legislative issues. Before joining the UTC's policy staff, I worked as a Compliance Investigator in the UTC's Consumer Protection Division. I completed Utility Regulation 101 training with the National Regulatory Research Institute in 2015 and Rate Spread and Rate Design training with EUCI in 2016. I have a B.A. from

the University of North Carolina at Chapel Hill and an M.S. in International Development from Tulane University Law School. My CV is included as exhibit LM-2.

Q. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to oppose Avista's request to increase the customer charge for electric residential and commercial customers as well as gas general service customers. I also support Avista's proposal to continue its decoupling mechanism.

II. CUSTOMER CHARGE

Q. Please provide a summary of Avista's customer charge proposal in this case.

A. On the electric side, Avista proposes to increase the customer charge (also called "basic charge" or "fixed charge") for residential schedules 1, 7, and 8 from the current $9.00/month to $15.00/month in Rate Year 1 and $20/month in Rate Year 2.[1] For commercial electric customers, Avista proposes to increase the customer charge for Schedules 11, 12, 17 and 18 from $21.00/month presently to $25.00/month in Rate Year 1 and $30.00/month in Rate Year 2.[2]

On the gas side, General Service Schedule 101 – customers that use less than 200 therms/month – would see the customer charge increase from $9.50/month to $15/month in Rate Year 1 and $20.00/month in Rate Year 2.[3]

[1] JDM-1T at 11.

[2] *Id.* at 13-14.

[3] *Id.* at 28-29.

Q. Do you support Avista's proposals to increase the customer charge?

A. I do not.

Q. What are the rationales Avista uses to justify the increases to the customer charge?

A. Avista's main rationale for the increase is that "a significant portion of the Company's costs are fixed and do not vary with customer usage."[4] Avista makes the argument that rate design is a zero-sum game, and "if customer charges are set below the cost of providing those services, then other charges are, by definition, set above their cost of service."[5]

Q. Do you agree with this rationale?

A. No. Avista conflates the use of the word "fixed" in the phrases "fixed cost" and "fixed charge." Though the utility has fixed costs, and rate design has a fixed charge – the customer charge – the two items are not congruous. That is, the purpose of the fixed customer charge is not to pay all, or even a portion, of the utility's *total* fixed costs.

Q. What *is* the purpose of the customer charge?

A. The customer charge has a specific purpose which is indeed to recover costs. However, those costs are limited to the costs of customer service, metering and billing. The Regulatory Assistance Project, leading experts in the field of rate design, confirm this definition of Customer Charge: "A fixed charge to consumers

[4] JDM-1T at 32:5-6.

[5] *Id.* at 34:11-13.

each billing period, typically to cover metering, meter reading and billing costs that do not vary with size or usage. Also known as a basic service charge or standing charge."[6]

Q. What costs are included in Avista's proposed customer charge?

A. Avista derives its proposed customer charge by first identifying total customer allocated costs of $26.55 per customer per month,[7] which is derived by dividing the number of residential customers into the Company-identified Total Customer Related Costs of $72,697,993.[8] Taking a closer look at the $72 million figure in Avista's cost of service study, an array of costs that have never been previously included in the customer charge can be identified, including operation and maintenance expenses, transmission expenses, administrative expenses, taxes, depreciation expenses and more. Though minor in comparison to the myriad included costs, Avista's figure includes costs associated with transformers, which the Commission has previously rejected in a Puget Sound Energy general rate case:

> We are not persuaded on the basis of the current record that transformer costs should be recovered in basic charges…We have never approved such a proposal and continue to believe these costs are not customer-related costs as that term is generally understood.

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[6] Lazar, J., Chernick, P., Marcus, W., and Lebel, M. (Ed.) (2020, January). *Electric cost allocation for a new era: A manual.* Montpelier, VT: Regulatory Assistance Project. P. 259.

[7] JDM-1T at 32:7-8. *See also* MJG-2 at 41:45.

[8] MJG-2 at 41:44.

Transformer costs should be recovered as distribution charges subject to PSE's electric decoupling mechanism, which adequately protects the Company's recover of its fixed costs.[9]

Avista has provided no reason why transformer costs – or a host of other costs – should be included in this case, other than "fixed cost" shares a word with "fixed charge." The Commission should not stray from its previous determination that costs outside of the costs to serve an additional customer – that is metering, billing, and customer service – should not be included in the customer charge.

Q. Does Avista have a decoupling mechanism that protects its fixed cost recovery?

A. Yes. Avista utilizes, and, as my testimony below describes, NWEC supports revenue decoupling mechanisms for both electric and gas, which ensure that Avista recovers its authorized fixed costs, no more and no less.

Q. Do Avista's customer charge proposals cause complications for those decoupling mechanisms?

A. Yes they do. Essentially, Avista argues for a straight-fixed variable (SFV) rate design, stating, "[i]deally, to properly match revenues with the cost of service, the fixed costs of providing service would be recovered through a fixed monthly charge, paid by each customer irrespective of actual usage."[10] The problem with

[9] *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 (*consolidated),* Order 08 at ¶12, (Dec. 5, 2017).

[10] JDM-1T at 34-35:23-2.

that idea is that anything can be considered a fixed cost if looked at from a long enough time period. As I note throughout my testimony, there are inherent problems with SFV, or any increase to the customer charge that is outside of its purpose of collecting costs related to serving an additional customer.

On top of that, the Commission should take note that SFV rate design is a form of decoupling. When all of the fixed costs are paid through a fixed rate, the company's revenues are not reliant on the amount of kilowatt-hours sold. Thus, revenue is *decoupled* from sales. However, this form of decoupling is not preferred because of the inability for customers to control costs, as I discuss below, as well as the likelihood that the utility earns above its authorized revenue requirement through increased customer growth.

Furthermore, unlike revenue decoupling which Avista currently has in place, higher fixed charges represent a one-way street form of decoupling, in favor of the utility. This is because high fixed charges provide only a floor for utility recovery; there is no ceiling whereby customers are provided a rebate if the utility over-collects its revenue requirement.

Q. Would an increase in the customer charge impact recovery under the decoupling mechanisms?

A. Yes. SFV rate design, or any move in that direction – by which I mean any increase in the customer charge that includes costs not associated with customer service, metering and billing – inherently provides a benefit to the utility without a corresponding benefit to customers. This is doubly true when considering a utility that has already been granted revenue decoupling, like Avista. If the increase in the

customer charge is granted, customers could be saddled with a double surcharge: the first via the increase to the customer charge, and the second due to any under-collection and thus surcharge via the decoupling mechanism. There is no possibility for a double rebate, however.

Q. Does Avista offer any other rationales for increases to customer charges?

A. Yes. The Company briefly offers the following reasons for increasing customer charges:

- Customer understandability, acceptance and equity is not as important as charging actual costs to serve customers.[11]
- Other utility assessments use a flat monthly fee.[12]
- Consumer-owned electric cooperatives have higher customer charges and California is considering proposals to set customer charges based on income.[13]
- Inclining block rates are sufficient to send a price signal to conserve.[14]
- Lower use customers will see higher bills due to higher customer charges, but only slightly.[15]

[11] JDM-1T at 32:20-23.

[12] *Id.* at 32-33:23-1.

[13] *Id.* at 33.

[14] *Id.* at 35:8-15.

[15] *Id.* at 36:12-19. *See also id.* at 40:11-17.

- Low-income electric customers that use more electricity than non-low-income customers pay more in fixed costs due to the inclining block rate structure.[16] These fixed costs should be in a fixed charge.[17]
- Cost shifts due to net metering warrant increased customer charges.[18]

I will address each of these in turn.

Q. Let's start with customer understandability, acceptance, and equity.

A. Right. Company Witness Miller rightly states, "[o]ne of the arguments against higher residential basic charges in the past was one of customer understandability, acceptance and equity."[19] I agree with that statement. However, these concerns are seemingly dismissed out of hand in the very next sentence: "We [Avista] believe it is increasingly important that our charges to customers more accurately reflect the actual costs to serve customers."[20]

As previously explained, higher customer charges do not more accurately reflect the cost to provide service to the marginal customer, which is what the customer charge represents. Moreover, while NWEC witness Charlee Thompson discusses positive steps Avista is taking on the equity front, we are dismayed at Avista's attempt to significantly and inequitably increase the customer charge. Because of the work the utility, public interest advocates, low-income advocates and others

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[16] JDM-1T at 40:21-23.

[17] *Id.*

[18] JDM 1T at 41-42.

[19] *Id.* at 32:20-21.

[20] *Id.* at 32:21-23.

have done, customers understand and accept a low fixed charge, along with a reasonable variable charge. Higher fixed charges, and thus lower variable charges, means customers have less incentive to reduce their energy use because they are required to pay the higher fixed charge regardless how much energy they use.[21] Coupled with robust energy efficiency and weatherization programs, an appropriately set fixed charge – one that covers solely the cost to provide metering, billing, and customer service – is the most equitable rate design because it allows customers to control costs rather than be stuck with higher bills every month.

Q. Should the Commission consider Avista's argument that other services use a flat fee?

A. No. First, many of the other utility services Avista cites are not regulated – phone, television, and internet are not guaranteed a customer base in exchange for regulation. They are also not essential services, meaning customers can more readily chose to obtain those services. Others, such as water, sewer, and solid waste, may or may not be regulated and they may or may not have a flat fee. Regardless, the cost of generating and delivering additional energy to customers far exceed the costs to provide, say, more data through fiber lines. Costs are not likely to dramatically increase for streaming services if customers leave their TVs running Netflix all day. On the other hand, if customers left appliances on when not in use, energy costs would increase for all customers. This means energy

[21] Southern Environmental Law Center, *A Troubling Trend in Rate Design: Proposed Rate Alternatives to Harmful Fixed Charges.* https://legacy.uploads.southernenvironment.org/news-feed/A_Troubling_Trend_in_Rate_Design.pdf

efficiency and conservation must be a part of rate design decisions, which, in turn, means sending an appropriate signal through volumetric charges.

Q. Should the Commission consider consumer-owned electric cooperatives' approach to rate design?

A. No. Again, electric cooperatives ("co-ops") are not regulated. More importantly, coops do not have the access to capital that investor-owned utilities ("IOU") possess. Co-ops have no equity financing and debt financing is usually more expensive than it is for IOUs. Co-ops also generally have less customers per line mile of distribution, meaning total fixed costs per customer are higher. The point is that co-ops face a host of different circumstances than IOUs and, thus, they are not applicable for rate design comparison.

Q. What is the customer charge for other Washington IOUs?

A. Other Washington IOUs have lower customer charges than Avista. Puget Sound Energy's customer charge for residential electric customers is $7.49 per month and $12.50 per month for gas customers.[22] Pacific Power's customer charge is $8.50 per month for single family homes and $6.75 for multi-family homes.[23]

Q. What about California's experiment with income-based fixed charges?

A. As directed by AB 205, the California Public Utilities Commission is now considering multiple versions of an IGFC for residential customers of the state's

[22] *See* Puget Sound Energy Electric Tariff Schedules 7 and 23

[23] *See* Pacific Power Washington Tariff Schedule 16

investor-owned utilities. The final order is due July 1.[24] I believe it is premature for the Commission to consider income-based fixed charges at this time, given the novelty of this approach. In general, I believe it is important to examine rate design through an equity lens, however the evidence supporting income-based fixed charges as a broader affordability solution is not well-developed.

Q. Do other rate designs, such as inclining block rates, provide an adequate signal to conserve?

A. Inclining block rates, like those used by Avista, do indeed send a price signal to conserve energy. Block rates have been a useful tool over the last several decades, and coupled with appropriately set customer charges, have successfully saved customers millions of dollars in generation and transmission costs. Two issues arise, however, in relying solely on block rates to send an adequate price signal. First, increased customer charges inherently bring down variable charges. As a result, the increased fixed charge waters down the price signal that would have been achieved with a lower fixed charge. Second, many utilities are considering eliminating inclining block rates for electricity in an effort to spur beneficial electrification. While Avista has not proposed the elimination of block rates in this case, there is at least a potential that inclining block rates are phased out of use in the near future as the move to electrify the economy gains steam. And due to this

[24] Note: at the time of NWEC's finalization of this testimony, a Final Order in CPUC Proceeding R2207005 had not been issued. NWEC may provide further information on this topic in cross-answering testimony, as necessary.

increased load, it will be even more important to ensure that other price signals exist to promote energy efficiency and conservation.

Q. What is your thought regarding Avista's argument that low-usage customers will only pay slightly higher bills due to the higher fixed charge?

A. It is indicative of inequity in rate design when low-usage customers are being asked to pay more when increased usage leads to increased costs for the entire system. Avista attempts to soften the impact by showing that for an *average* electricity user, the higher fixed charge results in a total bill in the winter months.[25] Again, however, winter months are when capacity issues are greatest, meaning the rate design should further encourage conservation and bill control during those months rather than providing a $.30 reduction in average bill due to higher fixed charges and corresponding decreases in the variable charge. The slightly higher bills could lead to increasingly higher bills as the Company acquires more resources to fill in reductions in energy efficiency savings.

Q. What about low-income customers?

Avista claims that low-income customers as a whole use more electricity than other residential customers.[26] One likely explanation, as suggested by Avista, is that many low-income customers are also rural customers and do not have access to gas service.[27] Regardless, while Avista's analysis begins with customers enrolled in the bill discount program, Avista shows no analysis of the impact to the various bill

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[25] JDM-1T at 37-38.

[26] *Id.* at 39:3-15.

[27] *Id.* at 39:16-17.

discount tiers within the program. That is, it is unclear that Avista took into consideration the reduced volumetric rates for low-income customers when conducting their analysis. Even so, Avista concludes after several pages of testimony on the subject that "limited income [electric] customers *may* be harmed by having a rate design with lower a basic charge and a higher tail-block rate"[28] (emphasis added). Given the Company's own conclusion that on average a higher fixed charge leads to higher bills, the Commission should give little weight to Avista's inconclusive analysis regarding low-income customers.

On the gas side, the Company's analysis shows that limited income customers use less gas than the residential class as a whole and would thus be subject to a 1.4% increase in bills due to the higher customer charge.[29] Avista states the increase should be approved because it would be "relatively small."[30] The Commission should flatly reject that argument. First, the "relatively small" increase would be on top of a double digit increase to billed rates the Company seeks in this case. Moreover, any increase to low-income customers is impactful and should be avoided if possible.

Q. What about Avista's NEM argument?

A. Avista's argument regarding NEM and customer charges appears incongruent. Without accepting any of the conclusions, the Company's argument is that low-income customers, along with all residential customers, should pay a higher fixed

[28] JDM-1T at 39:19-20.

[29] *Id.* at 40:9-11.

[30] *Id.* at 40:12.

charge, allowing the company to recover more fixed costs, because NEM customers are shifting fixed costs to those customers. Whether or not a cost shift exists is a matter of intense debate. That low-income customers should pay more fixed costs via higher fixed charges to address that possible cost shift should not be. This solution to a theoretical cost-shifting problem merely trades one form of inequitable cross-subsidization for an even more inequitable one.

Q. What is your recommendation?

A. The Commission should reject Avista's proposal to increase customer charges for residential and commercial electric customers as well as general service gas customers. The customer charges should remain at $9/month and $21/month for electric residential and commercial customers, respectively. On the gas side, the customer charge for General Service Schedule 101 should remain at $9.50/month.

III. Revenue Decoupling

Q. What is your understanding of Avista's decoupling proposal?

A. Avista proposes to continue the revenue decoupling mechanisms for the term of the multi-year rate plan. Avista has not proposed any substantive changes to its decoupling mechanisms.[31]

Q. What is your response to PSE's proposal to continue the decoupling mechanism?

A. Without taking a position on the length of the rate plan in this testimony, we agree with the company on the need to continue the decoupling mechanisms. While the

[31] JCA-1T at 15-16.

transition to performance-based regulation, and the need to invest in electrification may warrant a discussion about modernizing the mechanism in the future, decoupling is and will remain an important tool used in ratemaking to address the disincentive to invest in energy efficiency and conservation.

Q. Does this conclude your testimony?

A. Yes it does.